

***MORROW COUNTY, OHIO***

***BASIC  
FINANCIAL STATEMENTS***

***FOR THE YEAR ENDED  
DECEMBER 31, 2004***

**MARY M. HOLTREY, AUDITOR**





**Auditor of State  
Betty Montgomery**

Board of Commissioners  
Morrow County  
48 East High Street  
Mt. Gilead, Ohio 43338

We have reviewed the *Independent Auditor's Report* of Morrow County, prepared by Julian & Grube Inc., for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

July 13, 2005

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**MORROW COUNTY**  
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# JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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## Independent Auditor's Report

Board of Commissioners  
Morrow County  
48 E. High Street  
Mt. Gilead, OH 43338

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrow County, Ohio, (the “County”), as of and for the year ended December 31, 2004, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the Morrow County Hospital which represents 99% of the total assets and total revenue of the business-type activities. We also did not audit the financial statements of Whetstone Industries, Inc. the County’s only discretely presented component unit. Other auditors have audited the financial statements of the Morrow County Hospital and Whetstone Industries, Inc. They have furnished their reports to us, and we base our opinion, insofar as it relates to the amounts included for the Morrow County Hospital and Whetstone Industries, Inc, on the report of the other auditors.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrow County, Ohio as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, Emergency Squad, Motor Vehicle Gas Tax, Public Assistance, and Mental Retardation and Developmental Disabilities funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3, the County restated capital assets for errors and omissions.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 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 agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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



Julian & Grube, Inc.  
June 10, 2005



## MORROW COUNTY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED

The management's discussion and analysis of Morrow County's (the "County") financial performance provides an overall review of the County's financial activities for the year ended December 31, 2004. 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 2004 are as follows:

- The total net assets of the County increased \$1,895,350. Net assets of governmental activities increased \$977,104, which represents a 2.86% increase over fiscal year 2003. Net assets of business-type activities increased \$918,246 or 8.46% from fiscal year 2003.
- General revenues accounted for \$7,968,087 or 33.33% of total governmental activities revenue. Program specific revenues accounted for \$15,936,351 or 66.67% of total governmental activities revenue. The County also had a special item for the sale of a capital asset for \$66,285.
- The County had \$23,006,904 in expenses related to governmental activities; \$15,936,351 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$7,968,087 were adequate to provide for these programs.
- The general fund, the County's largest major fund, had revenues and other financing sources of \$7,720,738 in 2004, a decrease of \$608,135 or 7.30% from 2003 revenues. The general fund, had expenditures and other financing uses of \$7,936,913 in 2004, an increase of \$65,816 or 0.84% from 2003. The increase in expenditures and decrease in revenues contributed to the general fund balance decrease of \$216,175 from 2003 to 2004.
- The emergency squad fund, a County major fund, had revenues of \$718,927 in 2004. The emergency squad fund, had expenditures of \$747,065. The emergency squad fund balance decreased \$28,138 from 2003 to 2004.
- The motor vehicle and gas tax, a County major fund, had revenues of \$3,631,009 in 2004. The motor vehicle and gas tax, had expenditures and other financing uses of \$3,556,961 in 2004. The motor vehicle and gas tax fund balance increased \$74,048 from 2003 to 2004.
- The public assistance fund, a County major fund, had revenues of \$4,423,261 in 2004. The public assistance fund, had expenditures of \$4,226,167 in 2004. The public assistance fund balance increased \$197,094 from 2003 to 2004.
- The Courthouse Renovation Note fund, a County major fund, had revenues and other financing sources of \$2,558,674 in 2004 and expenditures of \$21,534. The Courthouse Renovation Note fund balance increased \$2,537,140 from 2003 to 2004.
- The MR/DD fund, a County major fund, had revenues and other financing sources of \$1,949,956 in 2004. The MR/DD fund, had expenditures and other financing uses of \$2,268,075 in 2004. The MR/DD fund balance decreased \$318,119 from 2003 to 2004.
- Net assets for the business-type activities, which are made up of the Ketterman Project and Morrow County Hospital enterprise funds, increased in 2004 by \$918,246. This increase in net assets was due to adequate charges for services revenue to cover operating expenses.

## MORROW COUNTY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED

#### **Using this Basic Financial Statements (BFS)**

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole County, presenting both an aggregate view of the County's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the County's most significant funds with all other non-major funds presented in total in one column. In the case of the County, there are six 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 2004?" 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. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

The County's statement of net assets and statement of activities can be found on pages 15-18 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.

## MORROW COUNTY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED

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

#### ***Governmental Funds***

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

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

The County maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the major funds. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental financial statements can be found on pages 19-29 of this report.

#### ***Proprietary Funds***

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

#### ***Fiduciary Funds***

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

#### ***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 35-70 of this report.

## MORROW COUNTY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED

#### Government-Wide Financial Analysis

The Statement of Net Assets provides the perspective of the County as a whole. The table below provides a summary of the County's net assets for 2004 and 2003.

	Net Assets					
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities	2004 Total	2003 Total
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<u>Assets</u>						
Current and other assets	\$ 18,030,554	\$ 9,649,227	\$ 15,121,987	\$ 8,479,789	\$ 27,679,781	\$ 23,601,776
Capital assets	<u>29,665,047</u>	<u>12,172,592</u>	<u>29,294,660</u>	<u>11,831,291</u>	<u>41,837,639</u>	<u>41,125,951</u>
Total assets	<u>47,695,601</u>	<u>21,821,819</u>	<u>44,416,647</u>	<u>20,311,080</u>	<u>69,517,420</u>	<u>64,727,727</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	8,108,476	6,049,722	6,078,433	5,559,335	14,158,248	11,637,768
Other liabilities	<u>4,485,322</u>	<u>3,996,078</u>	<u>4,305,165</u>	<u>3,893,972</u>	<u>8,481,400</u>	<u>8,199,137</u>
Total liabilities	<u>12,593,798</u>	<u>10,045,800</u>	<u>10,383,598</u>	<u>9,453,307</u>	<u>22,639,648</u>	<u>19,836,905</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	22,120,948	6,457,967	23,741,772	6,633,321	28,578,915	30,375,093
Restricted	11,590,393	2,625,726	8,603,120	-	14,216,119	8,603,120
Unrestricted	<u>1,390,462</u>	<u>2,692,326</u>	<u>1,688,157</u>	<u>4,224,452</u>	<u>4,082,788</u>	<u>5,912,609</u>
Total net assets	<u>\$ 35,101,803</u>	<u>\$ 11,776,019</u>	<u>\$ 34,033,049</u>	<u>\$ 10,857,773</u>	<u>\$ 46,877,822</u>	<u>\$ 44,890,822</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2004, the County's assets exceeded liabilities by \$46,877,822. This amounts to \$35,101,803 in governmental activities and \$11,776,019 in business-type activities. The County's finances remained strong during 2004, 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 60.18% of total governmental and business-type assets. Capital assets include land, land improvements, buildings, buildings and improvements, furniture and equipment, vehicles, infrastructure, construction in progress, the Ketterman project and the Morrow County Hospital. Capital assets, net of related debt to acquire the assets at December 31, 2004, were \$28,578,915. These capital assets are used to provide services to citizens and are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2004, 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, \$14,216,119 or 30.33%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net assets of \$1,390,462 may be used to meet the government's ongoing obligations to citizens and creditors.

**MORROW COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

The table below shows the changes in net assets for fiscal years 2004 and 2003.

	Governmental Activities <u>2004</u>	Business-type Activities <u>2004</u>	Governmental Activities <u>2003</u>	Business-type Activities <u>2003</u>	2004 <u>Total</u>	2003 <u>Total</u>
<b>Revenues</b>						
Program revenues:						
Charges for services and sales	\$ 3,744,528	\$ 22,850,154	\$ 3,837,066	\$ 23,036,434	\$ 26,594,682	\$ 26,873,500
Operating grants and contributions	<u>12,191,823</u>	<u>-</u>	<u>11,072,017</u>	<u>28,808</u>	<u>12,191,823</u>	<u>11,100,825</u>
Total program revenues	<u>15,936,351</u>	<u>22,850,154</u>	<u>14,909,083</u>	<u>23,065,242</u>	<u>38,786,505</u>	<u>37,974,325</u>
General revenues:						
Property taxes	3,079,453	-	3,217,785	-	3,079,453	3,217,785
Sales tax	2,566,066	-	2,489,471	-	2,566,066	2,489,471
Unrestricted grants	950,462	-	855,107	-	950,462	855,107
Investment earnings	225,376	44,839	340,933	104,593	270,215	445,526
Gain from sale of capital assets	-	-	14,066	-	-	14,066
Other	<u>1,146,730</u>	<u>1,822,332</u>	<u>1,239,178</u>	<u>1,517,300</u>	<u>2,969,062</u>	<u>2,756,478</u>
Total general revenues	<u>7,968,087</u>	<u>1,867,171</u>	<u>8,156,540</u>	<u>1,621,893</u>	<u>9,835,258</u>	<u>9,778,433</u>
Total revenues	<u>23,904,438</u>	<u>24,717,325</u>	<u>23,065,623</u>	<u>24,687,135</u>	<u>48,621,763</u>	<u>47,752,758</u>
<b>Expenses</b>						
Program Expenses:						
General government						
Legislative and executive	3,695,017	-	3,672,238	-	3,695,017	3,672,238
Judicial	1,507,336	-	1,273,900	-	1,507,336	1,273,900
Public safety	4,542,629	-	4,587,168	-	4,542,629	4,587,168
Public works	2,958,051	-	1,922,118	-	2,958,051	1,922,118
Health	2,325,799	-	2,846,616	-	2,325,799	2,846,616
Human services	6,447,027	-	5,733,902	-	6,447,027	5,733,902
Economic development and assistance	328,539	-	88,799	-	328,539	88,799
Intergovernmental	377,518	-	217,000	-	377,518	217,000
Other	653,999	-	495,519	-	653,999	495,519
Interest and fiscal charges	170,989	-	230,123	-	170,989	230,123
Morrow County Hospital	-	23,759,560	-	24,026,626	23,759,560	24,026,626
Ketterman Project	<u>-</u>	<u>26,234</u>	<u>-</u>	<u>24,740</u>	<u>26,234</u>	<u>24,740</u>
Total expenses	<u>23,006,904</u>	<u>23,785,794</u>	<u>21,067,383</u>	<u>24,051,366</u>	<u>46,792,698</u>	<u>45,118,749</u>
Change in net assets before transfers and special item	897,534	931,531	1,998,240	635,769	1,829,065	2,634,009
Special item	66,285	-	-	-	66,285	-
Transfers	<u>13,285</u>	<u>(13,285)</u>	<u>10,737</u>	<u>(10,737)</u>	<u>-</u>	<u>-</u>
Change in net assets	977,104	918,246	2,008,977	625,032	1,895,350	2,634,009
Net assets at beginning of year, restated	<u>34,124,699</u>	<u>10,857,773</u>	<u>32,024,072</u>	<u>10,232,741</u>	<u>44,982,472</u>	<u>42,256,813</u>
Net assets at end of year	<u>\$ 35,101,803</u>	<u>\$ 11,776,019</u>	<u>\$ 34,033,049</u>	<u>\$ 10,857,773</u>	<u>\$ 46,877,822</u>	<u>\$ 44,890,822</u>

**MORROW COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

**Governmental Activities**

Governmental assets increased by \$977,104 in 2004 over 2003. This increase is due to increasing revenues and controlled expenditures in 2004 compared to 2003.

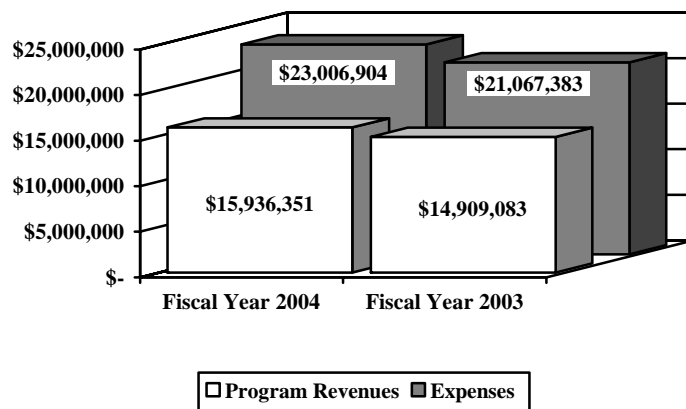
Human services accounts for \$6,447,027 of expenses, or 28.02% of total governmental expenses of the County. These expenses were funded by \$89,150 in charges to users of services in 2004. General government, which includes legislative and executive and judicial programs, expenses totaled \$5,202,353 or 22.61% of total governmental expenses. General government expenses were covered by \$1,435,821 of direct charges to users in 2004.

The state and federal government contributed to the County revenues of \$12,191,823 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions \$5,995,078 or 49.17%, subsidized human services programs.

General revenues totaled \$7,968,087, and amounted to 33.33% of total revenues. These revenues primarily consist of property and sales tax revenue of \$5,645,519 or 70.85% of total general revenues in 2004. 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 \$950,462, or 11.93% 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 and 2004.

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 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements. As can be seen in the Graph below, the County is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities.

**Governmental Activities – Program Revenues vs. Total Expenses**



**MORROW COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

	<b>Governmental Activities</b>			
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
<b>Program Expenses:</b>				
<b>General government</b>				
Legislative and executive	\$ 3,695,017	\$ 2,651,746	\$ 3,672,238	\$ 2,382,193
Judicial	1,507,336	139,540	1,273,900	180,037
Public safety	4,542,629	2,552,967	4,587,168	2,668,936
Public works	2,958,051	(715,884)	1,922,118	(1,471,490)
Health	2,325,799	1,174,677	2,846,616	1,470,222
Human services	6,447,027	362,799	5,733,902	337,654
Economic development and assistance	328,539	160,363	88,799	5,004
Intergovernmental	377,518	377,518	217,000	217,000
Other	653,999	196,119	495,519	151,982
Interest and fiscal charges	<u>170,989</u>	<u>170,708</u>	<u>230,123</u>	<u>216,762</u>
<b>Total</b>	<u>\$ 23,006,904</u>	<u>\$ 7,070,553</u>	<u>\$ 21,067,383</u>	<u>\$ 6,158,300</u>

The dependence upon general revenues for governmental activities is apparent, with 30.73% of expenses supported through taxes and other general revenues during 2004.

**Business-Type Activities**

The Morrow County Hospital and Ketterman Project are the County's only enterprise funds. These programs had revenues of \$24,717,325 and expenses of \$23,785,794 for fiscal year 2004. The net assets of the enterprise funds increased \$918,246 or 8.46% during 2004.

**Financial Analysis of the Government's Funds**

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

**Governmental Funds**

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

The County's governmental funds (as presented on the balance sheet on pages 19-20) reported a combined fund balance of \$10,941,686, which is \$2,421,117 over last year's total of \$8,520,569. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2004 for all major and non-major governmental funds.

**MORROW COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

	<u>Fund Balance</u> <u>June 30, 2004</u>	<u>Fund Balance</u> <u>June 30, 2003</u>	<u>Increase</u> <u>(Decrease)</u>
Major Funds:			
General	\$ 1,322,760	\$ 1,538,935	\$ (216,175)
Emergency Squad Fund	30,973	59,111	(28,138)
Motor Vehicle and Gas Tax	1,815,143	1,741,095	74,048
Public Assistance	334,820	137,726	197,094
Courthouse Renovation Note	2,537,140	-	2,537,140
MR/DD	561,670	879,789	(318,119)
Other Nonmajor Governmental Funds	<u>4,339,180</u>	<u>4,163,913</u>	<u>175,267</u>
<b>Total</b>	<b><u>\$ 10,941,686</u></b>	<b><u>\$ 8,520,569</u></b>	<b><u>\$ 2,421,117</u></b>

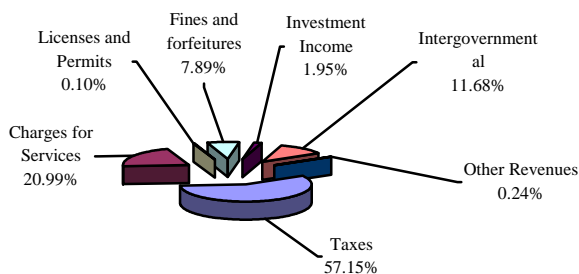
**General Fund**

The County's general fund balance decreased \$216,175, primarily due to a decline in revenues and increasing expenditures. The table that follows assists in illustrating the revenues of the general fund.

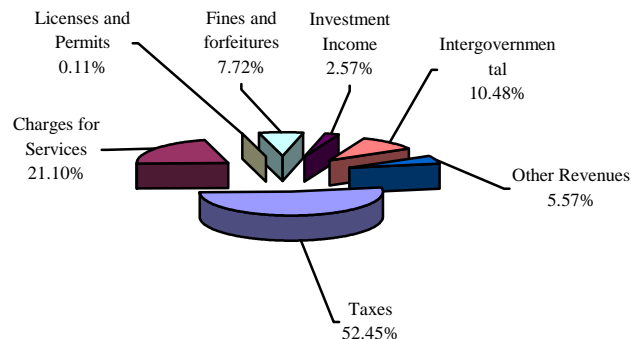
	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b>Revenues</b>			
Taxes	\$ 4,397,186	\$ 4,348,768	1.11 %
Charges for services	1,614,769	1,749,719	(7.71) %
Licenses and permits	7,714	9,306	(17.11) %
Fines and forfeitures	607,263	640,213	(5.15) %
Intergovernmental	898,616	869,285	3.37 %
Investment income	149,820	212,913	(29.63) %
Other	<u>18,501</u>	<u>461,783</u>	(95.99) %
<b>Total</b>	<b><u>\$ 7,693,869</u></b>	<b><u>\$ 8,291,987</u></b>	<b>(7.21) %</b>

Tax revenue represents 57.15% of all general fund revenue. Tax revenue increased slightly by 1.11% over prior year. The decrease in investment income is due to low interest rates throughout the year. The increase in fines and forfeitures is due to the County reassessing what is considered charges for services. All other revenue remained comparable to 2003.

**Revenues – Fiscal Year 2004**



**Revenues – Fiscal Year 2003**





**MORROW COUNTY, OHIO**

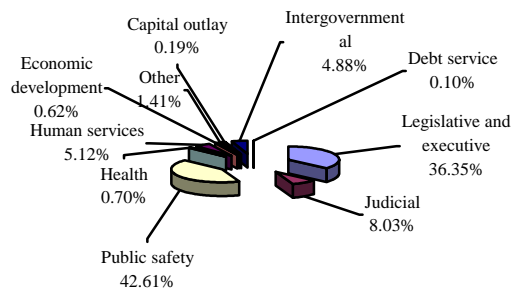
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
UNAUDITED**

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

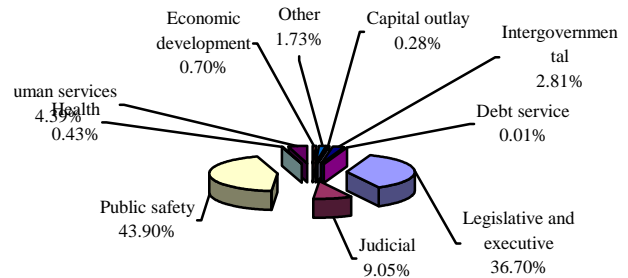
	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Expenditures</u></b>			
General government			
Legislative and executive	\$ 2,814,449	\$ 2,829,278	(0.52) %
Judicial	621,914	697,343	(10.82) %
Public safety	3,298,795	3,384,167	(2.52) %
Health	54,307	33,093	64.10 %
Human services	396,147	338,818	16.92 %
Economic development and assistance	47,724	54,223	(11.99) %
Other	109,519	133,538	(17.99) %
Capital outlay	14,619	21,277	(31.29) %
Intergovernmental	377,518	217,000	73.97 %
Debt service	7,745	550	1,308.18 %
<b>Total</b>	<b><u>\$ 7,742,737</u></b>	<b><u>\$ 7,709,287</u></b>	<b>0.43 %</b>

The most significant increase was in the area of debt service. This increase is primarily due to the County controlling the purchase of capital assets during the year. The increase in intergovernmental expenditures is due to the County aggressively pursuing state and federal grants. All other expenditures remained comparable to 2003. The largest expenditure line item, public safety, decreased marginally, which is primarily attributed to wage and benefit controls by the County.

**Expenditures – Fiscal Year 2004**



**Expenditures – Fiscal Year 2003**



***Emergency Squad Fund***

The emergency squad fund, a County major fund, had revenues of \$718,927 and expenditures of \$747,065. The emergency squad fund balance decreased \$28,138 from 2003 to 2004.

***Motor Vehicle License and Gas Tax Fund***

The motor vehicle and gas tax fund, a County major fund, had revenues of \$3,631,009 and expenditures and other financing uses of \$3,556,961 in 2004. The motor vehicle and gas tax fund balance increased \$74,048 from 2003 to 2004.

## MORROW COUNTY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED

#### ***Public Assistance Fund***

The public assistance fund, a County major fund, had revenues of \$4,423,261 and expenditures of \$4,226,167 in 2004. The public assistance fund balance increased \$197,094 from 2003 to 2004.

#### ***Courthouse Renovation Note Fund***

The Courthouse Renovation Note fund, a County major fund, had revenues and other financing sources of \$2,558,674 and expenditures of \$21,534 in 2004. The courthouse renovation note fund balance increased \$2,537,140 from 2003 to 2004.

#### ***MR/DD Fund***

The MR/DD fund, a County major fund, had revenues and other financing sources of \$1,949,956 and expenditures and other financing uses of \$2,268,075 in 2004. The MR/DD fund balance decreased \$318,119 from 2003 to 2004.

#### ***Budgeting Highlights - General Fund***

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

Budgetary information is presented for the general fund, emergency squad, motor vehicle license and gas tax, public assistance, courthouse renovation note and MR/DD. In the general fund, actual revenues and other financing sources of \$8,080,484 exceeded final budgeted revenues by \$481,647 or 6.34%. This increase is due to the County's conservative approach to budgeting. Another significant difference between the final budget and actual expenditures was a \$84,819 decrease in expenditures.

Actual revenues for the emergency squad were more than final budgeted revenues by \$12,065 while actual expenditures were \$379,332 less than final budgeted expenditures. Actual revenues for the motor vehicle license and gas tax were more than final budgeted revenues by \$522,765 while actual expenditures and other financing uses were \$328,953 lower than final budgeted expenditures. Actual revenues for public assistance were less than final budgeted revenues by \$145,303 while actual expenditures were \$164,485 lower than final budgeted expenditures. Actual revenues for MR/DD were more than final budgeted revenues by \$460,877 while actual expenditures were \$23,561 lower than final budgeted expenditures. There were no significant variances between the original and final budgeted revenue amounts.

#### ***Proprietary Funds***

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

**MORROW COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
UNAUDITED

**Capital Assets and Debt Administration**

**Capital Assets**

During 2004, the County restated its governmental activities capital assets to include the building held by MR/DD that was omitted in previous years. See Note 3.A. to the basic financial statements for detail. At the end of 2004, the County had \$41,837,639 (net of accumulated depreciation) invested in land, land improvements, buildings, buildings and improvements, furniture and equipment, vehicles, infrastructure, construction in progress, the Ketterman project and the Morrow County Hospital. Of this total, \$29,665,047 was reported in governmental activities and \$12,172,592 was reported in business-type activities. See Note 11 to the basic financial statements for detail. The following table shows fiscal 2004 balances compared to 2003:

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	Restated <u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 612,010	\$ 612,010	\$ -	\$ -	\$ 612,010	\$ 612,010
Buildings	6,300,297	6,550,152	-	-	6,300,297	6,550,152
Building and improvements	344,790	370,405	-	-	344,790	370,405
Furniture and equipment	611,904	660,792	-	-	611,904	660,792
Vehicles	1,013,305	1,293,519	-	-	1,013,305	1,293,519
Infrastructure	20,782,741	19,878,532	-	-	20,782,741	19,878,532
Construction in progress	-	20,900	-	-	-	20,900
Ketterman Project	-	-	220,481	225,608	220,481	225,608
Morrow County Hospital	-	-	11,952,111	11,605,683	11,952,111	11,605,683
Total	<u>\$ 29,665,047</u>	<u>\$ 29,386,310</u>	<u>\$ 12,172,592</u>	<u>\$ 11,831,291</u>	<u>\$ 41,837,639</u>	<u>\$ 41,217,601</u>

**Debt Administration**

At December 31, 2004 the County had \$8,108,476 in general obligation bonds, special assessment notes, notes, loans payable, OWDA loans, capital leases and compensated absences payable outstanding. Of this total, \$5,234,018 is due within one year and \$2,874,458 is due within greater than one year. See Note 14 to the basic financial statements for detail. The following table summarizes the bonds, notes and loan outstanding.

**Outstanding Debt, at Year End**

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2003</u>
Long-Term Obligations		
General obligation bonds	\$ 2,395,000	\$ 2,505,000
Special assessment notes	16,888	49,184
Notes	4,905,000	2,590,000
Loans payable	57,316	211,051
OWDA loans	139,870	151,830
Capital leases	30,025	45,823
Compensated absences payable	564,377	525,545
Total	<u>\$ 8,108,476</u>	<u>\$ 6,078,433</u>

## **MORROW COUNTY, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED**

At December 31, 2004 the County's overall legal debt margin was \$12,225,082. The County maintains an Aa-3 rating from Moody's Investors Service.

#### **Economic Factors and Next Year's Budget**

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

Location is also the key to Morrow County's future. Over 600 acres of industrial and commercial development opportunities are situated at the interchanges of Interstate 71 offering easy access for transportation of goods, materials and workers. Three new industrial based businesses opened their new facilities at State Route 61 and Interstate 71. While the County's 2004 overall unemployment rate (6.9%) was slightly higher than the State's average (6.1%), most of the County's major industrial companies increased employment levels.

Location also plays a key role in residential growth in the County. With an estimated 2004 population of 33,600, new home construction continues to increase population figures at a 2% rate per year. Approximately 209 new homes were constructed in 2004, which is slightly lower than in 2003. Early 2004 estimates indicate that these figures will be comparable if not slightly larger.

In 2004, the County undertook several new initiatives. The County continued the planning process for a Comprehensive Land-Use Plan, which should be completed in early 2005. Additionally, thirteen out of sixteen townships have approved county-wide zoning. Both efforts will enable the County to better guide future growth, better coordinate capital improvement plans, and serve as a catalyst for quality development.

#### **Contacting the County's Financial Management**

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

**BASIC  
FINANCIAL STATEMENTS**

MORROW COUNTY, OHIO

STATEMENT OF NET ASSETS  
DECEMBER 31, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 8,872,099	\$ 99,286	\$ 8,971,385	\$ 37,060
Cash and cash equivalents in segregated accounts. . . . .	-	731,160	731,160	-
Investments . . . . .	-	-	-	47,889
Receivables (net of allowances for uncollectibles):				
Property and other local taxes. . . . .	3,332,979	1,300,000	4,632,979	-
Sales taxes . . . . .	405,528	-	405,528	-
Accounts . . . . .	221,546	3,775,797	3,997,343	4,408
Special assessments. . . . .	35,275	-	35,275	-
Accrued interest . . . . .	37,370	256	37,626	-
Physicians advances. . . . .	-	150,261	150,261	-
Due from other governments . . . . .	3,979,465	-	3,979,465	-
Prepayments. . . . .	165,498	187,863	353,361	-
Deposits. . . . .	-	-	-	333
Materials and supplies inventory. . . . .	140,146	293,648	433,794	24,975
Notes receivable . . . . .	840,648	-	840,648	-
Long term investments . . . . .	-	279,181	279,181	-
Physicians advances (noncurrent). . . . .	-	206,049	206,049	-
Restricted assets:				
Investments. . . . .	-	2,069,551	2,069,551	-
Cash and cash equivalents in segregated accounts . . . . .	-	556,175	556,175	-
Capital assets:				
Land and construction in progress. . . . .	612,010	179,427	791,437	-
Depreciable capital assets, net . . . . .	29,053,037	11,993,165	41,046,202	13,157
Total capital assets. . . . .	29,665,047	12,172,592	41,837,639	13,157
Total assets. . . . .	47,695,601	21,821,819	69,517,420	127,822

- - Continued

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MORROW COUNTY, OHIO**

STATEMENT OF NET ASSETS (CONTINUED)  
DECEMBER 31, 2004

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Liabilities:</b>				
Accounts payable . . . . .	361,474	1,198,719	1,560,193	1,058
Accrued wages and benefits . . . . .	171,269	1,035,664	1,206,933	1,376
Due to other governments . . . . .	522,570	-	522,570	-
Deferred revenue . . . . .	3,021,288	1,300,000	4,321,288	340
Accrued interest payable . . . . .	70,056	22,995	93,051	-
Claims payable . . . . .	338,665	-	338,665	-
Medicare and medicaid third party settlement . . . . .	-	438,650	438,650	-
Long-term liabilities:				
Due within one year . . . . .	5,234,018	949,042	6,183,060	3,774
Due in more than one year . . . . .	2,874,458	5,100,730	7,975,188	1,694
<b>Total liabilities . . . . .</b>	<b>12,593,798</b>	<b>10,045,800</b>	<b>22,639,598</b>	<b>8,242</b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt . . . . .	22,120,948	6,457,967	28,578,915	-
Restricted for:				
Capital projects . . . . .	742,640	-	742,640	-
Debt service . . . . .	2,838,889	2,625,726	5,464,615	-
Public safety . . . . .	501,520	-	501,520	-
Public works . . . . .	3,019,863	-	3,019,863	-
Human services . . . . .	1,264,337	-	1,264,337	-
Other purposes . . . . .	3,223,144	-	3,223,144	-
Unrestricted . . . . .	1,390,462	2,692,326	4,082,788	119,580
<b>Total net assets . . . . .</b>	<b>\$ 35,101,803</b>	<b>\$ 11,776,019</b>	<b>\$ 46,877,822</b>	<b>\$ 119,580</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MORROW COUNTY, OHIO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>Program Revenues</b>		
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>
<b>Primary Government:</b>			
<b>Governmental Activities:</b>			
General government:			
Legislative and executive . . . . .	\$ 3,695,017	\$ 852,227	\$ 191,044
Judicial . . . . .	1,507,336	583,594	784,202
Public safety . . . . .	4,542,629	1,708,538	281,124
Public works . . . . .	2,958,051	351	3,673,584
Health . . . . .	2,325,799	275,011	876,111
Human services . . . . .	6,447,027	89,150	5,995,078
Economic development and assistance . . . . .	328,539	76,718	91,458
Intergovernmental . . . . .	377,518	-	-
Other. . . . .	653,999	158,658	299,222
Interest and fiscal charges . . . . .	170,989	281	-
Total governmental activities . . . . .	<u>23,006,904</u>	<u>3,744,528</u>	<u>12,191,823</u>
<b>Business-type Activities:</b>			
Morrow County Hospital . . . . .	23,759,560	22,817,794	-
Ketterman Project. . . . .	26,234	32,360	-
Total business-type activities . . . . .	<u>23,785,794</u>	<u>22,850,154</u>	<u>-</u>
Total primary government . . . . .	<u>\$ 46,792,698</u>	<u>\$ 26,594,682</u>	<u>\$ 12,191,823</u>
<b>Component Unit:</b>			
Whetstone Industries, Inc. . . . .	<u>\$ 778,733</u>	<u>\$ 708,982</u>	<u>\$ 71,153</u>

**General Revenues:**

Property taxes levied for:

General purposes. . . . .

Special purposes. . . . .

Sales taxes levied for:

General purposes. . . . .

Grants and entitlements not restricted to specific programs . . . . .

Investment earnings . . . . .

Miscellaneous . . . . .

Total general revenues . . . . .

**Special Item:**

Sale of capital asset . . . . .

Total general revenues and special item. . . . .

Transfers . . . . .

Change in net assets . . . . .

Net assets, January 1 (restated). . . . .

Net assets, December 31 . . . . .

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**Net (Expense) Revenue and Changes in Net Assets**

		<b>Primary Government</b>		
<b>Governmental</b>		<b>Business-type</b>		<b>Component</b>
<b>Activities</b>		<b>Activities</b>	<b>Total</b>	<b>Unit</b>
\$ (2,651,746)	\$ -	\$ (2,651,746)	\$ -	
(139,540)	-	(139,540)	-	
(2,552,967)	-	(2,552,967)	-	
715,884	-	715,884	-	
(1,174,677)	-	(1,174,677)	-	
(362,799)	-	(362,799)	-	
(160,363)	-	(160,363)	-	
(377,518)	-	(377,518)	-	
(196,119)	-	(196,119)	-	
(170,708)	-	(170,708)	-	
<u>(7,070,553)</u>	<u>-</u>	<u>(7,070,553)</u>	<u>-</u>	
-	(941,766)	(941,766)	-	
-	6,126	6,126	-	
-	(935,640)	(935,640)	-	
<u>(7,070,553)</u>	<u>(935,640)</u>	<u>(8,006,193)</u>	<u>-</u>	
-	-	-	1,402	
1,892,792	-	1,892,792	-	
1,186,661	-	1,186,661	-	
2,566,066	-	2,566,066	-	
950,462	-	950,462	-	
225,376	44,839	270,215	-	
<u>1,146,730</u>	<u>1,822,332</u>	<u>2,969,062</u>	<u>2,706</u>	
<u>7,968,087</u>	<u>1,867,171</u>	<u>9,835,258</u>	<u>2,706</u>	
<u>66,285</u>	<u>-</u>	<u>66,285</u>	<u>-</u>	
<u>8,034,372</u>	<u>1,867,171</u>	<u>9,901,543</u>	<u>2,706</u>	
13,285	(13,285)	-	-	
977,104	918,246	1,895,350	4,108	
<u>34,124,699</u>	<u>10,857,773</u>	<u>44,982,472</u>	<u>115,472</u>	
<u>\$ 35,101,803</u>	<u>\$ 11,776,019</u>	<u>\$ 46,877,822</u>	<u>\$ 119,580</u>	

MORROW COUNTY, OHIO

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2004

	General	Emergency Squad	Motor Vehicle & Gas Tax	Public Assistance
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 969,972	\$ 30,973	\$ 1,059,107	\$ 138,636
Receivables (net of allowance for uncollectibles):				
Sales taxes . . . . .	405,528	-	-	-
Real and other taxes . . . . .	1,851,183	900,696	-	-
Accounts . . . . .	99,332	-	25,274	-
Special assessments . . . . .	-	-	-	-
Accrued interest . . . . .	30,551	-	2,934	-
Due from other funds . . . . .	36,792	-	25	100,990
Due from other governments . . . . .	437,265	31,882	2,037,033	238,547
Notes receivable . . . . .	-	-	-	-
Prepayments . . . . .	85,995	-	19,067	48,867
Materials and supplies inventory . . . . .	17,307	-	116,526	6,313
Total assets . . . . .	<u>\$ 3,933,925</u>	<u>\$ 963,551</u>	<u>\$ 3,259,966</u>	<u>\$ 533,353</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 79,144	\$ -	\$ 59,282	\$ 104,027
Accrued wages and benefits . . . . .	69,939	-	25,130	26,234
Compensated absences payable . . . . .	-	-	9,145	-
Due to other funds . . . . .	3,849	-	997	17,352
Due to other governments . . . . .	319,427	-	39,921	50,920
Deferred revenue . . . . .	2,138,806	932,578	1,310,348	-
Total liabilities . . . . .	<u>2,611,165</u>	<u>932,578</u>	<u>1,444,823</u>	<u>198,533</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	244,685	-	148,724	57,656
Reserved for materials and supplies inventory . . . . .	17,307	-	116,526	6,313
Reserved for debt service . . . . .	-	-	-	-
Reserved for prepayments . . . . .	85,995	-	19,067	48,867
Reserved for notes receivable . . . . .	-	-	-	-
Reserved for unclaimed monies . . . . .	31,386	-	-	-
Unreserved, Undesignated, reported in:				
General fund . . . . .	943,387	-	-	-
Special revenue funds . . . . .	-	30,973	1,530,826	221,984
Capital projects funds . . . . .	-	-	-	-
Total fund balances . . . . .	<u>1,322,760</u>	<u>30,973</u>	<u>1,815,143</u>	<u>334,820</u>
Total liabilities and fund balances . . . . .	<u>\$ 3,933,925</u>	<u>\$ 963,551</u>	<u>\$ 3,259,966</u>	<u>\$ 533,353</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<b>MR/DD</b>	<b>Courthouse Renovation Note</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 596,164	\$ 2,535,879	\$ 3,442,458	\$ 8,773,189
-	-	-	405,528
573,781	-	7,319	3,332,979
23,041	-	73,899	221,546
-	-	35,275	35,275
-	1,261	2,624	37,370
-	-	217,520	355,327
61,626	-	1,173,112	3,979,465
-	-	840,648	840,648
-	-	11,569	165,498
-	-	-	140,146
<u>\$ 1,254,612</u>	<u>\$ 2,537,140</u>	<u>\$ 5,804,424</u>	<u>\$ 18,286,971</u>
\$ 18,687	\$ -	\$ 100,334	\$ 361,474
25,557	-	24,409	171,269
9,617	-	-	18,762
60	-	333,069	355,327
43,112	-	69,190	522,570
595,909	-	938,242	5,915,883
<u>692,942</u>	<u>-</u>	<u>1,465,244</u>	<u>7,345,285</u>
71,376	-	525,267	1,047,708
-	-	-	140,146
-	2,537,140	379,994	2,917,134
-	-	11,569	165,498
-	-	840,648	840,648
-	-	-	31,386
-	-	-	943,387
490,294	-	1,852,096	4,126,173
-	-	729,606	729,606
<u>561,670</u>	<u>2,537,140</u>	<u>4,339,180</u>	<u>10,941,686</u>
<u>\$ 1,254,612</u>	<u>\$ 2,537,140</u>	<u>\$ 5,804,424</u>	<u>\$ 18,286,971</u>

**MORROW COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2004

**Total governmental fund balances** \$ 10,941,686

*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. 29,665,047

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

Property taxes	\$ 430,337
Special assessments	35,275
Accrued interest	16,946
Intergovernmental revenues	<u>2,412,037</u>

Total 2,894,595

Internal service funds are used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. The net assets of the internal service fund are: (239,755)

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

Accrued interest payable	70,056
Special assessment notes	16,888
General obligation bonds	2,395,000
Notes payable	4,905,000
Loans payable	197,186
Compensated absences	545,615
Capital lease payable	<u>30,025</u>

Total (8,159,770)

**Net assets of governmental activities** \$ 35,101,803

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>General</u>	<u>Emergency Squad</u>	<u>Motor Vehicle &amp; Gas Tax</u>	<u>Public Assistance</u>
<b>Revenues:</b>				
Property taxes . . . . .	\$ 1,909,190	\$ 718,927	\$ -	\$ -
Sales taxes . . . . .	2,487,996	-	-	-
Charges for services . . . . .	1,614,769	-	-	-
Licenses and permits . . . . .	7,714	-	-	-
Fines and forfeitures . . . . .	607,263	-	351	-
Intergovernmental . . . . .	898,616	-	3,539,061	4,272,614
Special assessments . . . . .	-	-	-	-
Investment income . . . . .	149,820	-	14,799	-
Rental income . . . . .	12,900	-	-	-
Donations . . . . .	-	-	-	-
Reimbursements . . . . .	-	-	-	-
Other . . . . .	5,601	-	76,798	150,647
Total revenues . . . . .	<u>7,693,869</u>	<u>718,927</u>	<u>3,631,009</u>	<u>4,423,261</u>
<b>Expenditures:</b>				
Current:				
General government:				
Legislative and executive . . . . .	2,814,449	-	-	-
Judicial . . . . .	621,914	-	-	-
Public Safety . . . . .	3,298,795	747,065	-	-
Public works . . . . .	-	-	3,443,884	-
Health . . . . .	54,307	-	-	-
Human Services . . . . .	396,147	-	-	4,226,167
Economic development and assistance . . . . .	47,724	-	-	-
Other . . . . .	109,519	-	-	-
Capital outlay . . . . .	14,619	-	-	-
Intergovernmental . . . . .	377,518	-	-	-
Debt service:				
Principal retirement . . . . .	5,501	-	24,916	-
Interest and fiscal charges . . . . .	2,244	-	2,161	-
Total expenditures . . . . .	<u>7,742,737</u>	<u>747,065</u>	<u>3,470,961</u>	<u>4,226,167</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(48,868)</u>	<u>(28,138)</u>	<u>160,048</u>	<u>197,094</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets . . . . .	12,250	-	-	-
Sale of notes . . . . .	-	-	-	-
Capital lease transactions . . . . .	14,619	-	-	-
Transfers in . . . . .	-	-	-	-
Transfers out . . . . .	(194,176)	-	(86,000)	-
Total other financing sources (uses) . . . . .	<u>(167,307)</u>	<u>-</u>	<u>(86,000)</u>	<u>-</u>
Net change in fund balances . . . . .	(216,175)	(28,138)	74,048	197,094
<b>Fund balances at beginning of year . . . . .</b>	<u>1,538,935</u>	<u>59,111</u>	<u>1,741,095</u>	<u>137,726</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 1,322,760</u>	<u>\$ 30,973</u>	<u>\$ 1,815,143</u>	<u>\$ 334,820</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>MR/DD</u>	<u>Courthouse Renovation Note</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 450,817	\$ -	\$ -	\$ 3,078,934
-	-	78,070	2,566,066
57,048	-	1,081,079	2,752,896
-	-	105,714	113,428
-	-	135,246	742,860
971,134	-	3,046,251	12,727,676
-	-	151,278	151,278
-	37,140	23,283	225,042
122,444	-	287,466	422,810
11,854	-	-	11,854
104,106	-	-	104,106
74,618	-	230,766	538,430
<u>1,792,021</u>	<u>37,140</u>	<u>5,139,153</u>	<u>23,435,380</u>
-	-	738,008	3,552,457
-	-	884,189	1,506,103
-	-	301,612	4,347,472
-	-	-	3,443,884
2,175,928	-	98,372	2,328,607
35,099	-	1,586,728	6,244,141
-	-	281,159	328,883
28,039	21,534	432,207	591,299
-	-	314,576	329,195
-	-	-	377,518
-	-	2,897,991	2,928,408
-	-	134,980	139,385
<u>2,239,066</u>	<u>21,534</u>	<u>7,669,822</u>	<u>26,117,352</u>
<u>(447,045)</u>	<u>15,606</u>	<u>(2,530,669)</u>	<u>(2,681,972)</u>
157,935	-	-	170,185
-	2,500,000	2,405,000	4,905,000
-	-	-	14,619
-	21,534	300,936	322,470
<u>(29,009)</u>	<u>-</u>	<u>-</u>	<u>(309,185)</u>
<u>128,926</u>	<u>2,521,534</u>	<u>2,705,936</u>	<u>5,103,089</u>
(318,119)	2,537,140	175,267	2,421,117
879,789	-	4,163,913	8,520,569
<u>\$ 561,670</u>	<u>\$ 2,537,140</u>	<u>\$ 4,339,180</u>	<u>\$ 10,941,686</u>

**MORROW COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004

**Net change in fund balances - total governmental funds** \$ 2,421,117

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$2,296,873) exceeded depreciation expense (\$1,877,089) in the current period.	419,784
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(141,047)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	469,058
Notes and capital leases provide current financial resources to governmental funds, but issuing debt increases long-term liabilities on the statement of net assets.	(4,919,619)
Repayment of bonds, loans, notes and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.	2,928,408
In the statement of activities, interest is accrued on outstanding bonds, loans, and notes whereas in governmental funds, an interest expenditure is reported when due.	(31,604)
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.	(20,070)
An internal service fund used by management to charge the costs of health insurance to individual funds is not reported in the entity-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.	(148,923)

**Change in net assets of governmental activities** \$ 977,104

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**MORROW COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Property taxes . . . . .	\$ 1,727,336	\$ 1,888,000	\$ 1,981,486	\$ 93,486
Sales taxes . . . . .	2,156,820	2,300,807	2,474,161	173,354
Charges for services . . . . .	1,619,171	1,766,536	1,857,406	90,870
Licenses and permits . . . . .	6,899	2,900	7,914	5,014
Fines and forfeitures . . . . .	551,535	538,000	632,685	94,685
Intergovernmental . . . . .	740,798	797,000	849,795	52,795
Investment income . . . . .	142,170	160,000	163,088	3,088
Rental income . . . . .	11,245	10,800	12,900	2,100
Other . . . . .	77,409	121,394	88,799	(32,595)
Total revenues . . . . .	<u>7,033,383</u>	<u>7,585,437</u>	<u>8,068,234</u>	<u>482,797</u>
<b>Expenditures:</b>				
Current:				
General government:				
Legislative and executive . . . . .	3,218,815	3,112,103	3,070,960	41,143
Judicial . . . . .	566,053	661,860	653,872	7,988
Public safety . . . . .	2,923,484	3,403,005	3,403,005	-
Health . . . . .	38,797	62,376	62,376	-
Human services . . . . .	451,753	451,833	451,628	205
Economic development and assistance . . . . .	48,591	48,876	48,876	-
Other . . . . .	52,818	45,360	19,556	25,804
Intergovernmental . . . . .	377,613	377,613	377,518	95
Total expenditures . . . . .	<u>7,677,924</u>	<u>8,163,026</u>	<u>8,087,791</u>	<u>75,235</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(644,541)</u>	<u>(577,589)</u>	<u>(19,557)</u>	<u>558,032</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets . . . . .	10,679	13,400	12,250	(1,150)
Transfers out . . . . .	(150,105)	(223,105)	(213,521)	9,584
Total other financing sources (uses) . . . . .	<u>(139,426)</u>	<u>(209,705)</u>	<u>(201,271)</u>	<u>8,434</u>
Net change in fund balance . . . . .	(783,967)	(787,294)	(220,828)	566,466
<b>Fund balance at beginning of year . . . . .</b>	558,840	558,840	558,840	-
<b>Prior year encumbrances appropriated . . . . .</b>	<u>308,148</u>	<u>308,148</u>	<u>308,148</u>	<u>-</u>
<b>Fund balance at end of year . . . . .</b>	<u>\$ 83,021</u>	<u>\$ 79,694</u>	<u>\$ 646,160</u>	<u>\$ 566,466</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MORROW COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 EMERGENCY SQUAD  
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Property taxes . . . . .	\$ 735,000	\$ 735,000	\$ 747,065	\$ 12,065
Total revenues . . . . .	735,000	735,000	747,065	12,065
<b>Expenditures:</b>				
Current:				
Public safety . . . . .	379,332	1,126,397	747,065	379,332
Total expenditures . . . . .	379,332	1,126,397	747,065	379,332
Net change in fund balance . . . . .	355,668	(391,397)	-	391,397
<b>Fund balance at beginning of year . . . . .</b>	-	-	-	-
<b>Fund balance at end of year . . . . .</b>	\$ 355,668	\$ (391,397)	\$ -	\$ 391,397

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MORROW COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 MOTOR VEHICLE AND GAS TAX  
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>Budgeted Amounts</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues:</b>				
Fines and forfeitures. . . . .	\$ -	\$ -	\$ 508	\$ 508
Intergovernmental . . . . .	2,900,000	2,900,000	3,380,793	480,793
Investment income . . . . .	5,000	5,000	11,865	6,865
Other. . . . .	20,000	20,000	54,599	34,599
Total revenues . . . . .	2,925,000	2,925,000	3,447,765	522,765
<b>Expenditures:</b>				
Current:				
Public works . . . . .	3,249,165	4,116,395	3,789,928	326,467
Total expenditures . . . . .	3,249,165	4,116,395	3,789,928	326,467
Excess (deficiency) of revenues over (under) expenditures . . . . .	(324,165)	(1,191,395)	(342,163)	849,232
<b>Other financing uses:</b>				
Transfers out . . . . .	(226,000)	(92,770)	(90,284)	2,486
Total other financing uses . . . . .	(226,000)	(92,770)	(90,284)	2,486
Net change in fund balance . . . . .	(550,165)	(1,284,165)	(432,447)	851,718
<b>Fund balance at beginning of year . . . . .</b>	1,007,178	1,007,178	1,007,178	-
<b>Prior year encumbrances appropriated . . . . .</b>	277,536	277,536	277,536	-
<b>Fund balance at end of year. . . . .</b>	\$ 734,549	\$ 549	\$ 852,267	\$ 851,718

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MORROW COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 PUBLIC ASSISTANCE  
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>Budgeted Amounts</b>			<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>(Negative)</b>
<b>Revenues:</b>				
Intergovernmental . . . . .	\$ 4,033,114	\$ 4,353,722	\$ 4,174,533	\$ (179,189)
Other . . . . .	157,289	120,000	153,886	33,886
<b>Total revenues.</b> . . . .	4,190,403	4,473,722	4,328,419	(145,303)
<b>Expenditures:</b>				
<b>Current:</b>				
Human services . . . . .	4,312,386	4,595,705	4,431,220	164,485
<b>Total expenditures</b> . . . . .	4,312,386	4,595,705	4,431,220	164,485
<b>Net change in fund balance</b> . . . . .	(121,983)	(121,983)	(102,801)	19,182
<b>Fund balance at beginning of year</b> . . . . .	48,695	48,695	48,695	-
<b>Prior year encumbrances appropriated (restated)</b> .	73,288	73,288	73,288	-
<b>Fund balance (deficit) at end of year.</b> . . . . .	\$ -	\$ -	\$ 19,182	\$ 19,182

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MORROW COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 MR/DD  
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
Property taxes . . . . .	\$ 384,206	\$ 450,000	\$ 486,181	\$ 36,181
Charges for services . . . . .	45,082	60,000	57,048	(2,952)
Intergovernmental . . . . .	736,635	870,587	932,153	61,566
Rental income . . . . .	89,482	90,000	113,232	23,232
Donations. . . . .	269,478	164,884	341,002	176,118
Reimbursements . . . . .	82,270	50,338	104,106	53,768
Other . . . . .	48,039	29,394	60,789	31,395
Total revenues. . . . .	<u>1,655,192</u>	<u>1,715,203</u>	<u>2,094,511</u>	<u>379,308</u>
<b>Expenditures:</b>				
Current:				
Health . . . . .	2,359,653	2,359,653	2,337,535	22,118
Human services . . . . .	21,390	43,068	42,577	491
Other . . . . .	38,828	49,628	48,676	952
Total expenditures . . . . .	<u>2,419,871</u>	<u>2,452,349</u>	<u>2,428,788</u>	<u>23,561</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(764,679)</u>	<u>(737,146)</u>	<u>(334,277)</u>	<u>402,869</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets. . . . .	124,808	76,366	157,935	81,569
Transfers out. . . . .	(8,372)	(8,372)	(8,372)	-
Total other financing sources (uses) . . . . .	<u>116,436</u>	<u>67,994</u>	<u>149,563</u>	<u>81,569</u>
Net change in fund balance . . . . .	(648,243)	(669,152)	(184,714)	484,438
<b>Fund balance at beginning of year . . . . .</b>	534,779	534,779	534,779	-
<b>Prior year encumbrances appropriated . . . . .</b>	<u>137,817</u>	<u>137,817</u>	<u>137,817</u>	<u>-</u>
<b>Fund balance at end of year. . . . .</b>	<u>\$ 24,353</u>	<u>\$ 3,444</u>	<u>\$ 487,882</u>	<u>\$ 484,438</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MORROW COUNTY, OHIO**

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2004

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities - Internal Service Fund</b>
	<b>Morrow County Hospital</b>	<b>Nonmajor</b>	<b>Total</b>	
<b>Assets:</b>				
Current assets:				
Equity in pooled cash and cash equivalents . . . . .	\$ -	\$ 99,286	\$ 99,286	\$ 98,910
Cash in segregated accounts . . . . .	731,160	-	731,160	-
Receivables (net of allowance for uncollectibles):				
Real and other taxes . . . . .	1,300,000	-	1,300,000	-
Accounts . . . . .	3,775,255	542	3,775,797	-
Accrued interest . . . . .	-	256	256	-
Physician advances . . . . .	150,261	-	150,261	-
Materials and supplies inventory . . . . .	293,648	-	293,648	-
Prepayments . . . . .	187,863	-	187,863	-
Total current assets . . . . .	<u>6,438,187</u>	<u>100,084</u>	<u>6,538,271</u>	<u>98,910</u>
Noncurrent assets:				
Restricted assets:				
Cash in segregated accounts . . . . .	556,175	-	556,175	-
Investments . . . . .	2,069,551	-	2,069,551	-
Investments . . . . .	279,181	-	279,181	-
Physician advances . . . . .	206,049	-	206,049	-
Capital assets:				
Land and construction in progress . . . . .	179,427	-	179,427	-
Depreciable capital assets, net . . . . .	11,772,684	220,481	11,993,165	-
Total capital assets . . . . .	<u>11,952,111</u>	<u>220,481</u>	<u>12,172,592</u>	<u>-</u>
Total noncurrent assets . . . . .	<u>15,063,067</u>	<u>220,481</u>	<u>15,283,548</u>	<u>-</u>
Total assets . . . . .	<u>21,501,254</u>	<u>320,565</u>	<u>21,821,819</u>	<u>98,910</u>
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable . . . . .	1,198,719	-	1,198,719	-
Accrued wages and benefits . . . . .	1,035,664	-	1,035,664	-
Deferred revenue . . . . .	1,300,000	-	1,300,000	-
Accrued interest payable . . . . .	22,995	-	22,995	-
Claims and judgements payable . . . . .	-	-	-	338,665
Lease purchase agreement - current . . . . .	453,472	-	453,472	-
Capital lease payable - short term . . . . .	495,570	-	495,570	-
Total current liabilities . . . . .	<u>4,506,420</u>	<u>-</u>	<u>4,506,420</u>	<u>338,665</u>
Noncurrent liabilities:				
Lease purchase agreement - long term . . . . .	3,864,655	-	3,864,655	-
Capital lease obligations - long term . . . . .	900,928	-	900,928	-
Compensated absences . . . . .	335,147	-	335,147	-
Medicare and Medicaid third party settlement . . . . .	438,650	-	438,650	-
Total noncurrent liabilities . . . . .	<u>5,539,380</u>	<u>-</u>	<u>5,539,380</u>	<u>-</u>
Total liabilities . . . . .	<u>10,045,800</u>	<u>-</u>	<u>10,045,800</u>	<u>338,665</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt . . . . .	6,237,486	220,481	6,457,967	-
Restricted for:				
Debt service . . . . .	2,625,726	-	2,625,726	-
Unrestricted (deficit) . . . . .	<u>2,592,242</u>	<u>100,084</u>	<u>2,692,326</u>	<u>(239,755)</u>
Total net assets (deficit) . . . . .	<u>\$ 11,455,454</u>	<u>\$ 320,565</u>	<u>\$ 11,776,019</u>	<u>\$ (239,755)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MORROW COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities - Internal Service Fund</b>
	<b>Morrow County Hospital</b>	<b>Nonmajor</b>	<b>Total</b>	
<b>Operating revenues:</b>				
Charges for services . . . . .	\$ -	\$ 32,360	\$ 32,360	\$ 1,868,313
Patient service revenue, net . . . . .	22,817,794	-	22,817,794	-
Other operating revenue . . . . .	1,822,332	-	1,822,332	-
<b>Total operating revenues . . . . .</b>	<b>24,640,126</b>	<b>32,360</b>	<b>24,672,486</b>	<b>1,868,313</b>
<b>Operating expenses:</b>				
Personal services . . . . .	11,313,518	-	11,313,518	-
Contractual services. . . . .	5,699,811	18,987	5,718,798	-
Materials and supplies . . . . .	4,370,626	460	4,371,086	-
Depreciation . . . . .	1,363,271	5,127	1,368,398	-
Claims expense . . . . .	-	-	-	2,017,236
Interest. . . . .	314,990	-	314,990	-
Other . . . . .	604,774	1,660	606,434	-
<b>Total operating expenses. . . . .</b>	<b>23,666,990</b>	<b>26,234</b>	<b>23,693,224</b>	<b>2,017,236</b>
<b>Operating income/(loss). . . . .</b>	<b>973,136</b>	<b>6,126</b>	<b>979,262</b>	<b>(148,923)</b>
<b>Nonoperating revenues (expenses):</b>				
Interest income. . . . .	43,938	901	44,839	-
Loss on sale of assets. . . . .	(92,570)	-	(92,570)	-
<b>Total nonoperating revenues (expenses). . . . .</b>	<b>(48,632)</b>	<b>901</b>	<b>(47,731)</b>	<b>-</b>
<b>Income before transfers. . . . .</b>	<b>924,504</b>	<b>7,027</b>	<b>931,531</b>	<b>(148,923)</b>
Transfers out . . . . .	-	(13,285)	(13,285)	-
<b>Changes in net assets. . . . .</b>	<b>924,504</b>	<b>(6,258)</b>	<b>918,246</b>	<b>(148,923)</b>
<b>Net assets (deficit), January 1 . . . . .</b>	<b>10,530,950</b>	<b>326,823</b>	<b>10,857,773</b>	<b>(90,832)</b>
<b>Net assets (deficit), December 31 . . . . .</b>	<b>\$ 11,455,454</b>	<b>\$ 320,565</b>	<b>\$ 11,776,019</b>	<b>\$ (239,755)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental</b>
	<b>Morrow County</b>			<b>Activities -</b>
	<b>Hospital</b>	<b>Nonmajor</b>	<b>Total</b>	<b>Internal</b>
				<b>Service Funds</b>
<b>Cash flows from operating activities:</b>				
Cash received from customers . . . . .	\$ -	\$ 32,232	\$ 32,232	\$ 1,868,313
Cash received from patients and third-party payers. . .	22,739,706	-	22,739,706	-
Cash received from other operations. . . . .	1,821,342	-	1,821,342	-
Cash payments to suppliers for services and goods. . .	(10,413,199)	(18,987)	(10,432,186)	-
Cash payments for employees for services. . . . .	(11,155,665)	-	(11,155,665)	-
Cash payments for interest. . . . .	(316,274)	-	(316,274)	-
Cash payments for materials and supplies . . . . .	-	(460)	(460)	-
Cash payments for claims . . . . .	-	-	-	(1,805,284)
Cash payments for other expenses. . . . .	-	(1,660)	(1,660)	-
Net cash provided by operating activities. . . . .	2,675,910	11,125	2,687,035	63,029
<b>Cash flows from noncapital financing activities:</b>				
Cash payments for transfers out. . . . .	-	(13,285)	(13,285)	-
Net cash (used in) noncapital financing activities . . . . .	-	(13,285)	(13,285)	-
<b>Cash flows from capital and related financing activities:</b>				
Acquisition of capital assets . . . . .	(517,290)	-	(517,290)	-
Repayment of note and capital lease obligations. . . . .	(1,078,937)	-	(1,078,937)	-
Net cash used in capital and related financing activities . . . . .	(1,596,227)	-	(1,596,227)	-
<b>Cash flows from investing activities:</b>				
Interest received. . . . .	43,938	911	44,849	-
Purchase of investments. . . . .	(6,780)	-	(6,780)	-
Assets limited as to use. . . . .	(634,416)	-	(634,416)	-
Advances to physicians - net of forgiveness. . . . .	(95,581)	-	(95,581)	-
Net cash provided by (used in) investing activities. . . . .	(692,839)	911	(691,928)	-
Net increase (decrease) in cash and cash equivalents . . .	386,844	(1,249)	385,595	63,029
<b>Cash and cash equivalents at beginning of year, restated . . . . .</b>	900,491	100,535	1,001,026	35,881
<b>Cash and cash equivalents at end of year. . . . .</b>	<u>\$ 1,287,335</u>	<u>\$ 99,286</u>	<u>\$ 1,386,621</u>	<u>\$ 98,910</u>

-- continued



MORROW COUNTY, OHIO

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Morrow County</u>			
	<u>Hospital</u>	<u>Nonmajor</u>	<u>Total</u>	
<b>Reconciliation of operating income/(loss) to net cash provided by operating activities:</b>				
Operating income/(loss). . . . .	\$ 973,136	\$ 6,126	\$ 979,262	\$ (148,923)
Adjustments:				
Depreciation . . . . .	1,363,271	5,127	1,368,398	-
Changes in assets and liabilities:				
Increase in materials and supplies inventory. . . . .	(1,105)	-	(1,105)	-
Increase in accounts receivable. . . . .	-	(128)	(128)	-
Increase in patient accounts receivable. . . . .	(78,088)	-	(78,088)	-
Decrease in prepayments . . . . .	31,494	-	31,494	-
Increase in accounts payable. . . . .	148,803	-	148,803	-
Decrease in accrued interest. . . . .	(2,274)	-	(2,274)	-
Increase in Medicare and Medicaid third party settlements	82,821	-	82,821	-
Increase in accrued expenses . . . . .	101,958	-	101,958	-
Increase in compensated absences . . . . .	55,894	-	55,894	-
Increase in claims payable. . . . .	-	-	-	211,952
Net cash provided by operating activities. . . . .	<u>\$ 2,675,910</u>	<u>\$ 11,125</u>	<u>\$ 2,687,035</u>	<u>\$ 63,029</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MORROW COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
DECEMBER 31, 2004

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 2,343,021
Cash and cash equivalents with fiscal agent . . . . .	1,209,143
Receivables (net of allowance for uncollectibles):	
Special assessments. . . . .	35,275
Real and other taxes. . . . .	21,951,962
Due from other governments. . . . .	<u>769,177</u>
Total assets . . . . .	<u>\$ 26,308,578</u>
<b>Liabilities:</b>	
Due to other governments . . . . .	\$ 21,987,237
Undistributed assets. . . . .	<u>4,321,341</u>
Total liabilities . . . . .	<u>\$ 26,308,578</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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## MORROW COUNTY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

#### NOTE 1 - DESCRIPTION OF THE COUNTY

Morrow County, Ohio (the "County"), was created in 1848. The County is governed by a board of three commissioners elected by the voters of the County. Other officials elected by the voters of the County that manage various segments of the County's operations are the Auditor, Treasurer, Recorder, Clerk of Courts, Coroner, Engineer, Prosecuting Attorney, Sheriff, and a Common Pleas/Probate/Juvenile Court Judge. Although the elected officials manage the internal operations of their respective departments, the County Commissioners authorize expenditures as well as serve as the budget and taxing authority, contracting body, and the chief administrators of public services for the entire County.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

##### A. Reporting Entity

The County's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". The basic financial statements (BFS) include all funds, agencies, boards, commissions, and component units for which the County and the County Commissioners are "accountable". Accountability as defined in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the County and whether exclusion would cause the County's basic financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of the PCU's board; fiscal dependency and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the County.

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

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

**MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

*DISCRETELY PRESENTED COMPONENT UNIT*

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

*EXCLUDED POTENTIAL COMPONENT UNITS*

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

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

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

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

*JOINTLY GOVERNED ORGANIZATIONS*

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

## MORROW COUNTY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

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

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

#### *JOINT VENTURE WITHOUT EQUITY INTEREST*

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

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

#### **B. Basis of Presentation**

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

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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

C. Fund Accounting

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

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

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

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

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

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

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

Courthouse Renovation Note - This fund accounts for various renovations to the County courthouse.

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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

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

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

**Internal Service Fund** - The internal service fund accounts 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 reports on the operations of the health insurance.

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

**COMPONENT UNIT**

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

**D. Measurement Focus**

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

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



**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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

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

**E. Basis of Accounting**

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

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

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

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

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

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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.

**F. Budgetary Data**

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

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

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

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

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

On or about January 1, the Certificate of Estimated Resources is amended to include unencumbered fund balances at December 31. Further amendments may be made during the year if the County Auditor determines that revenue to be collected will be greater than or less than the prior estimates and the Budget Commission find the revised estimates to be reasonable. The amounts set forth in the budgetary statements represent estimates from the final amended certificate issued during 2004.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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

The allocation of appropriations among departments and objects within a fund may be modified during the year by a resolution of the County Commissioners. Several supplemental appropriation resolutions were legally enacted by the County Commissioners during the year. The original budget and all budgetary amendments and supplemental appropriations necessary during 2004 are included in the final budget amounts in the budget-to-actual comparisons.

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

**G. Cash and Investments**

To improve cash management, cash received by the County other than in segregated accounts 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 2004, investments were limited to U.S Government securities, repurchase agreements, certificates of deposit, U.S. Government money market mutual fund, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

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

The County has invested funds in STAR Ohio during fiscal year 2004. 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, 2004.

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 2004 amounted to \$149,820 which includes \$135,064 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.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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.

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

**H. Inventories of Materials and Supplies**

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

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

Inventory consists of expendable supplies held for consumption.

**I. Capital Assets**

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

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

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

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

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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

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

**J. Compensated Absences**

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is based on the sick leave accumulated at December 31, 2004, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. Sick leave benefits are accrued using the "Vesting" method. The County records a liability for accumulated unused vested sick leave after fifteen years of service with the County or over fifty-five years of age.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at December 31, 2004, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments.

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

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

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

**K. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

**L. Accrued Liabilities and Long-term Obligations**

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

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

**M. 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.

**N. Fund Balance Reserves**

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

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

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

**O. Operating Revenues and Expenses**

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

**P. 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.

**Q. 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.

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of County Commissioners and that are either unusual in nature or infrequent in occurrence. During fiscal year 2004, the County incurred a transaction that would be classified as a special item. The County received \$66,285 in proceeds of sale of a building.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Restatement of Net Assets**

The beginning net assets of the governmental activities have been restated due to the omission of a building reported in capital assets at December 31, 2003. The adjustment for capital assets had the following effect on net assets as previously reported:

	<u>Governmental Activities</u>
Net assets, December 31, 2003	\$ 34,033,049
Adjustment for capital assets	<u>91,650</u>
Restated adjusted net assets, December 31, 2003	<u>\$ 34,124,699</u>

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Deficit Fund Balances**

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
Alcohol and Drug Counselor Grant	\$ 59
DOJ/WMD Terror Equipment	7,058
Health Care Internal Service Fund	239,755

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.

**C. Morrow County Hospital Cash Restatement**

Morrow County Hospital's beginning cash balance has been restated in the current year. This restatement is due to the Hospital changing its definition of what constitutes cash and cash equivalents, and now includes only cash and highly liquid investments purchased with maturities of three months or less as cash and cash equivalents.

**NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS**

**A. Primary Government**

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

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

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

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



**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the County;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's Investment Pool (STAR Ohio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;
9. High grade commercial paper for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the County's total average portfolio; and
10. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the County's total average portfolio.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the County, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

*Deposits:* At year-end, the carrying amount of the County's deposits, including nonnegotiable certificates of deposit and cash in segregated accounts, was \$11,988,981 and the bank balance, including nonnegotiable certificates of deposit and cash in segregated accounts, was \$12,611,704. Of the bank balance:

1. \$1,149,537 was covered by federal depository insurance, covered by collateral held in the pledging bank's trust department in the County's name, or surety company bonds deposited with the County; and

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

2. \$11,462,167 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the County to a successful claim by the FDIC.

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

	Category 1	Fair Value
U. S. Government securities	<u>\$ 3,837,662</u>	\$ 3,837,662
Investment in STAR Ohio		295,734
U.S. Government money market mutual fund		<u>37,239</u>
Total Investments		<u>\$ 4,170,635</u>

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

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 13,810,884	\$ 2,348,732
Investments of the cash management pool:		
U.S. Government money market	(37,239)	37,239
U.S. Government securities	(1,488,930)	1,488,930
Investment in STAR Ohio	<u>(295,734)</u>	<u>295,734</u>
GASB Statement No. 3	<u>\$ 11,988,981</u>	<u>\$ 4,170,635</u>

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

**B. Component Unit**

At June 30, 2004, the carrying amount of the component unit's demand deposits was \$37,060 and the bank balance was \$37,060. The entire bank balance was covered by FDIC. In accordance with GASB Statement No. 9, the certificate of deposit is reported as an "Investment" on the combined balance sheet since the maturity is greater than ninety days from the date of purchase. In addition, the component unit has \$4,574 of undeposited cash on hand which is included in "Equity in Pooled Cash and Cash Equivalents". There are no statutory guidelines regarding the deposit and investment of funds by a not-for-profit corporation.

**NOTE 5 - INTERFUND TRANSACTIONS**

- A.** Interfund transfers for the year ended December 31, 2004, consisted of the following, as reported on the fund financial statements:

Transfer to Courthouse renovation note from:	
General Fund	\$ 21,534
Transfers to Nonmajor Governmental from:	
Nonmajor Enterprise Fund	13,285
General Fund	172,642
Motor Vehicle and Gas Tax Fund	86,000
MR/DD	<u>29,009</u>
Total Transfers to Nonmajor Governmental Funds	<u>\$ 322,470</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. All transfers are allowable in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

- B.** Due from/to other funds consisted of the following at December 31, 2004, as reported on the fund financial statements:

<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 3,824
	Motor vehicle and gas tax fund	<u>25</u>
	Total due to General Fund	<u>3,849</u>
Nonmajor Governmental Funds	Nonmajor governmental funds	213,696
MR/DD	General	60
Motor Vehicle and Gas Tax Fund	General	997
Public Assistance Fund	General	17,352
Nonmajor Governmental Funds	General	18,383
Nonmajor Governmental Funds	Public Assistance	100,990

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

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

**NOTE 6 - PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the County. Real property taxes and public utility taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value. Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at 88% of true value for taxable transmission and distribution property and 25% of true value for all other taxable property. Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value.

The assessed value upon which the 2004 taxes were collected was \$528,115,090. The full tax rate for all County operations applied to real property for fiscal year ended December 31, 2004, was \$11.70 per \$1,000 of assessed valuation.

The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

<u>Real Property</u>	<u>2004</u>	<u>2003</u>
Agricultural/Residential	\$ 433,600,500	\$ 404,613,560
Commercial/Industrial/Mineral	40,811,580	38,292,100
Tangible Personal Property	23,755,580	25,858,750
Public Utility	<u>29,947,430</u>	<u>33,192,570</u>
Total Assessed Value	<u>\$ 528,115,090</u>	<u>\$ 501,956,980</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.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 6 - PROPERTY TAXES- (Continued)**

Since the current levy is not intended to finance 2004 operations, the receivable is offset by a credit to "deferred revenue". The delinquent real, public utility and tangible personal property taxes that will become available to the County within the first 31 days of 2005 are shown as 2004 revenue; the remainder is shown as "deferred revenue". The eventual collection of significantly all real and public utility property taxes (both current and delinquent) is reasonably assured due to the County's ability to force foreclosure of the properties on which the taxes are levied.

**NOTE 7 - PERMISSIVE SALES AND USE TAX**

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

Proceeds of the tax are credited entirely to the general fund. A receivable is recognized at year-end for amounts that will be received from sales which occurred during 2004 and amounts that are measurable and available at year-end are accrued as revenue. Amounts received outside the available period are recorded as deferred revenue. Sales and use tax revenue for 2004 amounted to \$2,566,066.

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2004, consisted of taxes, accounts (billings for user charged services), special assessments, accrued interest, notes, and intergovernmental receivables arising from grants, entitlements and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2004, as well as intended to finance fiscal 2004 operations.

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

**Governmental Activities:**

Real estate and other taxes	\$ 3,332,979
Sales taxes	405,528
Accounts	221,546
Special assessments	35,275
Accrued interest	37,370
Due from other governments	3,979,465
Notes	840,648

**Business-Type Activities:**

Real estate and other taxes	1,300,000
Accounts	3,775,797
Accrued interest	256

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.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 9 - NOTES RECEIVABLE**

A summary of the changes in notes receivable reported in the special revenue funds during 2004 follows:

	<u>Balance at</u> <u>01/01/04</u>	<u>Loans</u> <u>Issued</u>	<u>Principal</u> <u>Received</u>	<u>Balance at</u> <u>12/31/04</u>
<u>Special Revenue Funds</u>				
Community Development Block				
Grant Commercial Loans	\$ 559,362	\$ -	\$ (27,944)	\$ 531,418
Water/Sewer Revolving Loans	95,597	10,903	(16,935)	89,565
Rural Hardship				
Revolving Loans	<u>246,498</u>	<u>39,885</u>	<u>(66,718)</u>	<u>219,665</u>
Total	<u>\$ 901,457</u>	<u>\$ 50,788</u>	<u>\$ (111,597)</u>	<u>\$ 840,648</u>

**NOTE 10 - RESTRICTED ASSETS**

Assets whose use is limited consists of invested funds securing bank debt and invested funds designated by the Hospital's Board of Trustees for the replacement, improvement, and expansion of the Hospital's facilities. Investments consist principally of U.S. Government securities and are recorded at cost which approximates market. The composition of assets whose use is limited at December 31, 2004, is set forth in the following table:

Board restricted for capital improvements:	
Cash and cash equivalents in segregated accounts	
Investments	\$ 556,175
Water/Sewer Revolving Loans	<u>2,069,551</u>
Total	<u>\$ 2,625,726</u>

**NOTE 11 - CAPITAL ASSETS**

**A. Business-Type Capital Assets**

A summary of the enterprise fund capital assets at December 31, 2004 is as follows:

Land and improvements	\$ 528,023
Buildings	5,329,981
Equipment	14,570,296
Construction in progress	179,427
Infrastructure	<u>256,370</u>
Total gross assets	20,864,097
Less: accumulated depreciation	<u>(8,691,505)</u>
Total net assets	<u>\$ 12,172,592</u>

Construction in progress primarily consists of hospital facility improvements.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 11 - CAPITAL ASSETS - (Continued)**

- B.** The beginning capital asset balances of the governmental activities have been restated at December 31, 2003 due to an omission of a building from capital assets in the previous year.

<b>Governmental Activities:</b>	<u>Balance</u> <u>12/31/03</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>1/1/04</u>
Land	\$ 612,010	\$ -	\$ 612,010
Land improvements	145,697	-	145,697
Buildings	8,555,952	97,500	8,653,452
Buildings improvements	933,748	-	933,748
Equipment	1,209,944	-	1,209,944
Vehicles	4,129,008	-	4,129,008
Infrastructure	33,829,125	-	33,829,125
CIP	20,900	-	20,900
Less: accumulated depreciation	<u>(20,141,724)</u>	<u>(5,850)</u>	<u>(20,147,574)</u>
Total	<u>\$ 29,294,660</u>	<u>\$ 91,650</u>	<u>\$ 29,386,310</u>

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 11 - CAPITAL ASSETS - (Continued)**

C. Capital asset activity for the fiscal year ended December 31, 2004, was as follows:

<b>Governmental Activities:</b>	Restated Balance <u>1/1/04</u>	<u>Additions</u>	<u>Disposals</u>	Balance 12/31/04
<i>Capital assets, not being depreciated:</i>				
Land	\$ 612,010	\$ -	\$ -	\$ 612,010
Construction in progress	<u>20,900</u>	<u>-</u>	<u>(20,900)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>632,910</u>	<u>-</u>	<u>(20,900)</u>	<u>612,010</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	145,697	-	-	145,697
Buildings	8,653,452	-	(97,500)	8,555,952
Building and improvements	933,748	-	-	933,748
Equipment	1,209,944	110,994	(79,722)	1,241,216
Vehicles	4,129,008	14,400	-	4,143,408
Infrastructure	<u>33,829,125</u>	<u>2,192,379</u>	<u>-</u>	<u>36,021,504</u>
Total capital assets, being depreciated	<u>48,900,974</u>	<u>2,317,773</u>	<u>(177,222)</u>	<u>51,041,525</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(145,697)	-	-	(145,697)
Buildings	(2,103,300)	(158,205)	5,850	(2,255,655)
Building and improvements	(563,343)	(25,615)	-	(588,958)
Equipment	(549,152)	(110,485)	30,325	(629,312)
Vehicles	(2,835,489)	(294,614)	-	(3,130,103)
Infrastructure	<u>(13,950,593)</u>	<u>(1,288,170)</u>	<u>-</u>	<u>(15,238,763)</u>
Total accumulated depreciation	<u>(20,147,574)</u>	<u>(1,877,089)</u>	<u>36,175</u>	<u>(21,988,488)</u>
Total capital assets being depreciated, net	<u>28,753,400</u>	<u>440,684</u>	<u>(141,047)</u>	<u>29,053,037</u>
Governmental activities capital assets, net	<u>\$ 29,386,310</u>	<u>\$ 440,684</u>	<u>\$ (161,947)</u>	<u>\$ 29,665,047</u>



**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 11 - CAPITAL ASSETS - (Continued)**

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

Governmental activities:

Legislative and executive	\$ 95,316
Judicial	6,940
Public safety	170,718
Public works	1,459,815
Health	9,346
Human services	131,907
Other	<u>3,047</u>

Total depreciation expense - governmental activities	\$ <u>1,877,089</u>
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**NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE**

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

Equipment has been capitalized in the amount of \$137,554. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the government-wide financial statements. Principal and interest payments for fiscal year 2004 were \$30,417 and \$4,405, respectively. These amounts are reported as debt service expenditures in the motor vehicle and gas tax funds and the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2004:

Fiscal Year Ending <u>December 31,</u>	<u>Amount</u>
2005	\$ 8,710
2006	8,710
2007	8,709
2008	8,159
2009	<u>968</u>
Total future minimum lease payments	35,256
Less: amount representing interest	<u>(5,231)</u>
Present value of net minimum lease payments	<u>\$ 30,025</u>

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

- B.** At December 31, 2004, the Hospital has capital leases for a computer hardware and software system, the CT scanner system and other medical equipment. The obligations under these capital leases have been recorded at the present value of future minimum lease payments, discounted at appropriate interest rates. The capitalized costs of \$1,726,000 less accumulated depreciation of \$331,000 are included in property and equipment, in the financial statements. The liability for the obligation under capital lease at December 31, 2004 was \$1,396,498.

Annual minimum lease payments of the capital leases required for the years subsequent to December 31, 2004 are as follows:

Fiscal Year Ending <u>December 31,</u>	<u>Amount</u>
2005	\$ 596,907
2006	333,456
2007	288,969
2008	248,188
2009	<u>197,452</u>
Total minimum lease payments	<u>1,664,972</u>
Amounts representing interest	<u>(268,474)</u>
Present value of net minimum payments	<u>\$ 1,396,498</u>

- C.** At December 31, 2004, the Whetstone Industries has a capital lease for a walk behind fork lift. The obligation under this capital lease has been recorded at the present value of future minimum lease payments, discounted at appropriate interest rates. The capitalized costs of \$13,950 less accumulated depreciation of \$4,488 are included in property and equipment. The interest expense for this capital lease for the year ended December 31, 2004 was \$782. Annual minimum lease payments of the capital lease required for the five years subsequent to December 31, 2004 are as follows:

Fiscal Year Ending <u>December 31,</u>	<u>Amount</u>
2005	\$ 4,176
2006	<u>1,740</u>
Total minimum lease payments	<u>5,916</u>
Amounts representing interest	<u>(448)</u>
Present value of net minimum payments	5,468
Less current portion	<u>(3,774)</u>
Long-term capitalized lease obligations	<u>\$ 1,694</u>

**MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 13 - COMPENSATED ABSENCES**

County employees earn vacation at varying rates ranging from two to five weeks per year. Vacation is to be taken within one year of the employee's anniversary date. In certain cases, vacation can accumulate up to three times the annual vacation rate for an employee. All accumulated, unused vacation time is paid upon separation from the County. Sick leave is accumulated at the rate of .0575/hour for every hour worked. Upon retirement, employees with ten years of service are entitled to 25 percent of their accumulated sick leave up to a maximum of 30 days. At December 31, 2004 vested benefits for vacation leave for governmental fund type employees totaled \$430,870 and vested benefits for sick leave totaled \$61,825. In accordance with GASB Statement No. 16, an additional liability of \$52,920 was accrued to record termination (severance) payments expected to become eligible to retire in the future for the governmental fund type employees.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 14 - LONG-TERM OBLIGATIONS**

**A. Governmental Long-Term Obligations**

During the fiscal year 2004, the following changes occurred in the County's governmental long-term obligations:

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance at 01/01/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/04</u>	<u>Amount Due in One Year</u>
<u>General obligation bonds:</u>							
MRDD building bonds	2011	6.2-7.95%	\$ 265,000	\$ -	\$ (25,000)	\$ 240,000	\$ 30,000
County services building	2022	1.5-4.8%	<u>2,240,000</u>	<u>-</u>	<u>(85,000)</u>	<u>2,155,000</u>	<u>90,000</u>
Total general obligation bonds			<u>\$ 2,505,000</u>	<u>\$ -</u>	<u>\$ (110,000)</u>	<u>\$ 2,395,000</u>	<u>\$ 120,000</u>
<u>Loans payable:</u>							
MR/DD Van loan	2008	3.90%	\$ 18,426	\$ -	\$ (3,745)	\$ 14,681	\$ 3,893
Engineers vehicles #7	2004	4.90%	42,215	-	(42,215)	-	-
Engineers vehicles #9	2005	5.90%	85,270	-	(42,635)	42,635	42,635
Building - Walnut Place	2004	5.00%	53,208	-	(53,208)	-	-
Court computerization	2004	6.15%	<u>11,932</u>	<u>-</u>	<u>(11,932)</u>	<u>-</u>	<u>-</u>
Total loans payable			<u>\$ 211,051</u>	<u>\$ -</u>	<u>\$ (153,735)</u>	<u>\$ 57,316</u>	<u>\$ 46,528</u>
OWDA loan payable	2011	7.50%	\$ 78,705	\$ -	\$ (8,210)	\$ 70,495	\$ 8,826
OWDA loan payable	2023	0.00%	<u>73,125</u>	<u>-</u>	<u>(3,750)</u>	<u>69,375</u>	<u>3,750</u>
Total OWDA loans payable			<u>\$ 151,830</u>	<u>\$ -</u>	<u>\$ (11,960)</u>	<u>\$ 139,870</u>	<u>\$ 12,576</u>
Special assessment note payable	2005	6.00%	<u>\$ 49,184</u>	<u>\$ -</u>	<u>\$ (32,296)</u>	<u>\$ 16,888</u>	<u>\$ 16,888</u>
<u>Notes payable:</u>							
Various purpose bond anticipation notes	2005	2.50%	\$ -	\$ 2,405,000	\$ -	\$ 2,405,000	\$ 2,405,000
Various purpose bond anticipation notes	2004	1.50%	2,000,000	-	(2,000,000)	-	-
Jail improvement bond anticipation note	2004	5.00%	30,000	-	(30,000)	-	-
Jail refunding bond anticipation notes	2004	5.00%	560,000	-	(560,000)	-	-
Courthouse renovation bond anticipation notes	2005	1.55%	<u>-</u>	<u>2,500,000</u>	<u>-</u>	<u>2,500,000</u>	<u>2,500,000</u>
Total notes payable			<u>\$ 2,590,000</u>	<u>\$ 4,905,000</u>	<u>\$ (2,590,000)</u>	<u>\$ 4,905,000</u>	<u>\$ 4,905,000</u>
<u>Other long-term obligations:</u>							
Compensated absences payable			\$ 525,545	\$ 142,349	\$ (103,517)	\$ 564,377	\$ 126,480
Capital lease payable			<u>45,823</u>	<u>14,619</u>	<u>(30,417)</u>	<u>30,025</u>	<u>6,546</u>
Total other long-term obligations			<u>\$ 571,368</u>	<u>\$ 156,968</u>	<u>\$ (133,934)</u>	<u>\$ 594,402</u>	<u>\$ 133,026</u>
Total long-term obligations			<u>\$ 6,078,433</u>	<u>\$ 5,061,968</u>	<u>\$ (3,031,925)</u>	<u>\$ 8,108,476</u>	<u>\$ 5,234,018</u>

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)**

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

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

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

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

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

Notes Payable - On July 20, 2004, the County issued \$2,405,000 in bond anticipation notes. The proceeds were used to retire the 2004 bond anticipation notes and the jail improvement and jail refunding bond anticipation notes. The bond anticipation notes will be retired when the County reissues bond anticipation notes in July 2005. On January 28, 2004, the County issued \$2,500,000 in bond anticipation notes. The proceeds will be used for various courthouse renovations. The bond anticipation notes will be retired when the County reissues bond anticipation notes in January 2005. In accordance with FASB Statement No. 6, "Classification of Short-Term Obligations Expected to Be Refinanced" the bond anticipation notes are considered long-term obligations because they have been replaced with long-term bonds before the financial statements have been issued.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 14 - LONG TERM OBLIGATIONS - (Continued)**

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

Year Ended	General Obligation Bonds			Engineers and MR/DD Loans		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 120,000	\$ 99,215	\$ 219,215	\$ 46,528	\$ 1,761	\$ 48,289
2006	120,000	95,405	215,405	4,048	5,897	9,945
2007	120,000	91,220	211,220	4,208	188	4,396
2008	135,000	86,298	221,298	2,532	33	2,565
2009	135,000	80,755	215,755	-	-	-
2010-2014	625,000	295,870	920,870	-	-	-
2015-2019	665,000	201,800	866,800	-	-	-
2020-2022	475,000	45,700	520,700	-	-	-
Total	<u>\$ 2,395,000</u>	<u>\$ 996,263</u>	<u>\$ 3,391,263</u>	<u>\$ 57,316</u>	<u>\$ 7,879</u>	<u>\$ 65,195</u>

Year Ended	OWDA Loans			Special Assessment Note		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 12,576	\$ 5,287	\$ 17,863	\$ 16,888	\$ 513	\$ 17,401
2006	13,238	4,625	17,863	-	-	-
2007	13,949	3,914	17,863	-	-	-
2008	14,714	3,149	17,863	-	-	-
2009	15,536	2,327	17,863	-	-	-
2010-2014	37,982	1,935	39,917	-	-	-
2015-2019	18,750	-	18,750	-	-	-
2020-2023	13,125	-	13,125	-	-	-
Total	<u>\$ 139,870</u>	<u>\$ 21,237</u>	<u>\$ 161,107</u>	<u>\$ 16,888</u>	<u>\$ 513</u>	<u>\$ 17,401</u>

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

The Code further provides that the total voted and unvoted net debt of the County, less the same exempt debt, shall never exceed a sum equal to three percent of the first \$100,000,000 of the assessed valuation, plus one and one-half percent of such valuation in excess of \$100,000,000 and net in excess of \$300,000,000, plus two and one-half percent of such valuation in excess of \$300,000,000. Based on this calculation, the County's legal debt margin was \$12,225,082 as of December 31, 2004.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 14 - LONG TERM OBLIGATIONS - (Continued)**

**C. Enterprise Fund Obligations**

The balance of the enterprise fund obligations at December 31, 2003 has been restated due to various reclassifications. The ending enterprise fund long-term obligations balance increased \$116,501 from \$5,659,335 to \$5,775,835. This restatement had no effect on net assets at the beginning of the year.

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

	Interest Rate	Restated Balance at 1/1/04	Additions	Reductions	Balance at 12/31/04	Amount Due in One Year
Capital lease payable		\$ 654,619	\$ 1,296,979	\$ (555,100)	\$ 1,396,498	\$ 495,570
Hospital facilities revenue notes	5.90%	96,851	-	(96,851)	-	-
Facility improvements						
Lease and purchase	5.89%	4,745,113	-	(426,986)	4,318,127	453,472
Compensated absences payable		<u>279,253</u>	<u>649,887</u>	<u>(593,993)</u>	<u>335,147</u>	<u>-</u>
Total enterprise fund obligations		<u>\$ 5,775,836</u>	<u>\$ 1,946,866</u>	<u>\$ (1,672,930)</u>	<u>\$ 6,049,772</u>	<u>\$ 949,042</u>

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

Hospital Facilities Refunding Revenue Note: The Hospital Facilities Refunding Revenue Notes were issued for a five year period and will mature December 1, 2005. The notes will be retired from Hospital operating revenue.

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

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

<u>Year Ended December 31,</u>	<u>Amount</u>
2005	\$ 453,472
2006	480,783
2007	509,738
2008	539,981
2009	572,958
Thereafter	<u>1,761,195</u>
Total	<u>\$ 4,318,127</u>

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 15 - NET PATIENT SERVICE REVENUE AND CHARITY CARE**

The Hospital provides services to certain patients covered by various third party payer arrangements that provide for payments to the Hospital at amounts different than its established rates. Gross patient service revenues and the allowances to reconcile to net patient services revenue for the year ended December 31, 2004 are as follows:

	2004
Gross patient service revenue	\$ 37,459,751
Less:	
Provision for contractual allowance	(12,412,045)
Provision for bad debt	(2,299,227)
Charity care - Net of hospital care	69,315
Total revenue deductions	(14,641,957)
Net patient service revenue	\$ 22,817,794

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under the charity care policy. Charity care, based on estimated rates, totaled approximately \$69,315 during the year ended December 31, 2004.

**NOTE 16 - RISK MANAGEMENT**

**A. Property and Liability Insurance**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During 2004, the County contracted with the County Risk Sharing Authority, Inc. (CORSA) for liability, property, automotive, and crime insurance. The CORSA program has a \$2,500 deductible. Coverage provided by CORSA is as follows:

	<u>Amount</u>
General Liability (per occurrence)	\$ 1,000,000
Law Enforcement Liability (per occurrence)	1,000,000
Automobile Liability and Physical Damage Liability (per occurrence)	1,000,000
Medical Payments	
Per Person	5,000
Per Occurrence	50,000
Uninsured Motorist (per person)	250,000
Physical Damage	Actual Cost
Flood and Earthquake (pool limit)	100,000,000
Other Property Insurance:	
Extra Expense	1,000,000
Contractors' Equipment	Actual Cash Value
Valuable Papers and Records	1,000,000
Inland Marine	Actual Cash Value



**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 16 - RISK MANAGEMENT - (Continued)**

Automatic Acquisition	3,000,000
Motor Truck Cargo	100,000
 Crime Insurance:	
Faithful Performance	1,000,000
Money and Securities (inside and outside)	1,000,000
Depositor's Forgery	1,000,000
Money Orders and Counterfeit Paper Currency	1,000,000
 Boiler and Machinery	
Public Officials (per occurrence)	100,000,000
Umbrella (per occurrence)	1,000,000
	4,000,000

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

**B. Health, Prescription Drug, Dental and Vision Insurance**

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

All funds of the County participate in the program and make payments to the Employee Self-Insurance Fund based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services). A third party administrator reviews, and the County pays, all claims. The liability for unpaid claims of \$338,665 reported in the financial statements at December 31, 2004, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by FASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in the balances of the self insurance claims liabilities during the past two fiscal (calendar) years are as follows:

	Beginning of Year <u>Liability</u>	Current Year Claims and Changes in <u>Estimates</u>	Claim <u>Payments</u>	End of Year <u>Liability</u>
2004	\$ 126,713	\$ 2,017,236	\$ (1,805,284)	\$ 338,665
2003	136,618	1,658,717	(1,668,622)	126,713

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

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 16 - RISK MANAGEMENT - (Continued)**

**C. Malpractice and General Patient Liability Insurance**

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

**NOTE 17 - 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% 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, 2004, 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% of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1% of their annual covered salary; members in public safety contributed 9%. The County's contribution rate for pension benefits for 2004 was 9.55%, except for those plan members in law enforcement or public safety. For those classifications, the County's pension contributions were 12.7% 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, 2004, 2003, and 2002 were \$1,163,382, \$880,995, and \$823,901, respectively; 83.98% has been contributed for 2004 and 100% has been contributed for 2003 and 2002. The unpaid contribution to fund pension obligations for 2004, in the amount of \$186,423, is recorded as a liability.

**B. State Teachers Retirement System**

Certified teachers, employed by the school for Mental Retardation and Developmental Disabilities, participate in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries.

**MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 17 - DEFINED BENEFIT PENSION PLANS- (Continued)**

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

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

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

For the year ended December 31, 2004, plan members were required to contribute 10 percent of their annual covered salary and the County was required to contribute 14 percent; 9.09 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The County's required contribution for pension obligations for the DBP for the years ended December 31, 2004, 2003, and 2002 was \$16,107, \$16,107, and \$16,107, respectively; 100 percent has been contributed for fiscal years 2004, 2003 and 2002. There were no contributions for the DCP and CP for the fiscal year ended June 30, 2004.

## MORROW COUNTY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

#### NOTE 18 - 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 2004 local government employer contribution rate was 13.55% of covered payroll (16.70% for public safety and law enforcement); 4.00% 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, 2003, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually.

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

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$413,108. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

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

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.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

**MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 18 - POSTEMPLOYMENT BENEFITS - (Continued)**

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

**B. State Teachers Retirement System**

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the County, this amount was \$7,762.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million, and STRS had 111,853 eligible benefit recipients.

**NOTE 19 - 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 and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**NOTE 19 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

- (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**

	<u>General</u>	<u>Emergency Squad</u>	<u>Motor Vehicle and Gas Tax</u>	<u>Public Assistance</u>	<u>MR/DD</u>
Budget basis	\$ (220,828)	\$ -	\$ (432,447)	\$ (102,801)	\$ (184,714)
Net adjustment for revenue accruals	(374,365)	(28,138)	183,244	94,842	(302,490)
Net adjustment for expenditure accruals	60,149	-	112,127	85,599	104,670
Net adjustment for other financing sources/(uses) accruals	33,964	-	4,284	-	(20,637)
Encumbrances (budget basis)	<u>284,905</u>	<u>-</u>	<u>206,840</u>	<u>119,454</u>	<u>85,052</u>
GAAP basis	<u>\$ (216,175)</u>	<u>\$ (28,138)</u>	<u>\$ 74,048</u>	<u>\$ 197,094</u>	<u>\$ (318,119)</u>

**NOTE 20 - CONTINGENT LIABILITIES**

**A. Grants**

The County receives significant assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall position of the County at December 31, 2004.

**B. Morrow County Hospital**

At December 31, 2004, management is aware of certain asserted and unasserted malpractice and general patient liability claims and assessments against the Hospital. These claims are in various stages of processing and their outcome is uncertain. Therefore, future liability of the Hospital related to these claims and assessments is unknown. Accordingly, no amounts have been accrued for malpractice and general patient liability claims.

**MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**NOTE 20 - CONTINGENT LIABILITIES - (Continued)**

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

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

**C. Litigation**

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

**NOTE 21 - RELATED PARTY TRANSACTION**

Whetstone Industries, Inc., a discretely presented component unit of the County, received contributions from the County for certain personnel and salaries. The contributions are reflected as operating revenues in the basic financial statements. For the year ended December 31, 2004 the County's contributions totaled \$702,786.

**NOTE 22 - FEDERAL TRANSACTIONS**

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

**NOTE 23 – SUBSEQUENT EVENT**

During January 2005, the County issued \$2,500,000 in bond anticipation notes to retire the Courthouse renovation notes outstanding at December 31, 2004.

**MORROW COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL DISBURSEMENTS
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
<b>PASSED THROUGH THE</b>			
<b>OHIO DEPARTMENT OF DEVELOPMENT</b>			
<b>OFFICE OF HOUSING AND COMMUNITY PARTNERSHIP:</b>			
Community Development Block Grant	14.228	B-F-02-054-1	39,178
Community Development Block Grant	14.228	B-F-03-054-1	122,586
Community Development Block Grant	14.228	B-F-04-054-1	5,000
Community Development Block Grant	14.228	B-C-02-054-1	130,597
Total Community Development Block Grant			297,361
(B) Community Housing Improvement Program	14.239	B-C-02-054-2	158,216
Total U.S. Department of Housing and Urban Development			455,577
<b>U.S. DEPARTMENT OF JUSTICE</b>			
Bulletproof Vest Program (Direct)	16.607	N/A	1,438
<b>U.S. DEPARTMENT OF JUSTICE</b>			
<b>PASSED THROUGH THE</b>			
<b>OHIO ATTORNEY GENERAL'S OFFICE:</b>			
Crime Victim Assistance	16.579	2004-SAGENE069	26,389
Total U.S. Department of Justice			27,827
<b>U.S. DEPARTMENT OF LABOR</b>			
<b>PASSED THROUGH THE</b>			
<b>OHIO DEPARTMENT OF JOBS AND FAMILY SERVICES-</b>			
<b>WORKFORCE DEVELOPMENT ACT OF 1998 (WIA) CLUSTER:</b>			
(C) Workforce Investment Act - Adult	17.258	N/A	67,777
(C) Workforce Investment Act - Adult Administration	17.258	N/A	7,732
Total Workforce Investment Act - Adult			75,509
(C) Workforce Investment Act - Youth	17.259	N/A	86,001
(C) Workforce Investment Act - Youth Administration	17.259	N/A	9,414
Total Workforce Investment Act - Youth Total			95,415
(C) Workforce Investment Act - Dislocated Workers	17.260	N/A	128,463
(C) Workforce Investment Act - Dislocated Workers Administration	17.260	N/A	4,363
Total Workforce Investment Act - Dislocated Worker Total			132,826
Total U.S. Department of Labor			303,750
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<b>PASSED THROUGH THE</b>			
<b>OHIO DEPARTMENT OF HEALTH:</b>			
Temporary Assistance for Needy Families - Help Me Grow, Part C	93.558	N/A	33,861
<b>PASSED THROUGH THE</b>			
<b>OHIO DEVELOPMENT OF MENTAL RETARDATION</b>			
<b>AND DEVELOPMENT DISABILITIES:</b>			
Social Services Block Grant (Title XX)	93.667	N/A	29,892
State Children's Insurance Program	93.767	N/A	3,817
Title XIX - Targeted Case Management	93.778	N/A	17,175
Title XIX - Community Alternative Funding System (CAFS) - 1997 and 1998 Settlement Payment	93.778	N/A	230,098
Title XIX - Community Alternative Funding System (CAFS)	93.778	N/A	423,027
Total Medical Assistance Program			670,300
Total U.S. Department of Health and Human Services			704,009
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
<b>PASSED THROUGH THE</b>			
<b>OHIO DEPARTMENT OF PUBLIC SAFETY</b>			
State Domestic Preparedness Equipment Support Program	97.004	2003-MUP-30015	6,000
State Domestic Preparedness Equipment Support Program	97.004	2004-GE-T4-0025	108,389
Total State Domestic Preparedness Equipment Support Program			114,389
Hazard Mitigation Grant Program	97.039	FEMA-DR-1484-OH	16,000
Emergency Management Performance Grants	97.042	2004-EMC-GR-7007	22,638
Emergency Management Performance Grants	97.042	2004-GC-T4-0025	5,329
Total Emergency Management Performance Grants			27,967
Total U.S. Department of Homeland Security			158,356
<b>Total Federal Financial Assistance</b>			<b>\$ 1,683,380</b>

- (A) This schedule was prepared on the cash basis of accounting (except as noted in c).
- (B) The County has established a revolving loan program to provide low interest loans to eligible persons to rehabilitate homes. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the County as passed through the Ohio Department of Development (ODOD). The initial loan of money is recorded as a disbursement on the accompanying Schedule of Federal Awards of Expenditures. 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. Loans are collateralized by capital assets and at December 31, 2004, the gross amount of loans outstanding under this program was \$840,648. The County issued \$50,788 in new loans and noted no significant delinquencies at December 31, 2004.
- (C) Included as part of the Workforce Investment Act Cluster and prepared on the accrual basis of accounting.
- (D) 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.



# JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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

Board of Commissioners  
Morrow County  
48 E. High Street  
Mt. Gilead, OH 43338

We have audited the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrow County, Ohio, as of December 31, 2004, which collectively comprise the County’s basic financial statements and have issued our report thereon dated June 10, 2005. As disclosed within Note 3, the County restated its capital assets. We did not audit the financial statements of the Morrow County Hospital and Whetstone Industries Inc. which are presented as a business-type activity and a discretely presented component unit, respectively. Other auditors audited those financial statements. They have furnished their report thereon to us, and we based our opinion, insofar as it relates to the amounts included for the Morrow County Hospital and Whetstone Industries, Inc., on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Whetstone Industries, Inc. were audited by other auditors in accordance with auditing standards generally accepted in the United States of America and not in accordance with *Government Auditing Standards*. Accordingly, this report does not extend to the discretely presented component unit.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the County in a separate letter dated June 10, 2005.

Board of Commissioners  
Morrow County

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* within the accompanying schedule of findings as item 2004-MC-001. We also noted certain matters that we reported to management of the County in a separate letter dated June 10, 2005.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc." The signature is written in dark ink and is positioned above the printed name of the firm.

Julian & Grube, Inc.  
June 10, 2005

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

Board of Commissioners  
Morrow County  
48 E. High Street  
Mt. Gilead, OH 43338

### Compliance

We have audited the compliance of Morrow County, Ohio (the County) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. As disclosed in Note 3, the County restated the capital assets. The County's major federal program is 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 its major federal program is the responsibility of Morrow 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, Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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.

Board of Commissioners  
Morrow County

In our opinion, Morrow County, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on its 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 reportable 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 caused by error or fraud that would be material in relation to its 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 management, the Board of Commissioners of Morrow County, 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.



Julian & Grube, Inc.  
June 10, 2005

**MORROW COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2004**

**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)?	No
<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 non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for the 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 Program's Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs:	Medicaid Title XIX; CFDA #93.778
<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?	Yes

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

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

Finding Number	2004-MC-001
----------------	-------------

Ohio Revised Code Section 5705.39 requires that no subdivision is to appropriate more monies than estimated resources.

It was noted during the audit that the County had appropriations exceeding estimated resources in the following fund:

<u>Major Fund</u>	<u>Appropriations</u>	<u>Estimated Resources</u>	<u>Excess</u>
Emergency Squad	\$ 1,126,397	\$ 735,000	\$ (391,397)

With appropriations exceeding estimated resources, the County is spending monies that are not appropriated for those purposes and thus could result in a fund deficit.

We recommend that the County comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by keeping more accurate appropriations versus estimated resources records and amending the budget prior to year-end. If it is determined that estimated revenues will be greater than initially anticipated, the County should amend its official estimate in order to provide for any additional appropriations; however, appropriations should not exceed estimated resources.

The County Auditor will monitor estimated resources and appropriations throughout the year to determine no noncompliance exists.

**MORROW COUNTY**

**STATUS OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 § .315(b)  
DECEMBER 31, 2004**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer <u>Valid</u>; Explain:</b>
02-2	<p>Cash Management - Home Investment Partnerships Program - CFDA No. 14.239 - U.S. Department of Housing and Urban Development - Pass-Through Ohio Department of Development.</p> <p>The OHCP Financial Management Rules and Regulations Handbook states that grantees receiving federal funds must develop a cash management system to ensure compliance with the Fifteen Day rule relating to prompt disbursement of funds. Federal Regulations 24 CFR 92 and 502 (c)(2) require that Non-Federal entities must expend funds which they receive from HUD within fifteen days of receipt of the funds. There were several instances throughout 2002 when the balance of funds was greater than \$5,000 after fifteen days of receipt of funds.</p> <p>The County's Economic Development Office should review the amounts of incoming funds and the related projects, so that amounts are expended to the correct parties within the required time limit.</p>	No	This program was not deemed a major program in the current year, however, the County had noncompliance in this area again in 2004







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## **FINANCIAL CONDITION**

### **MORROW COUNTY**

#### **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 4, 2005**