



**Auditor of State
Betty Montgomery**

SANDUSKY COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Sandusky County
100 N. Park Avenue, Suite B
Fremont, Ohio 43420-2472

To the County Commissioners:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sandusky County, Ohio (the County), as of and for the year ended December 31 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sandusky County, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund, Motor Vehicle and Gas Tax Fund, Human Services Fund, and County Board of Mental Retardation Developmental Disabilities Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2003, the County implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

As discussed in Note 2, during the year ended December 31, 2003 the County changed its capital asset threshold policy.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2005, 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.

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

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



Betty Montgomery
Auditor of State

February 15, 2005

SANDUSKY COUNTY

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

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

Financial Highlights

Key financial highlights for 2003 are as follows:

- The total net assets of the County increased \$5,563,907. Net assets of governmental activities increased \$5,574,502, which represents a 10.90 percent increase over fiscal year 2002. Net assets of business-type activities decreased \$10,595 or .13 percent from fiscal year 2002.
- General revenues accounted for \$16,934,826 or 35.56 percent of total governmental activities revenue. Program specific revenues accounted for \$30,147,733 or 64.03 percent of total governmental activities revenue.
- The County had \$41,639,422 in expenses related to governmental activities; \$30,147,733 of these expenses was offset by program specific charges for services, grants, or contributions. General revenues (primarily taxes) of \$16,934,826 were adequate to provide for these programs.
- The general fund, the County's largest major fund, had revenues of \$14,827,057 in 2003, a decrease of \$196,716 or 1.31 percent from 2002 revenues. The general fund had expenditures of \$13,995,727 in 2003, a decrease of \$483,822 or 3.34 percent from 2002. The general fund had transfers in of \$228,025 and transfers out of \$540,610 in 2003. The general fund, fund balance increased \$518,745 from 2002 to 2003.
- The motor vehicle and gas tax fund, a County major fund, had revenues of \$3,591,013 in 2003. The motor vehicle and gas tax fund had expenditures of \$3,963,363 in 2003. The motor vehicle and gas tax fund, fund balance decreased \$372,350 from 2002 to 2003.
- The human services fund, a County major fund, had revenues of \$7,554,807 in 2003. The human services fund had expenditures of \$7,997,416 in 2003. The human services fund had transfers in of \$258,536 in 2003. The human services fund, fund balance decreased \$164,073 from 2002 to 2003.
- The County board of mental retardation and developmentally disabled (MR/DD) fund, a County major fund, had revenues of \$7,047,002 in 2003. The County board of MR/DD fund had expenditures of \$6,368,771 in 2003. The County board of MR/DD fund had transfers out of \$10,113 in 2003. The County board of MR/DD fund, fund balance increased \$668,118 from 2002 to 2003.
- Net assets for the Sanitary Sewer enterprise fund decreased in 2003 by \$10,595 or .13 percent. The sanitary sewer enterprise fund transferred \$131,365 to the general fund in 2003.
- In the general fund, the actual revenues came in \$33,713 higher than they were originally budgeted and actual expenditures were \$646,167 less than the amount in the original budget. These positive variances are a result of the County's conservative budgeting process.

SANDUSKY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2003 (Continued)

Using the Basic Financial Statements (BFS)

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole County, presenting both an aggregate view of the County's finances and a longer-term view of those finances.

Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the County's most significant funds with all other nonmajor funds presented in total in one column. In the case of the County, there are four major governmental funds. The general fund is the largest major fund.

Reporting the County as a Whole

Statement of Net Assets and the Statement of Activities

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

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

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

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

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

The County's statement of net assets and statement of activities can be found on pages 13-15 of this report

Reporting the County's Most Significant Funds

Fund Financial Statements

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

SANDUSKY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2003 (Continued)

Fund financial reports provide detailed information about the County's major funds. The County uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the County's most significant funds. The County's major governmental funds are the General Fund, Motor Vehicle and Gas Tax, Human Services and County Board of Mental Retardation and Developmentally Disabled (MR/DD). The analysis of the County's major governmental and proprietary funds begins on page 8.

Governmental Funds

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

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

The County maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the major funds, which were identified earlier. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental financial statements can be found on pages 16-25 of this report.

Proprietary Funds

The County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for its sanitary sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses an internal service fund to account for a self-funded workers compensation insurance program for employees of the County and several governmental units within the County. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 26-28 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 29-30 of this report.

SANDUSKY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2003 (Continued)

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 31-68 of this report.

Government-Wide Financial Analysis

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

The table below provides a summary of the County's net assets for 2003.

	Governmental Activities	Business-Type Activities
	2003	2003
Assets		
Current and other assets	\$ 33,665,245	\$ 590,996
Capital assets	42,951,071	6,079,492
<i>Total assets</i>	76,616,316	6,670,488
Liabilities		
Long-term liabilities outstanding	10,808,795	312,288
Other liabilities	9,310,933	33,872
<i>Total liabilities</i>	20,119,728	346,160
Net Assets		
Invested in capital assets, net of related debt	34,630,357	5,799,492
Restricted	15,354,029	-
Unrestricted	6,512,202	524,836
<i>Total net assets</i>	\$ 56,496,588	\$ 6,324,328

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2003, the County's assets exceeded liabilities by \$62,820,916. This amounts to \$56,496,588 in governmental activities and \$6,324,328 in business-type activities. The County's finances remained strong during 2003, despite the decline in the economy.

Capital assets reported on the government-wide statements represent the largest portion of the County's net assets. At year-end, capital assets represented 58.87 percent of total governmental and business-type assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, construction in progress, water and sewer lines and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2003, were \$40,429,849. These capital assets are used to provide services to citizens and are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

SANDUSKY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2003 (Continued)

As of December 31, 2003, the County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. A portion of the County's net assets, \$15,354,029 or 24.44 percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net assets of \$7,037,038 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for fiscal year 2003. Since this is the first year the County has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

	Governmental Activities	Business-Type Activities
	2003	2003
Revenues		
Program revenues:		
Charges for services and sales	\$ 6,099,299	\$ 721,465
Operating grants and contributions	20,979,338	-
Capital grants and contributions	3,069,096	-
General revenues:		
Property taxes	7,082,880	-
Sales tax	6,065,965	-
Unrestricted grants	2,049,956	-
Investment earnings	415,338	-
Other	1,320,687	180,603
<i>Total revenues</i>	\$ 47,082,559	\$ 902,068
Expenses		
Program expenses:		
General government	\$ 7,290,847	\$ -
Public safety	8,892,324	-
Public works	4,031,951	-
Health	377,564	-
Human services	18,587,641	-
Conservation and recreation		-
Economic development and assistance	1,505,431	-
Intergovernmental	228,400	-
Other	391,470	-
Interest and fiscal charges	333,794	-
Sanitary Sewer	-	781,298
<i>Total expenses</i>	41,639,422	781,298
<i>Change in net assets before transfers and capital contributions</i>	5,443,137	120,770
Transfers	131,365	(131,365)
Capital contributions	-	-
<i>Change in net assets</i>	\$ 5,574,502	\$ (10,595)

SANDUSKY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2003 (Continued)

Governmental Activities

Governmental assets increased by \$5,574,502 in 2003 over 2002. This increase is due to expenses declining faster than revenues in 2003 compared to 2002.

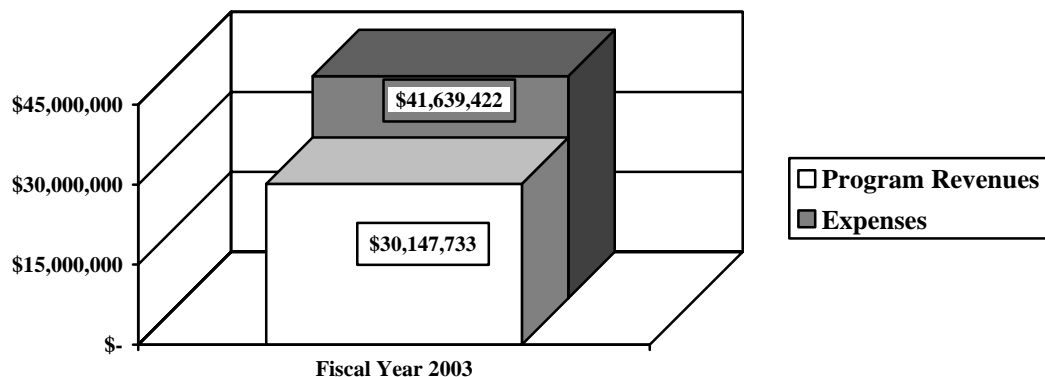
Human services expenses which support the operations of the County Board of MRDD, Job and Family Services, Veteran Services, and the Children Services Board, accounts for \$18,587,641 of expenses, or 44.64 percent of total governmental expenses of the County. These expenses were funded by \$476,995 in charges to users of services in 2003. General government expenses which includes legislative and executive and judicial programs, totaled \$7,290,847 or 17.51 percent of total governmental expenses. General government expenses were covered by \$3,360,217 of direct charges to users in 2003.

The state and federal government contributed to the County revenues of \$20,979,338 in operating grants and contributions and \$3,069,096 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions \$14,904,126, or 71.04 percent, subsidized human services programs.

General revenues totaled \$16,934,826, and amounted to 34.89 percent of total revenues. These revenues primarily consist of property and sales tax revenue of \$13,148,845, or 77.64 percent of total general revenues in 2003. The other primary source of general revenues is grants and entitlements not restricted to specific programs, with local government and local government revenue assistance making up \$2,049,956, or 12.10 percent of the total. In August 2002, the state placed a freeze on local government and local government revenue assistance to be distributed to local governments in 2003.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2003. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

Governmental Activities – Program Revenues vs. Total Expenses



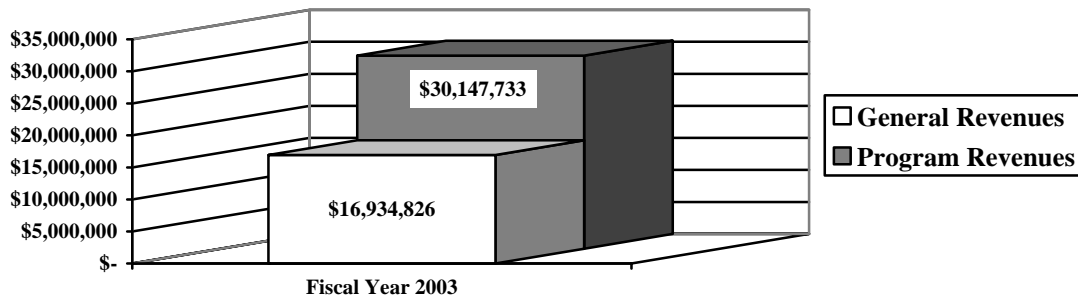
SANDUSKY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

	Governmental Activities	
	Total Cost of Services 2003	Net Cost of Services 2003
Expenses:		
General government	\$ 7,290,847	\$ 3,670,688
Public safety	8,892,324	3,845,041
Public works	4,031,951	(129,042)
Health	377,564	154,762
Human services	18,587,641	3,147,292
Conservation and recreation		
Economic development and assistance	1,505,431	317,019
Intergovernmental	228,400	211,571
Other	391,470	387,720
Interest and fiscal charges	333,794	(113,362)
<i>Total expenses</i>	<u>\$ 41,639,422</u>	<u>\$ 11,491,689</u>

The dependence upon general revenues for governmental activities is apparent, with 27.60 percent of expenses supported through taxes and other general revenues during 2003.

Governmental Activities - General and Program Revenues



Business-Type Activities

The Sanitary Sewer is the County's only enterprise fund. This program had revenues of \$902,068 and expenses of \$781,298 for fiscal year 2003. The Sanitary Sewer fund transferred out \$131,365 to the general fund. The Sanitary Sewer fund, fund balance decreased \$10,595 in 2003.

Financial Analysis of the Government's Funds

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

SANDUSKY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Governmental Funds

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

The County's governmental funds (as presented on the balance sheet on pages 16-17) reported a combined fund balance of \$17,619,585, which is \$510,574 under last year's total of \$17,109,011 (as restated, see Note 3.A. to the financial statements for detail). The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2003 for all major and nonmajor governmental funds.

	Fund Balance Dec. 31, 2003	Fund Balance Dec. 31, 2002	Increase (Decrease)
Major Funds:			
General	\$ 4,583,024	\$ 4,064,279	\$ 518,745
Motor Vehicle and Gas Tax	1,392,677	1,765,027	(372,350)
County Board of MRDD	545,934	710,007	(164,073)
Human Services	4,117,724	3,449,606	668,118
Other Nonmajor Governmental Funds	6,980,226	7,120,092	(139,866)
<i>Total</i>	<u>\$ 17,619,585</u>	<u>\$ 17,109,011</u>	<u>\$ 510,574</u>

General Fund

The general fund is the operating fund of the County. The general fund, the County's largest major fund, had revenues of \$14,827,057 in 2003, a decrease of \$196,716 or 1.31 percent from 2002 revenues. The general fund had expenditures of \$13,995,727 in 2003, a decrease of \$483,822 or 3.34 percent from 2002. The general fund had transfers in of \$228,025 and transfers out of \$540,610 in 2003. The general fund, fund balance increased \$518,745 from 2002 to 2003.

Motor Vehicle and Gas Tax Fund

The motor vehicle and gas tax fund, a County major fund, had revenues of \$3,591,013 in 2003. The motor vehicle and gas tax fund had expenditures of \$3,963,363 in 2003. The motor vehicle and gas tax fund, fund balance decreased \$372,350 from 2002 to 2003.

Human Services Fund

The human services fund, a County major fund, had revenues of \$7,554,807 in 2003. The human services fund had expenditures of \$7,977,416 in 2003. The human services fund had transfers in of \$258,536 in 2003. The human services fund, fund balance decreased \$164,073 from 2002 to 2003.

County Board of Mental Retardation and Developmentally Disabled Fund

The County board of mental retardation and developmentally disabled (MR/DD) fund, a County major fund, had revenues of \$7,047,002 in 2003. The County board of MR/DD fund had expenditures of \$6,368,771 in 2003. The County board of MR/DD fund had transfers out of \$10,113 in 2003. The County board of MR/DD fund, fund balance increased \$668,118 from 2002 to 2003.

SANDUSKY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2003 (Continued)

Budgeting Highlights - General Fund

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

There were no changes between the original and final budgeted revenues and other financing sources. Actual revenues and other financing sources of \$15,577,078 exceeded final budgeted revenues and other financing sources by \$1,289,318. This significant increase is due to the County's conservative approach to budgeting. Another difference between the final budgeted appropriations and other financing uses and actual expenditures and other financing uses was a \$570,953 decrease in expenditures.

Proprietary Funds

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

Capital Assets and Debt Administration

Capital Assets

At the end of 2003, the County had \$49,030,563 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, construction in progress, sewer and water lines and infrastructure. Of this total, \$42,951,071 was reported in governmental activities and \$6,079,492 was reported in business-type activities. The following table shows fiscal 2003 balances compared to 2002:

Capital Assets at December 31
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 1,369,885	\$ 1,357,385	\$ 11,465	\$ 11,465	\$ 1,381,350	\$ 1,368,850
Land improvements	379,984	440,374	18,273	20,058	398,257	460,432
Building and improvements	15,148,880	10,117,107	262,235	251,050	15,411,115	10,368,157
Furniture and equipment	1,726,885	1,403,327	395,521	297,758	2,122,406	1,701,085
Vehicles	1,654,034	1,795,450	49,482	50,039	1,703,516	1,845,489
Infrastructure	22,671,403	22,032,108	-	-	22,671,403	22,032,108
Construction in progress	-	1,872,280	36,190	36,190	36,190	1,908,470
Sewer and water lines	-	-	5,306,326	5,432,549	5,306,326	5,432,549
<i>Total</i>	<u>\$ 42,951,071</u>	<u>\$ 39,018,031</u>	<u>\$ 6,079,492</u>	<u>\$ 6,099,109</u>	<u>\$ 49,030,563</u>	<u>\$ 45,117,140</u>

During 2003, the County's governmental activities had \$12,128,674 in additions, \$5,533,319 (net of accumulated depreciation) in deletions and \$2,662,315 in depreciation expense. The increase in the County's governmental activities capital assets for 2003 was \$3,933,040. See Note 10 to the basic financial statements for detail on governmental activities and business-type activities capital assets.

SANDUSKY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2003 (Continued)

Debt Administration

At December 31, 2003 the County's governmental activities had \$10,808,795 in general obligation bonds, special assessment bonds, OPWC loans and compensated absences outstanding. Of this total, \$1,154,188 is due within one year and \$9,029,607 is due within greater than one year. In addition, the County had \$625,000 in bond anticipation notes outstanding at December 31, 2003. At December 31, 2003 the County's business-type activities had \$312,288 in general obligation bonds and compensated absences outstanding. Of this total, \$48,049 is due within one year and \$264,239 is due within greater than one year. The following table summarizes the bonds, notes, loans and compensated absences outstanding.

	Outstanding Debt, at Year End	
	Governmental Activities 2003	Business-Type Activities 2003
Long-Term Obligations:		
General obligation bonds	\$ 5,840,000	\$ 280,000
Special assessment bonds	34,386	-
OPWC loans	1,821,328	-
Bond anticipation notes	625,000	-
Compensated absences	2,488,081	32,288
<i>Total</i>	<u>\$ 10,808,795</u>	<u>\$ 312,288</u>

See Notes 13 and 14 to the basic financial statements for additional disclosures and detail regarding the County's debt activity.

Economic Factors and Next Year's Budgets and Rates

The County's current estimated population is 61,753.

The County's unemployment rate is currently 7.3 percent, compared to the 6.1 percent state average and the 6.0 percent national average.

These economic factors were considered in preparing the County's budget for fiscal year 2004. With the continuation of conservative budgeting practices, the County's financial position should remain strong in future years.

Contacting the County's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Honorable Bill Farrell, Sandusky County Auditor, 100 North Park Avenue, Fremont, Ohio 43420-2472.

SANDUSKY COUNTY

STATEMENT OF NET ASSETS
DECEMBER 31, 2003

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 16,708,678	\$ 584,119	\$ 17,292,797
Receivables (net of allowances for uncollectibles):			
Sales taxes	934,523	-	934,523
Real estate and other taxes	7,324,276	-	7,324,276
Accounts	326,875	1,831	328,706
Special assessments	79,616	4,099	83,715
Accrued interest	41,206	-	41,206
Due from other governments	4,977,731	-	4,977,731
Loans receivable	95,196	-	95,196
Prepayments	79,445	947	80,392
Materials and supplies inventory	472,886	-	472,886
Investment in joint ventures	2,624,813	-	2,624,813
Capital assets:			
Land and construction in progress	1,369,885	47,655	1,417,540
Depreciable capital assets, net	41,581,186	6,031,837	47,613,023
<i>Total capital assets, net</i>	<u>42,951,071</u>	<u>6,079,492</u>	<u>49,030,563</u>
<i>Total assets</i>	<u>76,616,316</u>	<u>6,670,488</u>	<u>83,286,804</u>
Liabilities:			
Accounts payable	900,348	20,520	920,868
Contracts payable	203,828	-	203,828
Accrued wages and benefits	498,943	6,277	505,220
Due to other governments	290,514	5,004	295,518
Deferred revenue	7,278,531	-	7,278,531
Accrued interest payable	23,075	2,071	25,146
Amount to be repaid to claimants	115,694	-	115,694
Note Payable	625,000	-	625,000
Long-term liabilities:			
Due within one year	1,154,188	48,049	1,202,237
Due in more than one year	9,029,607	264,239	9,293,846
<i>Total liabilities</i>	<u>20,119,728</u>	<u>346,160</u>	<u>20,465,888</u>
Net assets:			
Invested in capital assets, net of related debt	34,630,357	5,799,492	40,429,849
Restricted for:			
Capital projects	360,857	-	360,857
Debt service	505,154	-	505,154
Public works projects	2,845,825	-	2,845,825
Public safety programs	2,045,836	-	2,045,836
Human services programs	7,015,174	-	7,015,174
Other purposes	2,581,183	-	2,581,183
Unrestricted	6,512,202	524,836	7,037,038
<i>Total net assets</i>	<u>\$ 56,496,588</u>	<u>\$ 6,324,328</u>	<u>\$ 62,820,916</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SANDUSKY COUNTY

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Expenses</u>
Governmental Activities:	
General government:	
Legislative and executive	\$ 4,632,636
Judicial	2,658,211
Public safety	8,892,324
Public works	4,031,951
Health	377,564
Human services	18,587,641
Economic development and assistance	1,505,431
Intergovernmental	228,400
Other	391,470
Interest and fiscal charges	333,794
	<hr/>
<i>Total governmental activities</i>	41,639,422
	<hr/>
Business-Type Activities:	
Sanitary sewer	781,298
	<hr/>
<i>Total business-type activities</i>	781,298
	<hr/>
<i>Total primary government</i>	\$ 42,420,720
	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
			Governmental Activities	Business-Type Activities	Total
\$ 2,388,157	\$ 9,942	\$ -	\$ (2,234,537)	\$ -	\$ (2,234,537)
972,060	250,000	-	(1,436,151)	-	(1,436,151)
1,425,411	1,352,741	2,269,131	(3,845,041)	-	(3,845,041)
117,359	3,304,632	739,002	129,042	-	129,042
222,802	-	-	(154,762)	-	(154,762)
476,995	14,904,126	59,228	(3,147,292)	-	(3,147,292)
30,515	1,157,897	-	(317,019)	-	(317,019)
16,829	-	-	(211,571)	-	(211,571)
3,750	-	-	(387,720)	-	(387,720)
445,421	-	1,735	113,362	-	113,362
<u>6,099,299</u>	<u>20,979,338</u>	<u>3,069,096</u>	<u>(11,491,689)</u>	<u>-</u>	<u>(11,491,689)</u>
721,465	-	-	-	(59,833)	(59,833)
<u>721,465</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(59,833)</u>	<u>(59,833)</u>
<u>\$ 6,820,764</u>	<u>\$ 20,979,338</u>	<u>\$ 3,069,096</u>	<u>(11,491,689)</u>	<u>(59,833)</u>	<u>(11,551,522)</u>

General Revenues:

Property taxes levied for:

General fund	2,478,986	-	2,478,986
Human services - County Board of MR/DD	4,185,990	-	4,185,990
Human services - Senior Citizens	159,522	-	159,522
Public safety 911 system	258,382	-	258,382
Sales taxes	6,065,965	-	6,065,965
Grants and entitlements not restricted to specific programs	2,049,956	-	2,049,956
Investment earnings	415,338	-	415,338
Miscellaneous	1,320,687	180,603	1,501,290
<i>Total general revenues</i>	<u>16,934,826</u>	<u>180,603</u>	<u>17,115,429</u>
Transfers	131,365	(131,365)	-
<i>Change in net assets</i>	5,574,502	(10,595)	5,563,907
Net assets at beginning of year (restated)	50,922,086	6,334,923	57,257,009
<i>Net assets at end of year</i>	<u>\$ 56,496,588</u>	<u>\$ 6,324,328</u>	<u>\$ 62,820,916</u>

SANDUSKY COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2003

	General
Assets:	
Equity in pooled cash and cash equivalents	\$ 3,407,209
Receivables (net of allowance for uncollectibles):	
Sales taxes	923,529
Real estate and other taxes	2,674,780
Accounts	165,208
Special assessments	-
Accrued interest	41,206
Loans receivable	-
Loans to other funds	65,000
Due from other governments	1,065,120
Prepayments	78,501
Materials and supplies inventory	155,802
	<u>8,576,355</u>
<i>Total assets</i>	<u>\$ 8,576,355</u>
Liabilities:	
Accounts payable	\$ 237,850
Contracts payable	-
Accrued wages and benefits	227,167
Loans from other funds	-
Due to other governments	92,889
Amounts to be repaid to claimants	115,694
Accrued interest payable	-
Deferred revenue	3,319,731
	<u>3,993,331</u>
<i>Total liabilities</i>	<u>3,993,331</u>
Fund Balances:	
Reserved for encumbrances	149,822
Reserved for prepayments	78,501
Reserved for materials and supplies inventory	155,802
Reserved for loans receivable	-
Reserved for internal loans	65,000
Unreserved undesignated, reported in:	
General fund	4,133,899
Special revenue funds	-
Capital projects funds	-
Debt Service funds	-
	<u>4,583,024</u>
<i>Total fund balances</i>	<u>4,583,024</u>
<i>Total liabilities and fund balances</i>	<u>\$ 8,576,355</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Motor Vehicle and Gas Tax	Human Services	County Board of MR/DD	Other Governmental Funds	Total Governmental Funds
\$ 799,626	\$ 899,114	\$ 4,130,422	\$ 7,285,523	\$ 16,521,894
10,994	-	-	-	934,523
-	-	4,227,743	421,753	7,324,276
2,768	940	78,116	79,843	326,875
-	-	-	79,616	79,616
-	-	-	-	41,206
-	-	-	95,196	95,196
-	-	-	33,160	98,160
2,011,211	1,267,132	415,800	218,468	4,977,731
944	-	-	-	79,445
193,385	41,544	13,023	69,132	472,886
<u>\$ 3,018,928</u>	<u>\$ 2,208,730</u>	<u>\$ 8,865,104</u>	<u>\$ 8,282,691</u>	<u>\$ 30,951,808</u>
\$ 47,688	\$ 301,518	\$ 58,609	\$ 254,683	\$ 900,348
-	-	-	203,828	203,828
38,641	78,658	92,844	61,633	498,943
-	-	-	98,160	98,160
13,665	25,686	123,558	34,716	290,514
-	-	-	-	115,694
-	-	-	555	555
1,526,257	1,256,934	4,472,369	648,890	11,224,181
<u>1,626,251</u>	<u>1,662,796</u>	<u>4,747,380</u>	<u>1,302,465</u>	<u>13,332,223</u>
315,898	-	27,016	523,628	1,016,364
944	-	-	-	79,445
193,385	41,544	13,023	69,132	472,886
-	-	-	95,196	95,196
-	-	-	33,160	98,160
-	-	-	-	4,133,899
882,450	504,390	4,077,685	5,064,946	10,529,471
-	-	-	66,442	66,442
-	-	-	1,127,722	1,127,722
<u>1,392,677</u>	<u>545,934</u>	<u>4,117,724</u>	<u>6,980,226</u>	<u>17,619,585</u>
<u>\$ 3,018,928</u>	<u>\$ 2,208,730</u>	<u>\$ 8,865,104</u>	<u>\$ 8,282,691</u>	<u>\$ 30,951,808</u>

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SANDUSKY COUNTY

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

Total governmental fund balances \$ 17,619,585

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 42,951,071

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

Property taxes	\$ 152,009
Special assessments	79,616
Intergovernmental revenues	<u>3,714,025</u>

Total 3,945,650

The investment in joint ventures by governmental activities are not financial resources and therefore are not reported in fund balance at year end. 2,624,813

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 186,784

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Bond Anticipation Note	625,000
General obligation bonds	5,840,000
Special assessment bonds	34,386
OWPC loans	1,484,969
OPWC loans	336,359
Compensated absences	2,488,081
Accrued interest payable	<u>22,520</u>

Total (10,831,315)

Net assets of governmental activities \$ 56,496,588

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SANDUSKY COUNTY

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

	General
Revenues:	
Property taxes	\$ 2,474,419
Sales taxes	5,915,321
Charges for services	2,478,812
Licenses and permits	7,011
Fines and forfeitures	516,187
Intergovernmental	2,091,131
Special assessments	-
Investment income	390,758
Rental income	336,614
Other	616,804
<i>Total revenues</i>	14,827,057
Expenditures:	
Current:	
General government:	
Legislative and executive	3,517,968
Judicial	2,132,838
Public safety	6,256,741
Public works	121,512
Health	117,217
Human services	1,280,146
Economic development and assistance	-
Intergovernmental	228,400
Other	333,662
Capital outlay	-
Debt service:	
Principal retirement	6,863
Interest and fiscal charges	380
<i>Total expenditures</i>	13,995,727
<i>Excess of revenues over (under) expenditures</i>	831,330
Other financing sources (uses):	
Proceeds of Sale of Notes	
Transfers in	228,025
Transfers out	(540,610)
<i>Total other financing sources (uses)</i>	(312,585)
<i>Net change in fund balances</i>	518,745
Fund balances at beginning of year (restated)	4,064,279
<i>Fund balances at end of year</i>	\$ 4,583,024

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Motor Vehicle and Gas Tax	Human Services	County Board of MR/DD	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 4,186,406	\$ 417,793	\$ 7,078,618
150,644	-	-	-	6,065,965
260	-	145,819	1,652,469	4,277,360
-	-	-	247,177	254,188
49,554	-	-	28,386	594,127
3,295,449	7,553,731	2,693,233	9,118,197	24,751,741
-	-	-	133,752	133,752
20,938	-	-	3,642	415,338
-	-	-	523,031	859,645
74,168	1,076	21,544	497,403	1,210,995
<u>3,591,013</u>	<u>7,554,807</u>	<u>7,047,002</u>	<u>12,621,850</u>	<u>45,641,729</u>
-	-	-	693,853	4,211,821
-	-	-	357,359	2,490,197
-	-	-	2,127,425	8,384,166
3,963,363	-	-	332,362	4,417,237
-	-	-	191,461	308,678
-	7,977,416	5,337,331	3,596,498	18,191,391
-	-	1,031,440	473,632	1,505,072
-	-	-	-	228,400
-	-	-	57,808	391,470
-	-	-	5,020,933	5,020,933
-	-	-	396,492	403,355
-	-	-	334,420	334,800
<u>3,963,363</u>	<u>7,977,416</u>	<u>6,368,771</u>	<u>13,582,243</u>	<u>45,887,520</u>
<u>(372,350)</u>	<u>(422,609)</u>	<u>678,231</u>	<u>(960,393)</u>	<u>(245,791)</u>
-	258,536	-	625,000	625,000
-	-	(10,113)	1,196,143	1,682,704
-	258,536	(10,113)	(1,000,616)	(1,551,339)
<u>(372,350)</u>	<u>(164,073)</u>	<u>668,118</u>	<u>820,527</u>	<u>756,365</u>
<u>1,765,027</u>	<u>710,007</u>	<u>3,449,606</u>	<u>7,120,092</u>	<u>17,109,011</u>
<u>\$ 1,392,677</u>	<u>\$ 545,934</u>	<u>\$ 4,117,724</u>	<u>\$ 6,980,226</u>	<u>\$ 17,619,585</u>

SANDUSKY COUNTY

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

Net change in fund balances - total governmental funds	\$ 510,574
 Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$6,595,355) exceeded depreciation expense (\$2,662,315) in the current period.	3,933,040
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,440,830
Repayment of bonds are expenditures in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.	(221,645)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	1,006
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(79,597)
The internal service fund used by management to charge the cost of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.	(9,706)
<i>Change in net assets of governmental activities</i>	<u><u>\$ 5,574,502</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SANDUSKY COUNTY

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

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Property taxes	\$ 2,445,593	\$ 2,445,593	\$ 2,447,010	\$ 1,417
Sales taxes	5,880,769	5,880,769	5,884,175	3,406
Charges for services	2,494,969	2,494,969	2,496,414	1,445
Licenses and permits	7,007	7,007	7,011	4
Fines and forfeitures	517,277	517,277	517,577	300
Intergovernmental	2,054,058	2,054,058	2,055,248	1,190
Investment income	513,166	513,166	528,024	14,858
Other	374,921	374,921	386,014	11,093
<i>Total revenues</i>	<u>14,287,760</u>	<u>14,287,760</u>	<u>14,321,473</u>	<u>33,713</u>
Expenditures:				
General government:				
Legislative and executive	3,838,748	3,951,923	3,881,940	69,983
Judicial	2,735,482	2,767,666	2,257,506	510,160
Public safety	6,060,433	6,260,267	6,301,188	(40,921)
Public works	88,082	96,402	121,512	(25,110)
Health	118,698	117,536	117,217	319
Human services	1,692,055	1,692,055	1,407,734	284,321
Other	575,682	476,242	365,673	110,569
Intergovernmental	225,400	225,400	228,400	(3,000)
Debt service:				
Principal retirement	-	-	6,863	(6,863)
Interest and fiscal charges	-	-	380	(380)
<i>Total expenditures</i>	<u>15,334,580</u>	<u>15,587,491</u>	<u>14,688,413</u>	<u>899,078</u>
<i>Excess of revenues over (under) expenditures</i>	<u>(1,046,820)</u>	<u>(1,299,731)</u>	<u>(366,940)</u>	<u>932,791</u>
Other financing uses:				
Other financing sources	-	-	1,011,980	1,011,980
Other financing uses	-	-	(73,301)	(73,301)
Transfers in	-	-	228,025	228,025
Transfers out	(500,000)	(285,786)	(540,610)	(254,824)
Advances in	-	-	15,600	15,600
<i>Total other financing sources</i>	<u>(500,000)</u>	<u>(285,786)</u>	<u>641,694</u>	<u>927,480</u>
<i>Net change in fund balance</i>	<u>(1,546,820)</u>	<u>(1,585,517)</u>	<u>274,754</u>	<u>1,860,271</u>
Fund balance at beginning of year	2,274,989	2,274,989	2,274,989	-
<i>Prior year encumbrances appropriated</i>	<u>374,882</u>	<u>374,882</u>	<u>374,882</u>	<u>-</u>
<i>Fund balance at end of year</i>	<u>\$ 1,103,051</u>	<u>\$ 1,064,354</u>	<u>\$ 2,924,625</u>	<u>\$ 1,860,271</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SANDUSKY COUNTY

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 151,677	\$ 151,677	\$ 150,422	\$ (1,255)
Sales taxes	262	262	260	(2)
Licenses and permits	50,217	50,217	49,801	(416)
Fines and forfeitures	3,439,997	3,439,997	3,411,533	(28,464)
Other	111,445	111,445	110,523	(922)
<i>Total revenues</i>	<u>3,753,598</u>	<u>3,753,598</u>	<u>3,722,539</u>	<u>(31,059)</u>
Expenditures:				
Public works	4,527,786	4,527,786	4,298,474	229,312
<i>Total expenditures</i>	<u>4,527,786</u>	<u>4,527,786</u>	<u>4,298,474</u>	<u>229,312</u>
<i>Excess of revenues over (under) expenditures</i>	<u>(774,188)</u>	<u>(774,188)</u>	<u>(575,935)</u>	<u>198,253</u>
Other financing sources:				
Other financing sources	2,902	2,902	2,878	(24)
<i>Total other financing sources</i>	<u>2,902</u>	<u>2,902</u>	<u>2,878</u>	<u>(24)</u>
<i>Net change in fund balance</i>	<u>(771,286)</u>	<u>(771,286)</u>	<u>(573,057)</u>	<u>198,229</u>
Fund balance at beginning of year	983,870	983,870	983,870	-
Prior year encumbrances appropriated	27,786	27,786	27,786	-
<i>Fund balance at end of year</i>	<u>\$ 240,370</u>	<u>\$ 240,370</u>	<u>\$ 438,599</u>	<u>\$ 198,229</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SANDUSKY COUNTY

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

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Charges for services	\$ 6,098,278	\$ 6,098,278	\$ 6,366,303	\$ 268,025
Other	130	130	136	6
<i>Total revenues</i>	<u>6,098,408</u>	<u>6,098,408</u>	<u>6,366,439</u>	<u>268,031</u>
Expenditures:				
Human services	8,626,106	8,650,737	7,980,524	670,213
<i>Total expenditures</i>	<u>8,626,106</u>	<u>8,650,737</u>	<u>7,980,524</u>	<u>670,213</u>
<i>Excess of revenues over (under) expenditures</i>	<u>(2,527,698)</u>	<u>(2,552,329)</u>	<u>(1,614,085)</u>	<u>938,244</u>
Other financing sources (uses):				
Other financing sources	1,473,035	1,473,035	1,537,776	64,741
Transfers in	3,557	3,557	3,713	156
<i>Total other financing sources (uses)</i>	<u>1,476,592</u>	<u>1,476,592</u>	<u>1,541,489</u>	<u>64,897</u>
<i>Net change in fund balance</i>	<u>(1,051,106)</u>	<u>(1,075,737)</u>	<u>(72,596)</u>	<u>1,003,141</u>
Fund balance at beginning of year	807,917	807,917	807,917	-
Prior year encumbrances appropriated	156,835	156,835	156,835	-
<i>Fund balance at end of year</i>	<u>\$ (86,354)</u>	<u>\$ (110,985)</u>	<u>\$ 892,156</u>	<u>\$ 1,003,141</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SANDUSKY COUNTY

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 4,159,630	\$ 4,159,630	\$ 4,143,102	\$ (16,528)
Charges for services	45,962	47,734	67,957	20,223
Intergovernmental	2,053,041	3,053,025	2,540,504	(512,521)
Other	5,997	6,228	8,867	2,639
<i>Total revenues</i>	<u>6,264,630</u>	<u>7,266,617</u>	<u>6,760,430</u>	<u>(506,187)</u>
Expenditures:				
Human services	5,720,702	6,146,162	5,306,308	839,854
Economic development and assistance	1,050,000	1,095,015	1,041,705	53,310
<i>Total expenditures</i>	<u>6,770,702</u>	<u>7,241,177</u>	<u>6,348,013</u>	<u>893,164</u>
<i>Excess of revenues over (under) expenditures</i>	<u>(506,072)</u>	<u>25,440</u>	<u>412,417</u>	<u>386,977</u>
Other financing uses:				
Transfers out	-	-	(505,113)	(505,113)
Transfers in	-	-	495,000	495,000
Other financing sources	8,521	8,850	12,600	3,750
<i>Total other financing uses</i>	<u>8,521</u>	<u>8,850</u>	<u>2,487</u>	<u>(6,363)</u>
<i>Net change in fund balance</i>	<u>(497,551)</u>	<u>34,290</u>	<u>414,904</u>	<u>380,614</u>
Fund balance at beginning of year	3,341,917	3,341,917	3,341,917	-
Prior year encumbrances appropriated	70,074	70,074	70,074	-
<i>Fund balance at end of year</i>	<u>2,914,440</u>	<u>3,446,281</u>	<u>3,826,895</u>	<u>380,614</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SANDUSKY COUNTY

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2003

	Business-Type Activities	Governmental Activities
	Sanitary Sewer	Internal Service Fund
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents	\$ 584,119	\$ 186,784
Receivables (net of allowance for uncollectibles):		
Accounts	1,831	-
Special assessments	4,099	-
Prepayments	947	-
<i>Total current assets</i>	590,996	186,784
Noncurrent assets:		
Capital assets:		
Land and construction in progress	47,655	-
Depreciable capital assets, net	6,031,837	-
<i>Total noncurrent assets</i>	6,079,492	-
<i>Total assets</i>	6,670,488	186,784
Liabilities:		
Current liabilities:		
Accounts payable	20,520	-
Accrued wages and benefits	6,277	-
Compensated absences payable	8,049	-
Due to other governments	5,004	-
Accrued interest payable	2,071	-
Current portion of general obligation bonds payable	40,000	-
<i>Total current liabilities</i>	81,921	-
Long-term liabilities:		
General obligation bonds payable	240,000	-
Compensated absences	24,239	-
<i>Total long-term liabilities</i>	264,239	-
<i>Total liabilities</i>	346,160	-
Net assets:		
Invested in capital assets, net of related debt	5,799,492	-
Unrestricted	524,836	186,784
<i>Total net assets</i>	\$ 6,324,328	\$ 186,784

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SANDUSKY COUNTY

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

	Business-Type Activities	Governmental Activities
	Sanitary Sewer	Internal Service Fund
Operating revenues:		
Charges for services	\$ 721,465	\$ 12,140
Other	180,603	-
<i>Total operating revenues</i>	902,068	12,140
Operating expenses:		
Personal services	258,743	-
Contract services	121,731	-
Materials and supplies	18,981	-
Depreciation	179,102	-
Claims	-	21,846
Other	174,012	-
<i>Total operating expenses</i>	752,569	21,846
<i>Operating income (loss)</i>	149,499	(9,706)
Nonoperating expenses:		
Interest expense and fiscal charges	(28,729)	-
<i>Total nonoperating expenses</i>	(28,729)	-
<i>Income (loss) before transfers</i>	120,770	(9,706)
Transfers in	8,578	-
Transfers out	(139,943)	-
<i>Change in net assets</i>	(10,595)	(9,706)
Net assets at beginning of year (restated)	6,334,923	196,490
<i>Net assets at end of year</i>	\$ 6,324,328	\$ 186,784

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SANDUSKY COUNTY

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

	Business-Type Activities	Governmental Activities
	Sanitary Sewer	Internal Service Fund
Cash flows from operating activities:		
Cash received from sales/service charges	\$ 782,022	\$ 12,140
Cash received from other operating revenue	180,862	-
Cash payments for personal services	(296,065)	-
Cash payments for contract services	(102,282)	-
Cash payments for materials and supplies	(19,393)	-
Cash payments for claims	-	(21,846)
Cash payments for other expenses	(174,414)	-
<i>Net cash provided by (used in) operating activities</i>	370,730	(9,706)
Cash flows from noncapital financing activities:		
Transfers in from other funds	8,578	-
Transfers out to other funds	(139,943)	-
Cash used in repayment of interfund loans	(10,000)	-
<i>Net cash provided by noncapital financing activities</i>	(141,365)	-
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(159,485)	-
Principal payments on bonds	(40,000)	-
Interest payments on bonds	(29,025)	-
<i>Net cash (used in) capital and related financing activities</i>	(228,510)	-
<i>Net increase (decrease) in cash and cash equivalents</i>	855	(9,706)
Cash and cash equivalents at beginning of year	583,264	196,490
<i>Cash and cash equivalents at end of year</i>	\$ 584,119	\$ 186,784
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 149,499	\$ (9,706)
Adjustments:		
Depreciation	179,102	-
Changes in assets and liabilities:		
Decrease in accounts receivable	66,253	-
(Increase) in special assessments receivable	(3,436)	-
(Increase) in prepayments	(116)	-
Increase in accounts payable	18,751	-
(Decrease) in deferred revenue	(2,001)	-
Increase in accrued wages and benefits	972	-
Increase in due to other governments	1,733	-
(Decrease) in compensated absences payable	(40,027)	-
<i>Net cash provided by (used in) operating activities</i>	\$ 370,730	\$ (9,706)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SANDUSKY COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2003

	Investment Trust	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 1,902,369	\$ 5,460,185
Cash in segregated accounts	-	294,429
Receivables:		
Real estate and other taxes	-	30,512,586
Accounts	-	44,002
Due from other governments	-	369,454
<i>Total assets</i>	1,902,369	\$ 36,680,656
 Liabilities:		
Undistributed monies	-	\$ 36,386,227
Deposits held and due to others	-	294,429
<i>Total liabilities</i>	-	\$ 36,680,656
 Net assets:		
Net assets available for pool participants	1,902,369	
<i>Total net assets</i>	\$ 1,902,369	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

SANDUSKY COUNTY

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
INVESTMENT TRUST FUND
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

	<u>Investment Trust</u>
Net increase in net assets resulting from operations	\$ 32,051
Share transactions:	
Purchase of units	1,918,001
Redemptions of units	<u>(2,360,057)</u>
<i>Net decrease in net assets and shares resulting from share transactions</i>	<u>(442,056)</u>
<i>Change in net assets</i>	(410,005)
Net assets at beginning of year	<u>2,312,374</u>
<i>Net assets at end of year</i>	<u><u>\$ 1,902,369</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS DECEMBER 31, 2003

1. DESCRIPTION OF THE COUNTY

Sandusky County, Ohio, (the County) was created in 1820. 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, and who manage various segments of the County's operations are the Auditor, Treasurer, Recorder, Clerk of Courts, Coroner, Engineer, Prosecuting Attorney, Sheriff, three Common Pleas Court Judges, and a Probate/Juvenile Court Judge.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

Based on the foregoing criteria, no component units have been identified. The financial activities of the following PCUs have been reflected in the accompanying basic financial statements as follows:

SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS DECEMBER 31, 2003 (Continued)

POTENTIAL COMPONENT UNITS REPORTED AS AGENCY FUNDS

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 separate agencies, boards and commissioners listed below, the County serves as fiscal agent but is not financially accountable for their operations. Accordingly, the activity of the following entities is presented as agency funds within the financial statements:

- Sandusky County Regional Planning Commission
- Family and Children First Council
- Sandusky County Soil and Water Conservation District
- Sandusky County Park District
- Sandusky County General Health District
- Sandusky County Emergency Management Agency
- Wightman Conservancy District
- Sandusky County Law Library

The County is associated with certain organizations which are defined as Joint Ventures with Equity Interest, a Shared Risk Pool, an Insurance Purchasing Pool, and a related organization as follows:

JOINT VENTURES WITH EQUITY INTEREST

Ottawa, Sandusky, and Seneca County Solid Waste District

The Solid Waste District (the "District") is a joint venture of Sandusky, Ottawa, and Seneca Counties and is established under the authority of § 3734.54 of the Ohio Revised Code. The cost of operations and expenses is to be funded by fees collected by the District. In the event that fees are not sufficient for the purpose, the Counties shall share all operating costs and expenses incurred in the same proportions as the populations of the respective Counties bear to the total population of all the Counties. Upon the withdrawal of a county from the District, the Board of Directors shall ascertain, apportion, and order a division of the funds on hand, credits and real personal property of the District, either in money or in kind, on any equitable basis between the District and the withdrawing county. Should the District be dissolved, the Boards of County Commissioners shall continue to levy and collect taxes for the payment of any outstanding indebtedness. The District is governed by the three commissioners of each county involved.

The counties share in the equity of the District based on relative percentages of population within the three counties. Based upon this calculation, Sandusky County's equity interest in the District is \$442,462 at December 31, 2003. Financial information can be obtained from the Sandusky County Auditor, 100 North Park Avenue, Fremont, Ohio 43420.

Sandusky County - Seneca County - City of Tiffin Port Authority

The Port Authority, a joint venture between Sandusky and Seneca Counties and the City of Tiffin, is established under the authority of § 4582.21 et. seq., of the Ohio Revised Code, with territorial limits co-terminus with the boundaries of the Counties, with Tiffin being within the boundaries of Seneca County. The Port Authority is governed by a

SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2003

(Continued)

seven member Board of Directors, consisting of two members from each of the counties and the city, with the seventh member being rotated between the three entities every four years. The members are appointed by the County Commissioners in the Counties, and by the Mayor of Tiffin in the City. Appointed members may hold no other public office or public employment except Notary Public, member of the State Militia, or member of a reserve component of the United State Armed Forces. Initial funding for organizational expenses, including purchase of real or personal property by the Port Authority, were contributed by each subdivision with no obligation of future contributions or financial support. The contributions were equal and simultaneous. The Port Authority may be dissolved at any time upon the enactment of an ordinance by the City and resolutions by the Counties. Any real or personal property will be returned to the subdivision from which it was received.

Upon dissolution of the Port Authority, any balance remaining in the Port Authority's funds or any real or personal property belonging to the Port Authority will be distributed equally to the city and the counties after paying all expenses and debts. Sandusky County's equity interest in the Port Authority is \$714,196 at December 31, 2003. Financial information can be obtained from the Sandusky County - Seneca County - City of Tiffin Port Authority, James Supance, Chairman, P.O. Box 767, Tiffin, Ohio 44883.

Mental Health and Recovery Services

The Mental Health and Recovery Services (MHRS) is a joint venture between Seneca, Sandusky, and Wyandot counties. The headquarters for the Mental Health Board is in Seneca County. The Board provides community services to mentally ill and emotionally disturbed persons. Statutorily created, the Mental Health Board is made of 18 members, 10 of the members are appointed by the county commissioners of each respective county, 4 are appointed by the State Department of Mental Health, and 4 are appointed by the State of Ohio Department of Alcohol and Drug Addiction Services. Revenues to provide mental health services are generated through state and federal grants. The Mental Health Board adopts its own budget, hires and fires staff and does not rely on the County to finance deficits.

The counties share in the equity of the MHRS Board based on the percentages of population within the three counties. Sandusky County's equity interest in this joint venture at December 31, 2003 is \$1,468,155.

Financial information can be obtained from the Seneca County Auditor, Seneca County Courthouse, Tiffin, Ohio 44883.

SHARED RISK POOL

County Risk Sharing Authority, Inc. (CORSA)

The County Risk Sharing Authority, Inc. is a jointly governed organization among forty-one counties in Ohio. CORSA was formed as an Ohio nonprofit corporation for the purpose of establishing the CORSA Insurance/Self-Insurance Program, a group primary and excess insurance/self-insurance and risk management program. Member counties agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by CORSA. These coverages include

SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS DECEMBER 31, 2003 (Continued)

comprehensive general liability, automobile liability, certain property insurance and public officials' errors and omissions liability insurance.

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

CORSA has issued certificates of participation in order to provide adequate cash reserves. The certificates are secured by the member counties' obligations to make coverage payments to CORSA. The participating counties have no responsibility for the payment of the certificates. The total amount of certificates issued by CORSA for the forty-one participating counties is \$1,645,000.

Financial statements may be obtained by contacting the County Commissioners Association of Ohio in Columbus, Ohio.

INSURANCE PURCHASING 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 § 4123.29 of the Ohio Revised Code. The County Commissioners Association of Ohio Service Corporation (CCAOSC) was established through the County Commissioners Association of Ohio (CCAO) as a group purchasing pool. A group executive committee is responsible for calculating annual rate contributions and rebates, approving the selection of a third party administrator, reviewing and approving proposed third party fees, fees for risk management services and general management fees, determining ongoing eligibility of each participant and performing any other acts and functions which may be delegated to it by the participating employers. The group executive committee consists of seven members. Two members are the president and treasurer of 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.

RELATED ORGANIZATION

Sandusky County Airport Authority

The Sandusky County Airport Authority was created by resolution of the County Commissioners under the authority of Chapter 308 of the Ohio Revised Code. The Airport Authority is governed by a five member board of trustees appointed by the County Commissioners. The Board of Trustees has the authority to exercise all of the powers and privileges provided under the law. These powers include the ability to sue or be sued in its corporate name; the power to establish and collect rates, rentals, and other charges; the authority to acquire, construct, operate, manage, and maintain airport

SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2003

(Continued)

facilities; the authority to buy and sell real and personal property; and the authority to issue debt for acquiring or constructing any facility or permanent improvement. The Airport Authority serves as custodian of its own funds and maintains all records and accounts independent of the County.

B. Basis of Presentation and Measurement Focus

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

The government-wide statements are prepared using full accrual, economic resources measurement focus. All assets and all liabilities associated with the operation of the County are included on the statements of net assets. This is the same approach used in the preparation of the enterprise fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the County and for each function or program of the County's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the County. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the County.

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All enterprise 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 statement of net assets. The statement of revenues, expenses, and

SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2003

(Continued)

changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the County finances and meets the cash flow needs of its enterprise activities.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the County's proprietary funds are charges for sales and services. Operating expenses for the enterprise funds include personnel and other expenses related to the operations of the enterprise activity. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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

C. Fund Accounting

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

General Fund - The general fund is used to account for all activities of the County not required to be included in another fund. The general fund balance is available to the County for any purpose provided it is expended or transferred according to the general laws of Ohio.

Motor Vehicle and Gas Tax - This fund accounts for revenues derived from motor vehicle licenses and gasoline taxes. Expenditures are restricted by State law to County road and bridge repair and maintenance programs.

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

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

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the County's ongoing activities which are similar to those found in the private sector. Proprietary funds are classified as either enterprise or internal service.

SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2003

(Continued)

Enterprise Funds - The enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises. The intent of the County is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The County has presented the following major enterprise fund:

Sanitary Sewer - This fund accounts for sanitary sewer services provided to individual and commercial users in the majority of the unincorporated areas of Sandusky County. The costs of providing these services are primarily financed through user charges. The sanitary sewer district has its own facilities and rate structure.

Internal Service Fund - Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the County on a cost-reimbursement basis. The County's internal service fund accounts for a Workers Compensation program for employees of the County.

FIDUCIARY FUNDS

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

COMPONENT UNITS

Component units are either legally separate organizations for which the elected officials of the County are not financially accountable, or legally separate organizations for which the nature and significance of its relationship with the County is such that exclusion would not cause the County's financial statement to be misleading or incomplete.

D. Basis of Accounting

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

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

SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS DECEMBER 31, 2003 (Continued)

fiscal year. For the County, available means expected to be received within sixty days of year-end.

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

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

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

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

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

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

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

E. Budgetary Data

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

SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2003

(Continued)

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

The legal level of budgetary control is at the object level within each department. Although statutes require that all funds be budgeted, it is not necessary to do so if the County Commissioners do not anticipate expenditure of the available funds.

Segregated cash accounts are not included in the budgetary presentation because they are not controlled by the County Commissioners and the departments do not adopt separate budgets. Advances-in and advances-out are not required to be budgeted since they represent a cash flow resource. Budgetary modifications may only be made by resolution of the County Commissioners.

Tax Budget - A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. All funds, except agency funds, are legally required to be budgeted. The expressed purpose of the Tax Budget is to reflect the need for existing (or increased) tax rates.

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

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

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

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

Budgeted Level of Expenditures - Administrative control is maintained through the establishment of detailed line-item budgets. 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

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BASIC FINANCIAL STATEMENTS

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the level of appropriation. Commissioners' appropriations are made to fund, department, and object level (e.g., General Fund, Commissioners, salaries, supplies, equipment, contract repairs, travel expenses, maintenance, other expenses, etc.).

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 a GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds. Note 18 provide governmental funds, a reconciliation of the budgetary-basis and GAAP-basis of accounting.

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

F. Cash and Investments

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

During fiscal year 2003, investments were limited to STAR Ohio, federal agency securities, certificates of deposits, and Small Business Association loans. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as certificates of deposit are reported at cost.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$390,758 which includes \$346,265 assigned from other County funds.

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

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

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

G. External Investment Pool

By statute, the County serves as fiscal agent for various legally separate entities. The County pools the moneys of these entities with the County's moneys for investment purposes. The County cannot allocate its investments between the internal and external investment pools. The external investment pool is not registered with the SEC 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. The fair value of investments for both the internal and external investment pools are disclosed in Note 4, "Equity in Pooled Cash and Investments". Condensed financial information for the investment pool follows:

Statement of Net Assets	
	12/31/03
Assets:	
Equity in pooled cash, cash equivalents and investments	\$ 24,651,527
Accrued interest receivable	41,206
<i>Total assets</i>	\$ 24,692,733
Net assets held in trust for participants	
Internal portion	\$ 22,790,364
External portion	1,902,369
<i>Net assets available to pool participants</i>	\$ 24,692,733

Statement of Changes in Net Assets For the Year Ended December 31, 2003	
Revenue:	
Interest income	\$ 415,338
<i>Total revenue</i>	415,338
Net increase in assets resulting from operations:	415,338
Distribution to pool participants	(400,845)
Capital transactions:	
Proceeds of investments sold	(25,101,471)
Purchase of investments	24,651,527
<i>Total decrease in net assets</i>	(435,451)
Net assets at January 1, 2003	25,128,184
<i>Net assets at December 31, 2003</i>	\$ 24,692,733

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H. Inventories of Materials and Supplies

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

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

I. Capital Assets

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

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	15 - 30 years	15 - 30 years
Buildings and improvements	8 - 40 years	30 - 40 years
Furniture and equipment	5 - 15 years	10 - 20 years
Vehicles	8 - 15 years	15 years
Infrastructure	25 - 50 years	50 years

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

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BASIC FINANCIAL STATEMENTS DECEMBER 31, 2003 (Continued)

Capitalized interest is amortized on the straight-line method over the estimated useful life of the asset. For 2003, the net interest expense incurred on proprietary fund construction projects was not material.

J. Compensated Absences

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

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

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

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

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

K. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. At year-end, because payments are not available to finance future governmental fund expenditures the fund balance is reserved by an amount equal to the carrying value of the asset.

L. Loans Receivable

Loans receivable represent the right to receive repayment for certain loans made by the County. These loans are based upon written agreements between the County and the various loan recipients. Reported loans receivable is offset by a fund balance reserve in the

SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS DECEMBER 31, 2003 (Continued)

governmental fund types, which indicates that the reserved portion does not constitute available expendable resources even though it is a component of net current assets.

M. Accrued Liabilities and Long-term Obligations

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

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

N. Interfund Transactions

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

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

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

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

O. Fund Balance Reserves

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

The County reports amounts representing encumbrances outstanding, prepayments, debt service, loans receivable, and materials and supplies inventories, and internal loans as reservations of fund balance in the governmental funds.

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BASIC FINANCIAL STATEMENTS DECEMBER 31, 2003 (Continued)

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the proprietary funds. For the County, these revenues are charges for services for the sewer and workers compensation programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

Q. Contributions of Capital

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

R. Net Assets

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

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

S. Estimates

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

3. ACCOUNTABILITY AND CHANGE IN ACCOUNTING PRINCIPLES

A. Changes in Accounting Principles and Restatement of Fund Balance

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

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

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

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

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

The government-wide financial statements split the County's programs between business-type and governmental activities. Except for the restatement of fund equity explained in this note, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2002, the elimination of the internal service fund and conversion to the accrual basis of accounting.

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

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to properly reflect their intended purpose in accordance with the standards of GASB Statement No. 34. The County has recorded prior period adjustments to record the County's portion of collected but undistributed taxes in the general fund, County Board of MR/DD fund and in the nonmajor governmental funds. The County has also recorded a prior period adjustment to properly state investments previously reported in the nonmajor governmental funds. It was also determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at December 31, 2002.

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

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**BASIC FINANCIAL STATEMENTS
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	General	Motor Vehicle and Gas Tax	Human Services	County Board of MR/DD	Nonmajor	Total
Fund balance						
December 31, 2002	\$ 3,268,078	\$ 1,758,244	\$ 708,035	\$ 3,251,344	\$ 6,472,741	\$ 15,458,442
Fund reclassifications	581,369	-	-	-	663,097	1,244,466
GASB interpretation No. 6 adjustments	104,321	6,783	1,972	23,664	25,832	162,572
Adjustment for investments	-	-	-	-	(59,084)	(59,084)
Adjustment for property taxes	110,511	-	-	174,598	17,506	302,615
Adjusted fund balance, December 31, 2002	<u>\$ 4,064,279</u>	<u>\$ 1,765,027</u>	<u>\$ 710,007</u>	<u>\$ 3,449,606</u>	<u>\$ 7,120,092</u>	<u>\$ 17,109,011</u>

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

Adjusted fund balance, December 31, 2002	\$ 17,109,011
GASB Statement No. 34 adjustments:	
Capital assets	39,018,031
Internal service fund	196,490
Long-term liabilities	(10,507,553)
Investment in joint ventures	2,515,121
Accrued interest	(23,526)
Long-term (deferred assets)	<u>2,614,512</u>
<i>Governmental activities net assets, December 31, 2002</i>	<u>\$ 50,922,086</u>

Business-Type Activities - Fund Reclassification and Restatement of Fund Equity - The County Home fund, previously reported as an enterprise fund is now reported as a nonmajor governmental fund to properly reflect its intended purpose. The capital assets of the business-type activities have been restated at December 31, 2002, to properly state the capital assets in accordance with the County's new capitalization threshold of \$5,000 (see Note 10 for detail) and to correct errors and omissions in amounts previously recorded.

The fund reclassification and the adjustment in capital assets had the following effect on fund equity of the business-type activities as previously reported:

	<u>Enterprise</u>
Fund equity as previously reported	\$ 11,253,331
Fund reclassification	(3,515,702)
Adjustment for capital assets	(1,402,706)
<i>Restated fund equity at December 31, 2002</i>	<u>\$ 6,334,923</u>

SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS DECEMBER 31, 2003 (Continued)

B. Noncompliance

Fund balances at December 31, 2003 included the following individual fund deficits:

	<u>Deficit</u>
Nonmajor Governmental Funds:	
Common Please Special Project	\$ 20,244
Sunny Acres Construction	72,215
County Courts 1 and 2 Renovation	608,293

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

During the year ended December 31, 2003, the County did not certify the availability of funds prior to a commitment being incurred. The County did not increase its certificates for estimated resources which resulted in appropriations exceeding estimated resources for the General Fund and Issue II fund. Also, the County Home, CDBG and Ft. Stephenson Senior Center funds and several other funds in smaller relative amounts had expenditures that exceeded appropriations. In addition, transfers were made without the County Commissioners' approval. Furthermore, the County's Clerk of Courts did not deposit public money collected within the business day following the day of receipt.

4. EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan

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Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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

Cash on Hand: At year-end, the County had \$7,322 in undeposited cash on hand. This amount is included as part of "Equity in Pooled Cash and Cash Equivalents" on the financial statements, but is not considered part of the county's carrying amount of deposits, reported below.

Cash in Segregated Accounts: At year-end, \$646,751 was on deposit in segregated accounts used by various County departments, and included in the total amount of deposits reported below; however, this amount is not part of the internal cash pool reported on the financial statements as "Equity in Pooled Cash and Cash Equivalents". The carrying value of these deposits was \$294,429 at December 31, 2003.

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

Deposits: At year-end, the carrying amount of the County's deposits, including nonnegotiable certificates of deposit and cash in segregated accounts, was \$13,101,129 and the bank balance, including nonnegotiable certificates of deposit and cash in segregated accounts, was \$13,773,144. Of the bank balance:

1. \$1,251,381 was covered by federal depository insurance; and
2. \$12,521,763 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to § 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the County. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the County to a successful claim by the FDIC.

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

	Category 2	Category 3	Carrying Value	Fair Value
Federal agency securities	\$ 7,472,436	\$ -	\$ 7,472,436	\$ 7,472,436
Small business association (SBA) loan	-	16,614	16,614	16,614
Investment in STAR Ohio	-	-	4,352,279	4,352,279
<i>Total investments</i>	\$ 7,472,436	\$ 16,614	\$ 11,841,329	\$ 11,841,329

The Federal Agency securities have maturity dates ranging from March 2004 to June 2008. The SBA Loan matures in November, 2011.

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

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

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	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 24,949,780	
Investments of the cash management pool:		
Federal agency securities	(7,472,436)	\$ 7,472,436
SBA loan	(16,614)	16,614
Investment in STAR Ohio	(4,352,279)	4,352,279
Cash on hand	(7,322)	
GASB Statement No. 3	<u>\$ 13,101,129</u>	<u>\$ 11,841,329</u>

5. INTERFUND TRANSACTIONS

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

Transfer From	Transfer To				Total
	General	Human Services	Nonmajor Governmental	Sewer	
General	\$ -	\$ 258,536	\$ 273,496	\$ 8,578	\$ 540,610
County Board of MR/DD	-	-	10,113	-	10,113
Nonmajor governmental	228,025	-	772,591	-	1,000,616
Sewer	-	-	139,943	-	139,943
Total	<u>\$ 228,025</u>	<u>\$ 258,536</u>	<u>\$ 1,196,143</u>	<u>\$ 8,578</u>	<u>\$ 1,691,282</u>

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

- B. Loans to/from other funds consisted of the following at December 31, 2003:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental fund	\$ 65,000
Nonmajor governmental	Nonmajor governmental fund	33,160
Total		<u>\$ 98,160</u>

These loans will be repaid in the next fiscal year as resources become available.

6. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible (used in business) property located in the County. Real property taxes and public utility taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values

SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS DECEMBER 31, 2003 (Continued)

are established by state law at 35 percent of appraised market value. Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at 88 percent of true value for taxable transmission and distribution property and 25 percent of true value for all other taxable property. Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25 percent of true value. The assessed value upon which the 2003 taxes were collected was \$1,029,936,950. The full tax rate for all County operations applied to real property for fiscal year ended December 31, 2003, was \$7.10 per \$1,000 of assessed valuation.

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

Real Property	
Agricultural	\$ 98,465,750
Residential	564,702,420
Commercial/Industrial/Mineral	153,812,890
 Tangible Personal Property	 163,037,270
 Public Utility	
Real	329,550
Personal	<u>49,589,070</u>
 <i>Total Assessed Value</i>	 <u><u>\$ 1,029,936,950</u></u>

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

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portions of the taxes collected. Collections of the taxes and remittance of them to the taxing districts are accounted for in various agency funds of the County.

Tangible personal property taxes for unincorporated and single county businesses are due semi-annually, with the first payment due May 10 and the remainder payable by September 20. Due dates are normally extended an additional 30 days. The due date for the entire tax for inter-county businesses is September 20 or the extended date. The first \$10,000 of taxable value is exempt from taxation for each business by state law.

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

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

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

7. PERMISSIVE SALES AND USE TAX

In 1979, the County Commissioners, by resolution, imposed a 0.5 percent tax on all retail sales made in the County, except sales of motor vehicles. In 1989, the percentage increased to 1 percent. The tax included the storage, use, or consumption of tangible personal property in the County, including motor vehicles not subject to the sales tax. Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies to the State Auditor the amount of the tax to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of each month. The State Auditor then has five days in which to draw the warrant payable to the County.

Proceeds of the tax are credited entirely to the general and Motor Vehicle and Gas Tax fund. Amounts that are measurable and available at year-end are accrued as revenue on the fund financial statements. Permissive sales and use tax revenue totaled \$6,065,965 in 2003.

8. RECEIVABLES

Receivables at December 31, 2003, consisted of taxes, accounts (billings for user charged services), interfund transactions related to charges for goods and services rendered, intergovernmental receivables arising from grants, entitlements and shared revenue, special assessments, accrued interest, and loans. All intergovernmental receivables have been classified as "Due from Other Governments" on the financial statements. Receivables have been recorded as described in Note 2D. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs, and the current year guarantee of federal funds.

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

Governmental Activities:	
Sales taxes	\$ 934,523
Real estate and other taxes	7,324,276
Accounts	326,875
Due from other governments	4,977,731
Special assessments	79,616
Loans	95,196
Accrued interest	41,206
Business-Type Activities:	
Accounts	1,831
Special assessments	4,099

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

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BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003
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9. LOANS RECEIVABLE

The County, through the Community Development Block Grant program, makes low-interest or interest-free loans to small businesses in the County. The activity for these loans is accounted for in the Revolving Loan special revenue fund (a nonmajor governmental fund). The following is a summary of the changes in the loans receivable during 2003.

Balance of loans receivable, 12/31/02	\$	100,167
Principal payments received in 2003		(4,971)
Loans issued in 2003		-
Net loans receivable, 12/31/03		\$ 95,196

10. CAPITAL ASSETS

A. The beginning capital asset balances of the governmental activities capital assets have been restated to correct errors and omissions in the amounts previously reported, to reflect the effect of the increase in the capitalization threshold to \$5,000, to include the retroactive reporting of infrastructure assets, and to depreciate capital assets in accordance with GASB Statement No. 34.

Governmental Activities:	Balance 12/31/02	Adjustments	Restated Balance 12/31/02
Land	\$ 2,299,502	\$ (942,117)	\$ 1,357,385
Land improvements	3,592,032	(1,886,723)	1,705,309
Buildings and improvements	11,816,685	5,866,922	17,683,607
Furniture and equipment	5,793,611	(2,692,451)	3,101,160
Vehicles	3,777,796	685,274	4,463,070
Construction in progress	1,872,280	-	1,872,280
Infrastructure	-	34,312,277	34,312,277
Less: accumulated depreciation	-	(25,477,057)	(25,477,057)
<i>Total</i>	<u>\$ 29,151,906</u>	<u>\$ 9,866,125</u>	<u>\$ 39,018,031</u>

The beginning capital asset balances of the business-type activities have been restated due to a fund reclassification, to correct errors and omissions in the amounts previously recorded, and the increase in capitalization threshold to \$5,000.

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BASIC FINANCIAL STATEMENTS
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(Continued)

<u>Business-Type Activities:</u>	Balance 12/31/02	Adjustments	Restated Balance 12/31/02
Land	\$ 157,376	\$ (145,911)	\$ 11,465
Land improvements	-	51,681	51,681
Buildings and improvements	5,345,884	(4,709,237)	636,647
Furniture and equipment	1,109,770	(584,271)	525,499
Vehicles	179,212	(117,695)	61,517
Construction in progress	47,312	(11,122)	36,190
Infrastructure	9,905,864	(1,552,168)	8,353,696
Less: accumulated depreciation	<u>(6,390,998)</u>	<u>2,813,412</u>	<u>(3,577,586)</u>
<i>Total</i>	<u>\$ 10,354,420</u>	<u>\$ (4,255,311)</u>	<u>\$ 6,099,109</u>

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

<u>Governmental Activities:</u>	Restated Balance 12/31/02	Additions	Deductions	Balance 12/31/03
Capital assets, not being depreciated:				
Land	\$ 1,357,385	\$ 12,500	\$ -	\$ 1,369,885
Construction in progress	1,872,280	3,661,039	(5,533,319)	-
<i>Total capital assets, not being depreciated</i>	<u>3,229,665</u>	<u>3,673,539</u>	<u>(5,533,319)</u>	<u>1,369,885</u>
Capital assets, being depreciated:				
Land improvements	1,705,309	159,532	-	1,864,841
Buildings and improvements	17,683,607	5,533,319	-	23,216,926
Furniture and equipment	3,101,160	652,824	-	3,753,984
Vehicles	4,463,070	258,115	-	4,721,185
Infrastructure	34,312,277	1,851,345	-	36,163,622
<i>Total capital assets, being depreciated</i>	<u>61,265,423</u>	<u>8,455,135</u>	<u>-</u>	<u>69,720,558</u>
Less: accumulated depreciation:				
Land improvements	(1,264,935)	(219,922)	-	(1,484,857)
Buildings and improvements	(7,566,500)	(501,546)	-	(8,068,046)
Furniture and equipment	(1,697,833)	(329,266)	-	(2,027,099)
Vehicles	(2,667,620)	(399,531)	-	(3,067,151)
Infrastructure	(12,280,169)	(1,212,050)	-	(13,492,219)
<i>Total accumulated depreciation</i>	<u>(25,477,057)</u>	<u>(2,662,315)</u>	<u>-</u>	<u>(28,139,372)</u>
<i>Total capital assets, being depreciated net</i>	<u>35,788,366</u>	<u>5,792,820</u>	<u>-</u>	<u>41,581,186</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 39,018,031</u>	<u>\$ 9,466,359</u>	<u>\$ (5,533,319)</u>	<u>\$ 42,951,071</u>

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BASIC FINANCIAL STATEMENTS

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(Continued)

Business-Type Activities:	Restated Balance 12/31/02	Additions	Deductions	Balance 12/31/03
Capital assets, not being depreciated:				
Land	\$ 11,465	\$ -	\$ -	\$ 11,465
Construction in progress	36,190	-	-	36,190
<i>Total capital assets, not being depreciated</i>	<u>47,655</u>	<u>-</u>	<u>-</u>	<u>47,655</u>
Capital assets, being depreciated:				
Land improvements	51,681	-	-	51,681
Buildings and improvements	636,647	30,476	-	667,123
Machinery and equipment	525,499	129,009	-	654,508
Vehicles	61,517	-	-	61,517
Infrastructure	8,353,696	-	-	8,353,696
<i>Total capital assets, being depreciated</i>	<u>9,629,040</u>	<u>159,485</u>	<u>-</u>	<u>9,788,525</u>
Less: accumulated depreciation:				
Land improvements	(31,623)	(1,785)	-	(33,408)
Buildings and improvements	(385,597)	(19,291)	-	(404,888)
Machinery and equipment	(227,741)	(31,246)	-	(258,987)
Vehicles	(11,478)	(557)	-	(12,035)
Infrastructure	(2,921,147)	(126,223)	-	(3,047,370)
<i>Total accumulated depreciation</i>	<u>(3,577,586)</u>	<u>(179,102)</u>	<u>-</u>	<u>(3,756,688)</u>
<i>Total capital assets, being depreciated net</i>	<u>6,051,454</u>	<u>(19,617)</u>	<u>-</u>	<u>6,031,837</u>
<i>Business-type activities capital assets, net</i>	<u>\$ 6,099,109</u>	<u>\$ (19,617)</u>	<u>\$ -</u>	<u>\$ 6,079,492</u>

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

Governmental activities:	
Legislative and executive	\$ 414,244
Judicial	102,458
Public safety	363,073
Public works	1,396,451
Health	63,112
Human services	322,977
<i>Total depreciation expense - governmental activities</i>	<u>\$ 2,662,315</u>

11. CAPITAL LEASES - LESSEE DISCLOSURE

In a prior year, the County entered into a capital lease agreements for the acquisition of equipment. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. At inception, on the governmental fund financial statements, capital lease transactions are accounted for as a capital outlay expenditure and other financing source in the appropriate fund. On the government-wide financial statements, a capital asset and corresponding liability has been recorded for the present value of the future minimum lease payments.

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BASIC FINANCIAL STATEMENTS

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Principal payments in 2003 totaled \$6,863 in the general fund. Capital lease payments in the general fund have been reclassified on the fund financial statements to reflect debt principal and interest retired. These payments are reported as program expenditures on the budgetary statement and as a reduction to the liability on the government-wide financial statements.

There are no future minimum lease payments required.

12. COMPENSATED ABSENCES

County employees earn vacation leave at varying rates ranging from two to five weeks per year. Accumulated vacation cannot exceed three times the annual accumulation rate for an employee. All accumulated, unused vacation time is paid upon separation from the County. Sick leave is accumulated at the rate of three weeks per year. Upon retirement, employees hired before August 12, 1982, are entitled to 100 percent of their accumulated sick leave up to a maximum of 260 days. Employees hired after August 12, 1982, with seven years of service are entitled to 25 percent of their accumulated sick leave up to a maximum of 30 days. As of December 31, 2003, the total liability for unpaid compensated absences was \$2,520,369 (both governmental and business-type activities).

13. LONG-TERM OBLIGATIONS

A. Governmental

The balance of the County's governmental activities long-term obligations at December 31, 2002 has been restated. Pension obligations of \$159,173 at December 31, 2002 are not reported as a component of governmental activities long-term obligations. The pension obligation is stated separately on the statement of net assets. The compensated absences liability increased \$233,898 from \$2,174,586 to \$2,408,484 due to the implementation of GASB Interpretation No. 6 as described in Note 3.A. The effect on the total governmental activities long-term obligations at January 1, 2003 was an increase from \$10,432,828 to \$10,507,553. During 2003, the following changes occurred in the County's governmental long-term obligations:

SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS DECEMBER 31, 2003 (Continued)

	Interest Rate	Restated Balance 12/31/03	Additions	Reductions	Balance 12/31/03	Amount Due in One Year
<u>General Long-Term Obligations:</u>						
General Obligation Bonds:						
Various Purpose/Improvement and Refunding - 2002	2.25-5%	\$ 6,135,000	\$ -	\$ (295,000)	\$ 5,840,000	\$ 295,000
<i>Total general obligation bonds</i>		<u>6,135,000</u>	<u>-</u>	<u>(295,000)</u>	<u>5,840,000</u>	<u>295,000</u>
Special Assessment Bonds:						
Devries Ditch	5.00%	17,557	-	(2,926)	14,631	2,926
Dibert Ditch	5.50%	351	-	(290)	61	61
Wahl Ditch	5.30%	4,773	-	(2,386)	2,387	2,387
C.E. Wolfe Ditch	5.00%	491	-	(246)	245	245
Township Road 55 Ditch	6.00%	4,216	-	(2,108)	2,108	2,108
Lewis Saam Joint County Ditch	6.00%	7,159	-	(3,580)	3,579	3,579
Lewis Saam Joint County Ditch	6.00%	22,750	-	(11,375)	11,375	11,375
Bowe Ditch	5.00%	1,787	-	(1,787)	-	-
<i>Total Special Assessment Bonds</i>		<u>59,084</u>	<u>-</u>	<u>(24,698)</u>	<u>34,386</u>	<u>22,681</u>
Ohio Public Works Commission Loans:						
Sunny Acres Sewer Improvements	N/A	44,860	-	(2,493)	42,367	2,492
Rice Township Sewer Improvements - Phase II	N/A	121,705	-	(6,404)	115,301	6,406
Rice/Sandusky Sewer Improvements	N/A	187,843	-	(9,152)	178,691	9,404
<i>Total OPWC Loans</i>		<u>354,408</u>	<u>-</u>	<u>(18,049)</u>	<u>336,359</u>	<u>18,302</u>
Ohio Water Pollution Control Loans:						
Sandusky/Rice Joint Sewer Improvement	2.08%	1,069,443	-	(40,929)	1,028,514	21,105
Sunny Acres Sewer Improvements	2.08%	312,651	-	(11,965)	300,686	6,170
Rice Township/Shorewood Sewer Improvement	1.82%	51,960	-	(2,011)	49,949	1,033
Route 53 Area Sewers	1.82%	109,660	-	(3,840)	105,820	-
<i>Total OWPC Loans</i>		<u>1,543,714</u>	<u>-</u>	<u>(58,745)</u>	<u>1,484,969</u>	<u>28,308</u>
Other long-term obligations:						
Compensated absences payable		2,408,484	79,597	-	2,488,081	789,897
Capital lease payable		6,863	-	(6,863)	-	-
<i>Total other long-term obligations</i>		<u>2,415,347</u>	<u>79,597</u>	<u>(6,863)</u>	<u>2,488,081</u>	<u>789,897</u>
<i>Total general long-term obligations</i>		<u>\$ 10,507,553</u>	<u>\$ 79,597</u>	<u>\$ (403,355)</u>	<u>\$ 10,183,795</u>	<u>\$ 1,154,188</u>
<u>Enterprise Funds Obligations:</u>						
General Obligation Bonds:						
Sewer District #1 - 1980	9.00%	\$ 320,000	\$ -	\$ (40,000)	\$ 280,000	\$ 40,000
Compensated absences payable		72,315	-	(40,027)	32,288	8,049
Total Enterprise fund obligations		<u>\$ 392,315</u>	<u>\$ -</u>	<u>\$ (80,027)</u>	<u>\$ 312,288</u>	<u>\$ 48,049</u>

B. The 1994 County Service Building Bonds were issued to pay for the construction of a building for the Department of Human Services and related offices. The bonds are retired with general resources of the County. Interest is payable on June and December 1 each year with principal payments due in December.

The 1996 Various Purpose Refunding Bonds were issued to advance refund the County's outstanding Various Purpose Improvement Bonds, dated February 15, 1989. The Series 1989 Bonds had an outstanding principal amount of \$3,290,000 at the time of refunding. This

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BASIC FINANCIAL STATEMENTS

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refunded debt is considered defeased (in-substance); accordingly, it has been removed from the financial statements.

In 2002, the County issued \$6,410,000 in general obligation various purpose improvement and refunding bonds. \$3,910,000 of the proceeds of these bonds was used to advance refund the 1994 County Service Building bonds and the 1996 various purpose refunding bonds. These proceeds were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the advance refunded debt. The advance refunding bonds are not included in the County's outstanding debt since all future obligations have been satisfied through the advance refunding. The remaining \$2,500,000 of the proceeds will be used to construct a new Juvenile Detention Center.

The County entered into three debt financing arrangements through the Ohio Public Works Commission (OPWC) to fund sewer improvements. The amounts due to the OPWC are payable solely from operating revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2003, the County has outstanding borrowings of \$336,359. The loan agreements require semi-annual payments based on the actual amount loaned. The OPWC loans are interest free.

The County entered into four debt financing arrangements through the Ohio Water Pollution Control Loan Fund (OWPCLF) to fund sewer improvements. The amounts due to the OWDA are payable solely from operating revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2003, the County has outstanding borrowings of \$1,484,969. The loan agreements require semi-annual payments based on the actual amount loaned.

Special assessment bonds will be paid from the proceeds of special assessments levied against the property owners who are primarily benefited from the project. In the event that property owners fail to make their payments, the County is responsible for providing the resources to meet annual principal and interest payments.

The 1980 Sewer District Improvement Bonds are general obligation revenue bonds, which are supported by the full faith and credit of the County. These bonds were issued to pay for the costs of improving the Sewer District #1. The bonds are retired with revenues from the sanitary engineer enterprise fund. Interest is payable on June and December 1 of each year with principal payments due in December.

The compensated absences liability will be paid from the fund from which the employees' salaries are paid.

- C. 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 should not 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 should not 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, 2003 are an overall debt margin of \$18,913,759 and an unvoted debt margin of \$4,964,705, both of which include available funds of \$505,335.

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**BASIC FINANCIAL STATEMENTS
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(Continued)**

D. The following is a summary of the County's future annual debt service principal and interest requirements for governmental long-term obligations:

Year Ended	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 295,000	\$ 247,873	\$ 542,873	\$ 22,681	\$ 1,934	\$ 24,615
2005	300,000	239,023	539,023	2,926	682	3,608
2006	295,000	229,123	524,123	2,926	531	3,457
2007	305,000	218,798	523,798	2,926	293	3,219
2008	305,000	207,360	512,360	2,927	145	3,072
2009 - 2013	1,615,000	847,850	2,462,850	-	-	-
2014 - 2018	1,795,000	484,623	2,279,623	-	-	-
2019 - 2022	930,000	101,173	1,031,173	-	-	-
<i>Total</i>	<u>\$ 5,840,000</u>	<u>\$ 2,575,823</u>	<u>\$ 8,415,823</u>	<u>\$ 34,386</u>	<u>\$ 3,585</u>	<u>\$ 37,971</u>

Year Ended	OPWCLF Loans			OPWC Loans		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 57,202	\$ 56,527	\$ 113,729	\$ 18,302	\$ -	\$ 18,302
2005	63,690	57,950	121,640	19,291	-	19,291
2006	66,336	55,305	121,641	19,291	-	19,291
2007	69,089	52,551	121,640	19,291	-	19,291
2008	71,959	49,682	121,641	19,291	-	19,291
2009 - 2013	407,165	201,032	608,197	96,455	-	96,455
2014 - 2018	499,038	109,174	608,212	96,455	-	96,455
2019 - 2023	250,490	14,508	264,998	47,983	-	47,983
<i>Total</i>	<u>\$ 1,484,969</u>	<u>\$ 596,729</u>	<u>\$ 2,081,698</u>	<u>\$ 336,359</u>	<u>\$ -</u>	<u>\$ 336,359</u>

E. The following is a summary of the County's future annual debt service requirements for enterprise fund obligations:

Year Ended	General Obligation Bonds		
	Principal	Interest	Total
2004	\$ 40,000	\$ 25,200	\$ 65,200
2005	40,000	21,600	61,600
2006	40,000	18,000	58,000
2007	40,000	14,400	54,400
2008	40,000	10,800	50,800
2009 - 2010	80,000	10,800	90,800
<i>Total</i>	<u>\$ 280,000</u>	<u>\$ 100,800</u>	<u>\$ 380,800</u>

14. NOTES PAYABLE

The County had the following general obligation bond anticipation notes outstanding at December 31, 2003:

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**BASIC FINANCIAL STATEMENTS
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(Continued)**

	Issue Date	Balance at 1/1/2003	Issued	Reductions	Balance at 12/31/2003
Nonmajor Capital Projects Funds					
County Court Facilities - 1.55%	12/05/02	\$ 110,000	\$ -	\$ (110,000)	\$ -
County Court Facilities - 1.55%	12/05/02	665,000	-	(665,000)	-
County Court Facilities - 1.2%	12/04/03	-	545,000	-	545,000
Hazmat - 1.2%	12/04/03	-	80,000	-	80,000
<i>Total</i>		<u>\$ 775,000</u>	<u>\$ 625,000</u>	<u>\$ (775,000)</u>	<u>\$ 625,000</u>

In 2003, the County repaid \$775,000 in bond anticipation notes that were outstanding at December 31, 2002. The County also issued \$625,000 in bond anticipation notes on December 4, 2003. The notes matured on December 2, 2004. These notes were rolled over and the new maturity is November 30, 2005. These notes are general obligations of the County, for which the full faith and credit of the County is pledged for repayment. Current operating funds will provide the source of repayment. These notes are a fund liability in the nonmajor governmental fund.

15. RISK MANAGEMENT

A. General Insurance

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 2003, the County contracted with County Risk Sharing Authority (CORSA) for liability, property, and crime insurance. The CORSA program has a \$2,500 deductible. Coverages provided by CORSA are as follows:

<u>Type of Coverage</u>	<u>Amount</u>
General Liability (per occurrence)	\$ 1,000,000
Law Enforcement Liability (per occurrence)	1,000,000
Automobile Liability and Physical Damage	
Liability (per occurrence)	1,000,000
Medical payments	
Per Person	5,000
Per Occurrence	50,000
Uninsured Motorist (per person)	250,000
Physical Damage	Actual Cost
Flood (pool limit)	100,000,000
Earthquake	100,000,000
Property	65,663,822
Other Property Insurance:	
Equipment Breakdown	100,000,000
Money and Securities	1,000,000
Crime Insurance:	
Faithful Performance	1,000,000
Depositor's Forgery	1,000,000

With the exceptions of health insurance, life insurance, and workers' compensation, all insurance is held with CORSA (see Note 2). There has been no significant reduction in coverage from prior year, and settled claims have not exceeded limits of coverage in the past three years. The County pays all elected officials' bonds in accordance with statute.

SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2003

(Continued)

B. Health Insurance

The County provides comprehensive health and vision insurance coverage to its employees through a traditionally funded plan. The County purchases commercial health insurance coverage through Community Health Plan of Ohio. The County pays 87 percent of the monthly premium while the employee pays 13 percent. The entire risk of loss transfers to the commercial insurance carrier. The County's monthly premium requirement under each plan is as follows:

	Family Coverage	Single Coverage	
Low co-pay option	\$ 502.93	\$ 198.00	
Select one option	603.79	237.71	

C. Insurance Purchasing Pool

For 2003, the County participated in the County Commissioners Association of Ohio Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool (see Note 2). 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, the Plan's executive committee annually 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 Plan's selection 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.

In prior years, the County paid the State Workers' Compensation System using a retrospective rating plan. The County continues to pay claims resulting from this plan. The activity is accounted for in an internal service fund. The claims activity for the past two fiscal periods is as follows:

Year Liability	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2003	\$ -	\$ 6,007	\$ 6,007	\$ -
2002	-	32,306	32,306	-

SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS DECEMBER 31, 2003 (Continued)

16. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

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

The County's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$2,331,875, \$2,325,407, and \$2,001,376, respectively; 100 percent has been contributed for 2003, 2002, and 2001. The County and plan members did not make any contributions to the member-directed plan for 2003.

B. State Teachers Retirement System

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

STRS Ohio issues a publicly available financial report that includes financial statements and required supplementary information for STRS Ohio. That report may be obtained by writing to

SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS DECEMBER 31, 2003 (Continued)

the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the County is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The portion to fund pension obligations for 2003 was 9.5 percent. Contribution rates are established by STRS Ohio Retirement Board, 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 for pension obligations to STRS Ohio for the years ended December 31, 2003, 2002, and 2001 were \$47,884, \$41,608, and \$50,206, respectively; equal to their required contributions for each year.

17. POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

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

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

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$837,511. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2002 (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

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

SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2003

(Continued)

cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

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

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

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

B. State Teachers Retirement System of Ohio

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

All benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. Benefits are funded on a pay-as-you-go basis through an allocation of employer contributions to the Health Care Stabilization Fund equal to 1.0 percent of covered payroll for the fiscal year ended June 30, 2003. For the County, this amount equaled \$3,420 during calendar year 2003. As of June 30, 2003, the balance in the Health Care Stabilization Fund was \$2.8 billion and eligible benefit recipients totaled 108,294 for STRS Ohio as a whole. For the fiscal year ended June 30, 2003, net health care costs paid by STRS Ohio were \$352.301 million.

18. BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);

SANDUSKY COUNTY

BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2003

(Continued)

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

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

	Net Change in Fund Balances			
	Governmental Fund Types			
	General	Motor Vehicle and Gas Tax	Human Services	County Board of MR/DD
Budget basis	\$ 274,754	\$ (573,057)	\$ (72,596)	\$ 414,904
Net adjustment for:				
Revenue accruals	505,584	(131,526)	1,188,368	286,572
Expenditure accruals	302,014	(28,475)	(1,313)	(87,125)
Other financing sources (uses) accruals	(954,279)	(2,878)	(1,282,953)	(12,600)
Encumbrances (budget basis)	390,672	363,586	4,421	66,367
GAAP basis	<u>\$ 518,745</u>	<u>\$ (372,350)</u>	<u>\$ (164,073)</u>	<u>\$ 668,118</u>

19. CONTINGENT LIABILITIES

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

B. Litigation

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

20. CONDUIT DEBT OBLIGATIONS

From time to time, the County has issued Industrial Revenue Bonds and Health Care Facility Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial 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 mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the County, the State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2003 there are four series of Industrial Revenue Bonds outstanding, aggregate principal

SANDUSKY COUNTY

**BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2003
(Continued)**

\$8,470,000; and four series of Health Care Facility Bonds outstanding, aggregate principal \$20,890,000.

21. OUTSTANDING CONTRACTS

The County had outstanding contracts for road work in the amount of \$ 859,387.

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SANDUSKY COUNTY

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

FEDERAL GRANTOR	Federal	Pass Through		Non-Cash
Pass Through Grantor	CFDA	Entity		Disbursements
Program Title	Number	Number	Disbursements	Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through Ohio Department of Education:				
<u>Nutrition Cluster:</u>				
Food Distribution	10.550	N/A		\$ 10,811
Special Milk Program for Children	10.556	066233-LLP4-2003	\$ 21,303	
<i>Total Nutrition Cluster</i>			21,303	10,811
Total U.S. Department of Agriculture			21,303	10,811
U.S. DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education:				
<u>Special Education Cluster</u>				
Special Education Grants to States - Title VI-B	84.027	066233-6B-SF-04P	8,271	
		066233-6B-SF-03P	20,858	
<i>Total Special Education Grants to States</i>			29,129	
Preschool Disabilities	84.173	066233-6B-SF-04P	1,737	
		066233-PG-S1-03P	3,631	
<i>Total Preschool Disabilities</i>			5,368	
Total U.S. Department of Education			34,497	
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed Through Ohio Department of Development:				
Community Development Block Grant	14.228	B-F-99-067-1	17,400	
		B-F-01-067-1	149,944	
		B-F-00-67-1	127,200	
		B-F-02-067-1	79,465	
<i>Total Community Development Block Grant</i>			374,009	
HOME Investment Partnerships Program	14.239	B-C-01-067-01	81,440	
		B-C-98-067-1	8,696	
		B-C-01-067-02	127,481	
<i>Total Community Housing Improvement</i>			217,617	
Total U. S. Department of Housing and Urban Development			591,626	
U.S. DEPARTMENT OF JUSTICE				
Passed Through Ohio Department of Criminal Justice:				
Crime Victims Assistance	16.575	02-VAG-ENE-251-T	14,886	
		03-VAG-ENE-251-T	4,417	
		02-VAG-ENE-558-T	9,740	
		03-VAG-ENE-558-T	2,793	
<i>Total Crime Victims Assistance</i>			31,836	
Juvenile Accountability Incentive Block Grant	16.523	JB-002-A-1715	5,115	
		JB-013-A-058	16,572	
<i>Total Juvenile Accountability Incentive Block Grant</i>			21,687	
Total U.S. Department of Justice			53,523	

(Continued)

SANDUSKY COUNTY

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

FEDERAL GRANTOR	Federal	Pass Through		
<i>Pass Through Grantor</i>	CFDA	Entity		Non-Cash
Program Title	Number	Number	Disbursements	Disbursements
U. S. DEPARTMENT OF LABOR				
<i>Passed Through Ohio Department of Jobs and Family Services:</i>				
<u>Workforce Investment Act Cluster:</u>				
Adult Program			298,096	
Adult Administration			29,673	
<i>Adult Total</i>	17.258		<u>327,769</u>	
Youth Activities			224,364	
Youth Administration			22,333	
<i>Youth Total</i>	17.259		<u>246,697</u>	
Dislocated Worker			148,255	
Dislocated Worker Administration			14,757	
<i>Dislocated Worker Total</i>	17.260		<u>163,012</u>	
<i>Total Workforce Investment Act Cluster</i>			<u>737,478</u>	
Work Investment Act Incentive	17.266		190,766	
Total U.S. Department of Labor			<u>928,244</u>	
US DEPARTMENT OF HOMELAND SECURITY				
<i>Passed Through Ohio Department of Public Safety:</i>				
Domestic Preparedness Equipment Support Program	97.004	J809 K195	20,490 86,258	
			<u>106,748</u>	
State and Local All Hazards Emergency Operations Planning	97.051	K 273 339	12,160	
Pre-Disaster Mitigation	97.047	K113 339	6,248	
Emergency Management Performance Grant	97.042	K 305 339	32,347	
Total U.S. Department of Homeland Security			<u>157,503</u>	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Medical Assistance Program	93.778	7200013	804,119	
Social Services Block Grant	93.667	MR72	63,355	
Total U.S. Department of Health and Human Services			<u>867,474</u>	
U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICES				
<i>Passed through Ohio Department of Youth Services:</i>				
Americorps	94.006	YCP-014-02	14,188	
Total U.S. Corporation for National and Community Services			<u>14,188</u>	
U.S. DEPARTMENT OF TRANSPORTATION				
<i>Passed through Ohio Department of Transportation:</i>				
Highway Planning and Construction	20.205	24332	343,780	
Total U. S. Department of Transportation			<u>343,780</u>	
TOTAL FEDERAL AWARDS EXPENDITURES			<u>\$3,012,138</u>	<u>\$10,811</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

SANDUSKY COUNTY

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

These loans are collateralized by mortgage on the property. At December 31, 2003, the gross amount of loans outstanding under this program was \$95,196.

NOTE C - FOOD DISTRIBUTION

Program regulations do not require the County to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first

NOTE D - MATCHING REQUIREMENTS

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

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

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

<u>Previous Federal Agency</u>	<u>CFDA No. used In 2002</u>	<u>Homeland Security CFDA No. used for 2003</u>
Department of Justice	16.007	97.004
	83.552	97.042
	83.562	97.051

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**Auditor of State
Betty Montgomery**

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

Sandusky County
100 N. Park Avenue, Suite A
Fremont, Ohio 43420-2477

To the County Commissioners:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sandusky County (the County) as of and for the year ended December 31, 2003, which collectively comprise the County's basic financial statements and have issued our report thereon dated February 15, 2005, wherein we noted the County implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and changed its capital assets threshold policy. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-005. We also noted certain immaterial instances of noncompliance that we have reported to the County's management in a separate letter dated February 15, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. 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 management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-006.

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 item 2003-006 listed 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 the County's management in a separate letter dated February 15, 2005.

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



Betty Montgomery
Auditor of State

February 15, 2005



**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**

Sandusky County
100 N. Park Avenue, Suite B
Fremont, Ohio 43420-2472

To the County Commissioners:

Compliance

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

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

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003. We noted certain instances of noncompliance that do not require inclusion on this report that we have reported to the management of the County in a separate letter dated February 15, 2005.

Internal Control over Compliance

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

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

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



Betty Montgomery
Auditor of State

February 15, 2005

SANDUSKY COUNTY

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

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Community Development Block Grant /CFDA 14.228 MEDICAID/CFDA 93.778 WIA /17.258,17,259,17.260
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Revised Code § 5705.14 provides that no transfer shall be made from one fund of a subdivision to any other fund, by order of the court or otherwise, with certain limited exceptions. The transfers permitted under the Ohio Revised Code § 5705.14 require a resolution passed by a two-thirds vote of the members of the taxing authority, except transfers from the General Fund, which require a resolution passed by a

**FINDING NUMBER 2003-001
 (Continued)**

simple majority. See also 1989 Op. Atty. Gen. No. 89-075 (Ohio Revised Code § 5705.14(E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds). In addition, to the transfers permitted under Ohio Revised Code § 5705.14, Ohio Revised Code §§ 5705.15 and 5705.16 provide that the taxing authority, with the approval of the Tax Commissioner and the Court of Common Pleas may transfer from one fund to another, with certain limited exceptions.

Forty-three percent of transfers were not approved by the Commissioners. Furthermore, there were several transfers made from special revenue funds, capital projects funds, and enterprise funds to other funds. These transfers did not meet any of the exceptions allowable under the Ohio Revised Code. We recommend no transfers be made unless prior approval has been obtained in the form of a resolution authorizing the transfers or an approval of the Tax Commissioner and the Court of Common Pleas.

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Revised Code § 5705.36 (A)(2) allows the County to request increased amended certificates of estimated resources and reduce amended certifications upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. According to Ohio Revised Code § 5705.36(A)(3), increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. According to Ohio Revised Code § 5705.36(A)(4), reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriations.

Additionally, Ohio Revised Code § 5705.39 states in part that the total appropriations from each fund shall not exceed the total of the estimated resources available for expenditures therefrom, as certified by the budget commission or in case of appeal, by the board of tax appeals.

As of December 31, 2003 the County should have received an increased amended certificate for the following funds, since appropriations exceeded existing certified resources:

<u>Fund</u>	<u>Estimated Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 14,287,759	\$ 15,729,203	\$ 1,441,444
Issue II	\$250,000	\$739,001	\$489,001

These variances caused appropriations to exceed estimated resources in the following funds which is contrary to Ohio Revised Code § 5705.39:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
General	15,563,351	15,600,313	(36,962)
Issue II	250,000	711,671	(461,671)

To avoid over appropriating, we recommend the County monitor appropriations and estimated resources to ensure that appropriations do not exceed the amount of estimated resources.

FINDING NUMBER 2003-003

Noncompliance Citation

Ohio Revised Code § 5705.41 (B) states no subdivision is to expend money unless it has been appropriated as provided in this chapter. As of December 31, 2003 the County had expenditures that exceeded appropriations as follows:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
County Home	\$ 20,031	\$ 245,995	(\$225,964)
CDBG	532,559	727,583	(195,024)
Ft. Stephenson Senior Ctr.	106,000	164,578	(58,578)

Budgetary expenditures exceeded the appropriation authority for several other funds in smaller relative amounts. The County Auditor should not certify the availability of funds and should deny payment requests exceeding appropriations. The County Auditor may request the Commissioners to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2003-004

Noncompliance Citation

Ohio Revised Code § 5705.41(D)(1), states that no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Commissioners can authorize the drawing of a warrant for the payment of the amount due. The Commissioners has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$100 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Commissioners.

**FINDING NUMBER 2003-004
(Continued)**

2. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Commissioners may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Twenty-six percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred, and there was no evidence that the County followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Certification is not only required by Ohio law, but is a key control in the disbursements process to help assure purchase commitments receive prior approval, and to help reduce the possibility of County funds being over expended or exceeding budgetary spending limitations as set by the Commissioners.

To improve controls over disbursements, we recommend all County disbursements receive prior certification of the County Auditor and the Commissioners periodically review the expenditures made to ensure they are within the appropriations adopted by the Commissioners, certified by the County Auditor, and recorded against appropriations.

FINDING NUMBER 2003-005

Noncompliance Citation

Ohio Revised Code § 9.38 provides that any public officer or employee shall deposit all public money received by him with the treasurer of the public office or properly designated depository once every twenty-four consecutive hours. If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the public office is governed by a legislative authority (counties, municipalities, townships, and school districts); only the legislative authority may adopt the policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

During 2003, the following departments did not deposit public money collected with the designated depository the business day following the day of the receipt. Deposits were made up to 7 days after the date of receipt.

**FINDING NUMBER 2003-005
 (Continued)**

<u>Department</u>	<u>Transactions Tested</u>	<u>Number of Days Late</u>
Clerk of Court - Main office	31/60	2 - 6 days
Clerk of Court - Clyde office	2/30	2 days
Clerk of Court - Woodville office	16/20	2 - 7 days
Title Department	13/15	2 days

This allows a substantial amount of cash to remain on hand, making cash susceptible to theft. It is recommended that receipts be deposited on a daily basis.

FINDING NUMBER 2003-006

Material Weakness - Capital Assets

The County does not maintain a detailed capital asset list along with the use of coordinating inventory tags or other specific identifying means. A capital asset ledger should be maintained and regularly updated. At minimum, the records should contain the following data: a) department name and location; b) date of purchase; c) description; d) model/serial vehicle identification number, if applicable; e) inventory tag number; f) quantity; g) purchase cost; h) depreciation amount; i) disposition date; j) estimated value and k) fund ownership; estimated life of assets. This lack of accountability for the County's capital assets resulted in audit adjustments and could result in misappropriation of assets.

To ensure accurate accounting over the capital assets process we recommend the County implement procedures to maintain and update the capital asset records.

3. FINDINGS FOR FEDERAL AWARDS

None.

SANDUSKY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-001	Finding for Recovery Overpayment of severance benefits	Yes	
2002-002	Ohio Revised Code § 5705.36 failure to increase estimated resources to avoid appropriations exceeding estimated resources.	No	Not corrected. Repeated as finding number 2003-002.
2002-003	Ohio Revised Code § 5705.41(B) Expenditures exceeded appropriations.	No	Not corrected. Repeated as finding number 2003-003.
2002-004	Ohio Revised Code § 5705.41(D) Failure to certify expenditures.	No	Not corrected. Repeated as finding number 2003-004.
2002-005	Ohio Revised Code § 5705.14 Failure to approve transfers.	No	Not Corrected. Repeated as finding number 2003-001.
2002-006	Failure to maintain assets list	No	Not Corrected. Repeated as finding number 2003-006.



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FINANCIAL CONDITION

SANDUSKY 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

MARCH 17, 2005