



**Auditor of State  
Betty Montgomery**



**MORGAN COUNTY**  
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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Morgan County  
155 East Main Street  
Room 217  
McConnelsville, Ohio 43756-1297

To the Board of County Commissioners:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Morgan County, Ohio (the County), as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

The Mary Hammond Adult Activity Center, Inc., financial statements are presented as stand-alone statements in accordance with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the discretely presented component units (except the Mary Hammond Adult Activity Center, Inc.), each major fund, and the aggregate remaining fund information of Morgan County, Ohio, as of December 31, 2005, and the respective changes in cash financial position and the respective budgetary comparisons for the General, Job and Family Services and Motor Vehicle and Gasoline Tax Funds thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

Also, in our opinion, the financial statements of the Mary Hammond Adult Activity Center, Inc., present fairly, in all material respects, its financial position, as of December 31, 2005, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the County's basic financial statements. The Schedule of Federal Awards Expenditures presents additional information and is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It is not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



**Betty Montgomery**  
Auditor of State

September 22, 2006

**Morgan County, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
*Unaudited*

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The discussion and analysis of Morgan County's financial performance provides an overview of the County's financial activities for the year ended December 31, 2005. 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 to enhance their understanding of the County's financial performance.

### **Financial Highlights**

Key financial highlights for 2005 are as follows:

- At the end of the current year, the County's governmental funds reported a combined ending fund balance of \$3,206,699, a decrease of \$172,718 from the prior year.

### **Using This Annual Financial Report**

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

### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets - Cash Basis* presents information on Morgan County's cash assets.

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

Both of the government-wide financial statements identify functions of Morgan County that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of Morgan County include general government, public safety, public works, health, human services, and conservation and recreation.

*Governmental Activities* - Most of the County's programs and services are funded primarily by taxes and intergovernmental revenues, including federal and State grants and other shared revenues.

*Component Units* - The County's financial statements include financial data of the Regional Airport Authority, Inc., and the Mary Hammond Adult Activity Center, Inc. These component units are described in the notes to the financial statements. Component units are separate legal entities which may buy, sell, lease, and mortgage property and sue or be sued in their own name.

### ***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.

**Morgan County, Ohio**  
*Management's Discussion and Analysis*  
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*Unaudited*

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All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds. Fund financial statements provide detailed information about the County's major funds. Based on the restriction on the use of moneys, the County has established many funds that account for the multitude of services provided to our residents. The County's major governmental funds are the General Fund and the Job and Family Services and Motor Vehicle and Gasoline Tax Special Revenue Funds.

*Governmental Funds* - Governmental funds are used to account for essentially the same functions reported as governmental activities on the government-wide financial statements. Most of the County's basic services are reported in these funds that focus on how money flows into and out of the funds and the year end balances available for spending.

The County maintains a multitude of individual governmental funds. Information is presented separately on the governmental fund *Statement of Receipts, Disbursements and Changes in Cash Basis Fund Balance* for the major funds, which were identified earlier. Data from the other governmental funds are combined into a single, aggregated presentation.

*Fiduciary Funds* - Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the County's programs.

*Notes to the Basic Financial Statements* - The notes provide additional information that is essential to a full understanding of the data provided on the government-wide and fund financial statements.

**Government-Wide Financial Analysis**

Table 1 provides a summary of the County's net assets for 2005 compared to 2004:

Table 1  
Morgan County's Net Assets - Cash Basis

	Governmental Activities	
	2005	2004
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$3,206,699	\$3,379,417
<b>Net Assets</b>		
Restricted for:		
Capital Projects	\$188,423	\$489,640
Job and Family Services	383,687	636,606
Motor Vehicle and Gasoline Tax	874,160	360,314
Senior Citizen Services	120,642	115,996
Child Support Enforcement Agency	45,247	6,948
Children Services	206,714	95,432
Other Purposes	1,053,461	1,269,718
Unclaimed Monies	11,151	10,140
Unrestricted	323,214	394,623
<i>Total Net Assets</i>	\$3,206,699	\$3,379,417

**Morgan County, Ohio**  
*Management's Discussion and Analysis*  
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*Unaudited*

A portion of the County's net assets, \$2,883,485 or 90 percent, represents resources that are subject to restrictions on how they can be used. The remaining balance of unrestricted assets, \$323,214, or 10 percent, are to be used to meet the County's ongoing obligations to citizens and creditors.

Table 2 shows the changes in net assets for 2005 compared to 2004:

Table 2  
Changes in Net Assets

	Governmental Activities	
	2005	2004
<b>Receipts</b>		
Program Receipts		
Charges for Services	\$1,077,275	\$1,158,764
Operating Grants and Contributions	8,975,732	8,408,549
Capital Grants and Contributions	466,110	298,739
<i>Total Program Receipts</i>	<u>10,519,117</u>	<u>9,866,052</u>
General Receipts		
Property Taxes	1,726,319	1,896,758
Conveyance Fees	21,156	51,983
Permissive Sales Taxes	1,050,426	1,032,240
Intergovernmental	1,021,730	318,899
Interest	75,657	93,912
Payment in Lieu of Taxes	10,027	13,268
Loan Proceeds - Highway Garage	0	149,813
Miscellaneous	862,723	986,835
<i>Total General Receipts</i>	<u>4,768,038</u>	<u>4,543,708</u>
<i>Total Receipts</i>	<u>15,287,155</u>	<u>14,409,760</u>
<b>Program Disbursements</b>		
General Government:		
Legislative and Executive	1,416,857	1,339,922
Judicial	530,406	548,261
Public Safety	1,551,671	1,733,961
Public Works	4,600,942	3,582,583
Health	1,484,099	1,287,227
Human Services	4,530,129	4,799,120
Conservation and Recreation	0	29,835
Capital Outlay	275,217	88,275
Other	871,705	710,432
Debt Service		
Principal	95,629	247,878
Interest and Fiscal Charges	103,218	101,501
<i>Total Disbursements</i>	<u>15,459,873</u>	<u>14,468,995</u>
<i>Decrease in Net Assets</i>	(172,718)	(59,235)
<i>Net Assets Beginning of Year</i>	<u>3,379,417</u>	<u>3,438,652</u>
<i>Net Assets End of Year</i>	<u>\$3,206,699</u>	<u>\$3,379,417</u>

**Morgan County, Ohio**  
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*Unaudited*

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Operating grants were the largest program revenues, accounting for \$8,975,732 or 59 percent of total governmental activities receipts. The major recipients of intergovernmental program receipts were the Job and Family Services, Motor Vehicle and Gasoline Tax, and Mental Retardation and Developmental Disabilities program disbursements.

Property tax revenues account for \$1,726,319 or 11 percent of total governmental revenues. Another major component of governmental receipts is permissive sales taxes, which accounted for \$1,050,426 or 7 percent of total receipts.

The County's direct charges to users of governmental services made up \$1,077,275 or 7 percent of total governmental receipts. These charges are for fees associated with the collection of property taxes, fines and forfeitures related to judicial activity, and licenses and permits.

Public works programs accounted for \$4,600,942, or 30 percent of total disbursements for governmental activities. Other major program disbursements for governmental activities include human services programs, which accounted for \$4,530,129, or 29 percent of total disbursements.

Table 3, for governmental activities, indicates the total cost of services and the net cost of services for 2005 and 2004. The statement of activities reflects the cost of program services and the charges for services, and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues.

Table 3  
 Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2005	2005	2004	2004
General Government:				
Legislative and Executive	\$1,416,857	\$922,401	\$1,339,922	\$878,802
Judicial	530,406	260,393	548,261	211,948
Public Safety	1,551,671	1,135,738	1,733,961	1,077,006
Public Works	4,600,942	(73,486)	3,582,583	(2,135)
Health	1,484,099	766,876	1,287,227	619,352
Human Services	4,530,129	583,065	4,799,120	640,049
Conservation and Recreation	0	0	29,835	29,835
Capital Outlay	275,217	275,217	88,275	88,275
Other	871,705	871,705	710,432	710,432
Debt Service:				
Principal	95,629	95,629	247,878	247,878
Interest and Fiscal Charges	103,218	103,218	101,501	101,501
Total Expenses	<u>\$15,459,873</u>	<u>\$4,940,756</u>	<u>\$14,468,995</u>	<u>\$4,602,943</u>

Charges for services, operating grants, and capital grants of \$10,519,117, or 68 percent of the total costs of services, are received and used to fund general governmental disbursements of the County. The remaining \$4,940,756 in governmental disbursements is funded by property taxes, permissive sales taxes, intergovernmental revenues, interest, and miscellaneous revenues.

**Morgan County, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
*Unaudited*

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The \$766,876 in net cost of services for Health demonstrates the costs of services that are not supported from State and federal resources. As such, the taxpayers have approved property tax levies for several programs including the Mental Retardation and Developmental Disabilities, Senior Citizen Services, and Ambulance Services.

### **Financial Analysis of County 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 the end of the year.

As of December 31, 2005, the County's governmental funds reported a combined ending fund balance of \$3,206,699, a decrease of \$172,718 in comparison with the prior year. \$2,672,294 or 83 percent of this total, constitutes unreserved undesignated fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior year (\$523,254) or for unclaimed money payouts (\$11,151). While the bulk of the governmental fund balances are not reserved in the governmental fund statements, they lead to restricted net assets on the Statement of Net Assets due to expenditure restrictions mandated by the source of the resource, such as the State or federal government.

The General Fund is the primary operating fund of the County. At the end of 2005, unreserved fund balance was \$153,680, while total fund balance was \$184,397. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5 percent to total General Fund disbursements, while total fund balance represents 6 percent of that same amount.

The fund balance of the County's General Fund decreased by \$220,366 during 2005. The primary causes of the decrease include joint jail expenditures, increased expenditures in insurance, and advances out made at the end of the year.

At the end of 2005, the Job and Family Services Special Revenue Fund had a fund balance of \$465,542, a decrease of \$259,676 from 2004.

At the end of 2005, the Motor Vehicle and Gasoline Tax Special Revenue Fund had a fund balance of \$874,160, in comparison to a fund balance of \$360,314 at the end of 2004. This increase is primarily due to FEMA receipts relating to the September 2004 and January 2005 floods.

### **Budgetary Highlights**

The County's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Board of County Commissioners adopts a permanent annual operating budget for the County on or about January 1.

**Morgan County, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
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For the General Fund, changes from the original budget to the final budget have been minimal. Fluctuations in growth and diversity have typically not occurred in Morgan County, allowing department managers the ability to consistently predict revenues and expenditures.

For the Motor Vehicle and Gasoline Tax Special Revenue Fund, changes from the original budget to the final budget were significant due to receipts and expenditures related to FEMA projects.

For the Job and Family Services Special Revenue Fund, there were no changes from the original budget to the final budget. Fluctuations in growth and diversity have typically not occurred in Morgan County, allowing department managers the ability to consistently predict revenues and expenditures.

### **Capital Assets and Debt Administration**

*Capital Assets* - The County had an appraisal of their capital assets in 1995. No updates to the County's capital assets have been made since 1995 and no information relating to capital assets is being presented.

*Long-Term Obligations* - As of December 31, 2005, the County had total general obligation bonded debt outstanding of \$1,934,326. All of this debt is expected to be repaid through governmental activities. Other outstanding long-term debt included a Garage Facility Loan of \$45,965, an OWDA Loan of \$123,738, and a Tax Increment Financing Loan of \$80,830.

Additional information on the County's long-term obligations can be found in Note 13 of this report.

### **Economic Factors**

The County's \$227.294 million tax base has increased 2.6 percent over the last three years. This increase is attributed to an increase in the County's real estate tax values. Real property values within the County have risen over the past several years, and are now at an all time high.

The various economic factors were considered in the preparation of the County's 2005 budget and will be considered in the preparation of future budgets. Appropriate measures will be taken to ensure spending is within available resources.

### **Requests for Information**

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Gary Woodward, Morgan County Auditor, 155 East Main Street, Room 217, McConnelsville, Ohio 43756.

**Morgan County, Ohio**  
*Statement of Net Assets - Cash Basis*  
*December 31, 2005*

	Primary Government	Component Unit Morgan County Regional Airport Authority
	Governmental Activities	
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$3,206,699	\$0
Cash in Segregated Accounts	0	6,305
<i>Total Assets</i>	\$3,206,699	\$6,305
<b>Net Assets</b>		
Restricted for:		
Capital Projects	\$188,423	\$0
Job and Family Services	383,687	0
Motor Vehicle and Gasoline Tax	874,160	0
Senior Citizen Services	120,642	0
Child Support Enforcement Agency	45,247	0
Children Services	206,714	0
Other Purposes	1,053,461	0
Unclaimed Monies	11,151	0
Unrestricted	323,214	6,305
<i>Total Net Assets</i>	\$3,206,699	\$6,305

See accompanying notes to the basic financial statements

**Morgan County, Ohio**  
*Statement of Activities - Cash Basis*  
For the Year Ended December 31, 2005

	Net (Disbursements) Receipts and Changes in Net Assets					
	Disbursements	Program Receipts			Primary Government	Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Morgan County Regional Airport Authority
<b>Governmental Activities</b>						
General Government:						
Legislative and Executive	\$1,416,857	\$417,026	\$77,430	\$0	(\$922,401)	\$0
Judicial	530,406	215,450	54,563	0	(260,393)	0
Public Safety	1,551,671	123,138	284,195	8,600	(1,135,738)	0
Public Works	4,600,942	119,470	4,097,448	457,510	73,486	0
Health	1,484,099	21,785	695,438	0	(766,876)	0
Human Services	4,530,129	180,406	3,766,658	0	(583,065)	0
Capital Outlay	275,217	0	0	0	(275,217)	0
Other	871,705	0	0	0	(871,705)	0
Debt Service:						
Principal Retirement	95,629	0	0	0	(95,629)	0
Interest and Fiscal Charges	103,218	0	0	0	(103,218)	0
<i>Total Governmental Activities</i>	<u>\$15,459,873</u>	<u>\$1,077,275</u>	<u>\$8,975,732</u>	<u>\$466,110</u>	<u>(4,940,756)</u>	<u>0</u>
<b>Component Unit</b>						
Morgan County Regional Airport Authority	<u>\$6,520</u>	<u>\$6,836</u>	<u>\$500</u>	<u>\$0</u>	<u>0</u>	<u>816</u>
<b>General Receipts</b>						
Property Taxes Levied for:						
General Purposes					757,570	0
Mental Retardation and Developmental Disabilities					526,686	0
Senior Citizen Services					57,704	0
Ambulance Services					384,359	0
Conveyance Fees					21,156	0
Permissive Sales Taxes Levied for General Purposes					1,050,426	0
Grants and Entitlements not Restricted to Specific Programs					1,021,730	0
Interest					75,657	252
Payment in Lieu of Taxes					10,027	0
Miscellaneous					862,723	0
<i>Total General Receipts</i>					<u>4,768,038</u>	<u>252</u>
Change in Net Assets					(172,718)	1,068
<i>Net Assets Beginning of Year</i>					<u>3,379,417</u>	<u>5,237</u>
<i>Net Assets End of Year</i>					<u>\$3,206,699</u>	<u>\$6,305</u>

See accompanying notes to the basic financial statements

**Morgan County, Ohio**  
*Statement of Cash Basis Assets and Fund Balances*  
*Governmental Funds*  
*December 31, 2005*

	General	Job and Family Services	Motor Vehicle and Gasoline Tax	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$173,246	\$465,542	\$874,160	\$1,682,600	\$3,195,548
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	11,151	0	0	0	11,151
<i>Total Assets</i>	<u>\$184,397</u>	<u>\$465,542</u>	<u>\$874,160</u>	<u>\$1,682,600</u>	<u>\$3,206,699</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	\$19,566	\$208,700	\$245,324	\$49,664	\$523,254
Reserved for Unclaimed Monies	11,151	0	0	0	11,151
Unreserved:					
Undesignated, Reported in:					
General Fund	153,680	0	0	0	153,680
Special Revenue Funds	0	256,842	628,836	1,444,513	2,330,191
Capital Projects Funds	0	0	0	188,423	188,423
<i>Total Fund Balances</i>	<u>\$184,397</u>	<u>\$465,542</u>	<u>\$874,160</u>	<u>\$1,682,600</u>	<u>\$3,206,699</u>

See accompanying notes to the basic financial statements

**Morgan County, Ohio**  
*Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances*  
 Governmental Funds  
 For the Year Ended December 31, 2005

	General	Job and Family Services	Motor Vehicle and Gasoline Tax	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>					
Property Taxes	\$757,570	\$0	\$0	\$968,749	\$1,726,319
Permissive Sales Taxes	1,050,426	0	0	0	1,050,426
Payment in Lieu of Taxes	4,947	0	0	5,080	10,027
Charges for Services	500,858	0	83,914	288,424	873,196
Licenses and Permits	1,050	0	0	88,450	89,500
Fines and Forfeitures	74,336	0	12,378	49,020	135,734
Intergovernmental	370,180	2,907,769	3,914,366	3,258,913	10,451,228
Interest	76,262	0	11,739	0	88,001
Miscellaneous	187,212	338,215	24,601	312,696	862,724
<i>Total Receipts</i>	<u>3,022,841</u>	<u>3,245,984</u>	<u>4,046,998</u>	<u>4,971,332</u>	<u>15,287,155</u>
<b>Disbursements</b>					
Current:					
General Government:					
Legislative and Executive	1,026,620	0	0	390,237	1,416,857
Judicial	434,872	0	0	95,534	530,406
Public Safety	729,864	0	0	821,807	1,551,671
Public Works	0	0	3,480,292	1,120,650	4,600,942
Health	51,256	0	0	1,432,843	1,484,099
Human Services	130,223	3,587,515	0	812,391	4,530,129
Capital Outlay	0	0	0	275,217	275,217
Other	871,705	0	0	0	871,705
Debt Service:					
Principal Retirement	8,734	0	50,207	36,688	95,629
Interest and Fiscal Charges	5,369	0	2,653	95,196	103,218
<i>Total Disbursements</i>	<u>3,258,643</u>	<u>3,587,515</u>	<u>3,533,152</u>	<u>5,080,563</u>	<u>15,459,873</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(235,802)</u>	<u>(341,531)</u>	<u>513,846</u>	<u>(109,231)</u>	<u>(172,718)</u>
<b>Other Financing Sources (Uses)</b>					
Advances In	19,897	0	0	132,148	152,045
Advances Out	(132,148)	0	0	(19,897)	(152,045)
Transfers In	227,000	81,855	0	17,458	326,313
Transfers Out	(99,313)	0	0	(227,000)	(326,313)
<i>Total Other Financing Sources (Uses)</i>	<u>15,436</u>	<u>81,855</u>	<u>0</u>	<u>(97,291)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(220,366)</u>	<u>(259,676)</u>	<u>513,846</u>	<u>(206,522)</u>	<u>(172,718)</u>
<i>Fund Balances Beginning of Year</i>	<u>404,763</u>	<u>725,218</u>	<u>360,314</u>	<u>1,889,122</u>	<u>3,379,417</u>
<i>Fund Balances End of Year</i>	<u>\$184,397</u>	<u>\$465,542</u>	<u>\$874,160</u>	<u>\$1,682,600</u>	<u>\$3,206,699</u>

See accompanying notes to the basic financial statements

**Morgan County, Ohio**  
*Statement of Receipts, Disbursements and Changes  
in Fund Balance - Budget and Actual (Budget Basis)*  
General Fund  
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>Receipts</b>				
Property Taxes	\$792,285	\$792,285	\$770,872	(\$21,413)
Permissive Sales Taxes	983,759	983,759	1,050,426	66,667
Payment in Lieu of Taxes	4,000	4,000	4,947	947
Charges for Services	453,300	474,621	507,007	32,386
Licenses and Permits	1,200	1,200	1,050	(150)
Fines and Forfeitures	100,000	100,000	77,396	(22,604)
Intergovernmental	364,856	387,332	370,180	(17,152)
Interest	80,575	80,575	83,062	2,487
Miscellaneous	158,765	417,965	187,212	(230,753)
<i>Total Receipts</i>	<u>2,938,740</u>	<u>3,241,737</u>	<u>3,052,152</u>	<u>(189,585)</u>
<b>Disbursements</b>				
Current:				
General Government:				
Legislative and Executive	1,001,377	1,045,082	1,031,281	13,801
Judicial	465,412	456,674	443,023	13,651
Public Safety	965,565	1,106,360	733,536	372,824
Health	39,767	26,354	54,338	(27,984)
Human Services	132,954	131,988	130,223	1,765
Other	556,764	660,190	871,705	(211,515)
Debt Service:				
Principal	8,734	8,671	8,734	(63)
Interest and Fiscal Charges	5,370	5,331	5,369	(38)
<i>Total Disbursements</i>	<u>3,175,943</u>	<u>3,440,650</u>	<u>3,278,209</u>	<u>162,441</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(237,203)</u>	<u>(198,913)</u>	<u>(226,057)</u>	<u>(27,144)</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	0	0	19,897	19,897
Advance Out	0	0	(132,148)	(132,148)
Transfers In	0	0	227,000	227,000
Transfers Out	(88,611)	(90,814)	(99,313)	(8,499)
<i>Total Other Financing Sources (Uses)</i>	<u>(88,611)</u>	<u>(90,814)</u>	<u>15,436</u>	<u>106,250</u>
<i>Net Change in Fund Balance</i>	<u>(325,814)</u>	<u>(289,727)</u>	<u>(210,621)</u>	<u>79,106</u>
<i>Fund Balance Beginning of Year</i>	386,383	386,383	386,383	0
Prior Year Encumbrances Appropriated	18,430	18,430	18,430	0
<i>Fund Balance End of Year</i>	<u>\$78,999</u>	<u>\$115,086</u>	<u>\$194,192</u>	<u>\$79,106</u>

See accompanying notes to the basic financial statements

**Morgan County, Ohio**  
*Statement of Receipts, Disbursements and Changes  
in Fund Balance - Budget and Actual (Budget Basis)*  
*Job and Family Services Fund*  
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Receipts</b>				
Intergovernmental	\$4,668,230	\$4,668,230	\$2,907,769	(\$1,760,461)
Miscellaneous	318,344	318,344	338,251	19,907
<i>Total Receipts</i>	4,986,574	4,986,574	3,246,020	(1,740,554)
<b>Disbursements</b>				
Current:				
Human Services	5,353,200	5,353,200	3,796,215	1,556,985
<i>Total Disbursements</i>	5,353,200	5,353,200	3,796,215	1,556,985
<i>Excess of Receipts Under Disbursements</i>	(366,626)	(366,626)	(550,195)	(183,569)
<b>Other Financing Source</b>				
Transfers In	93,926	93,926	81,855	(12,071)
<i>Net Change in Fund Balance</i>	(272,700)	(272,700)	(468,340)	(195,640)
<i>Fund Balance Beginning of Year</i>	451,518	451,518	451,518	0
Prior Year Encumbrances Appropriated	273,700	273,700	273,700	0
<i>Fund Balance End of Year</i>	<u>\$452,518</u>	<u>\$452,518</u>	<u>\$256,878</u>	<u>(\$195,640)</u>

See accompanying notes to the basic financial statements

**Morgan County, Ohio**  
*Statement of Receipts, Disbursements and Changes  
in Fund Balance - Budget and Actual (Budget Basis)*  
*Motor Vehicle and Gasoline Tax Fund*  
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Receipts</b>				
Charges for Services	\$133,000	\$133,000	\$83,914	(\$49,086)
Fines and Forfeitures	20,000	20,000	12,378	(7,622)
Intergovernmental	2,779,000	3,721,609	3,914,366	192,757
Interest	18,000	18,000	12,344	(5,656)
Miscellaneous	13,000	13,000	24,601	11,601
<i>Total Receipts</i>	<u>2,963,000</u>	<u>3,905,609</u>	<u>4,047,603</u>	<u>141,994</u>
<b>Disbursements</b>				
Current:				
Public Works	2,995,889	4,115,165	3,725,616	389,549
Debt Service:				
Principal Retirement	50,207	50,207	50,207	0
Interest and Fiscal Charges	2,653	2,653	2,653	0
<i>Total Disbursements</i>	<u>3,048,749</u>	<u>4,168,025</u>	<u>3,778,476</u>	<u>389,549</u>
<i>Net Change in Fund Balance</i>	(85,749)	(262,416)	269,127	531,543
<i>Fund Balance Beginning of Year</i>	263,953	263,953	263,953	0
Prior Year Encumbrances Appropriated	<u>96,361</u>	<u>96,361</u>	<u>96,361</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$274,565</u>	<u>\$97,898</u>	<u>\$629,441</u>	<u>\$531,543</u>

See accompanying notes to the basic financial statements

**Morgan County, Ohio**  
*Statement of Fiduciary Net Assets - Cash Basis*  
*Agency Funds*  
*December 31, 2005*

**Assets**

Equity in Pooled Cash and Cash Equivalents	<u><u>\$863,542</u></u>
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**Net Assets**

Total Net Assets	<u><u>\$863,542</u></u>
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See accompanying notes to the financial statements

**Mary Hammond Adult Activity Center, Inc.**

*Balance Sheet*

*December 31, 2005*

**Assets**

Equity in Pooled Cash and Cash Equivalents	\$4,301
Accounts Receivable	6,638
Capital Assets, Net	<u>13,581</u>

*Total Assets* \$24,520

**Liabilities**

Accounts Payable	\$6,629
Intergovernmental Payable	<u>393</u>

*Total Liabilities* 7,022

**Retained Earnings** 17,498

*Total Liabilities and Retained Earnings* \$24,520

See accompanying notes to the basic financial statements

**Mary Hammond Adult Activity Center, Inc.**

*Statement of Revenues, Expenses and  
Changes in Retained Earnings  
For the Year Ended December 31, 2005*

**Revenues**

Charges for Services	\$31,196
Intergovernmental	27,000
Support Services	115,519
Reimbursements	25,058
Miscellaneous	3,134
Interest	19

*Total Revenues* 201,926

**Expenses**

Personal Services	50,324
Support Services	115,519
Contract Services	8,865
Materials and Supplies	10,457
Depreciation	7,460
Miscellaneous	437
Debt Service:	
Interest and Fiscal Charges	293

*Total Expenses* 193,355

*Net Change in Retained Earnings* 8,571

*Retained Earnings Beginning of Year* 8,927

*Retained Earnings End of Year* \$17,498

See accompanying notes to the basic financial statements

**Mary Hammond Adult Activity Center, Inc.**

*Statement of Cash Flows*

*For the Year Ended December 31, 2005*

**Operating Activities**

Net Change in Retained Earnings \$8,571

**Adjustments to Reconcile Change in Retained Earnings  
to Net Cash Used for Operations**

Receivables 1,846  
Payables (11,794)  
Line of Credit (5,000)  
Payroll Liabilities (661)  
Sales Tax Payable (22)

**Net Cash Used for Operating Activities** (7,060)

**Cash Flows from Capital Activities**

Depreciation 7,460

Net Cash Decrease for Period 400

*Cash Beginning of Period* 3,901

*Cash End of Period* \$4,301

See accompanying notes to the basic financial statements

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**Morgan County, Ohio**  
*Notes to the Basic Financial Statements*  
*December 31, 2005*

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**NOTE 1 - REPORTING ENTITY**

Morgan County, Ohio (the County), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The County is governed by a board of three County Commissioners elected by the voters of the County. An elected County Auditor serves as chief fiscal officer. In addition, there are nine other elected administrative officials. These officials are: County Treasurer, Recorder, Clerk of Courts, Coroner, Engineer, Prosecuting Attorney, Sheriff, and the Common Pleas Court/ Probate and Juvenile Court Judge. The County Commissioners serve as the budget and taxing authority, contracting body, and the chief administrators of public services for the County.

The reporting entity is composed of the primary government, component units, and other organizations that are included to ensure that the financial statements of the County are not misleading.

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the County. For Morgan County, this includes the Board of Mental Retardation and Developmental Disabilities Board and all departments and activities that are directly operated by the elected County Officials.

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

The Mary Hammond Adult Activity Center, Inc. (the Workshop) is a legally separate, not-for-profit corporation, served by a self-appointing Board of Trustees. The Workshop is under a contractual agreement with the Morgan County Board of Mental Retardation and Developmental Disabilities (MRDD) to provide sheltered employment for mentally retarded or handicapped adults in the County. MRDD provides the Workshop with staff salaries, transportation, and equipment (except that used directly in the production of goods or rendering of services), staff to administer and supervise training programs, and other funds as necessary for the operation of the Workshop. Based on the significant services and resources provided by the County to the Workshop and the sole purpose of the Workshop to provide assistance to the retarded and handicapped adults of the County, the Workshop is considered to be a component unit of Morgan County.

The Morgan County Regional Airport Authority (the Authority) was created by resolution of the County Commissioners under Ohio Rev. Code Section 308.01. The purpose of the Authority is the acquisition, construction, operation, and maintenance of airports and airport facilities in the County. The Authority operates under the direction of a three-member Board of Trustees, appointed by the County Commissioners. A Secretary-Treasurer is responsible for the fiscal accounting of the resources of the Authority. Services provided by the Authority include the means by which to aid the safe taking off and landing of aircraft, storage and maintenance of aircraft, and the safe and efficient operation and maintenance of the airport. Since the Authority's Board is appointed by the County Commissioners, the Authority is considered to be a component unit of Morgan County and is discretely presented.

Additional disclosures regarding these component units can be found in Note 20.

**Morgan County, Ohio**  
*Notes to the Basic Financial Statements*  
*December 31, 2005*

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As the custodian of public funds, the County Treasurer invests all public monies held on deposit in the County treasury. In the case of the separate agencies, boards, and commissions listed below, the County serves as fiscal agent but is not financially accountable for their operations. Accordingly, the activity of the following districts and agencies is presented as agency funds within the County's financial statements:

***The Morgan County Health District*** The District is governed by the Board of Health which oversees the operation of the District and is elected by a regional advisory council composed of township trustees, mayors of participating municipalities, and one County Commissioner. The council adopts its own budget and operates autonomously from the County. Funding is based on a rate per taxable valuation, along with State and federal grants applied for by the District.

***Morgan County Soil and Water Conservation District*** The Soil and Water Conservation District is statutorily created as a separate and distinct political subdivision of the State. The five supervisors of the Soil and Water Conservation District are elected officials authorized to contract and sue on behalf of the District. The supervisors adopt their own budget, authorize District expenditures, hire and fire staff, and do not rely on the County to finance deficits.

The County is associated with certain organizations which are defined as jointly governed organizations and insurance purchasing pools. These organizations are presented in Notes 15 and 16 to the Basic Financial Statements. The organizations are:

- Buckeye Hills-Hocking Valley Regional Development District
- Joint Solid Waste District
- Morgan County Family and Children First Council
- Washington-Morgan Community Action Corporation
- Buckeye Hills Resource Conservation and Development Project
- Mental Health and Recovery Services Board of Muskingum County
- Mid Eastern Ohio Regional Council of Governments (MEORC)
- Buckeye Joint-County Self-Insurance Council
- County Commissioners Association of Ohio Workers' Compensation Group Rating Plan

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

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the County's accounting policies.

**A. Basis of Presentation**

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

**Morgan County, Ohio**  
*Notes to the Basic Financial Statements*  
*December 31, 2005*

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**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. Governmental activities generally are financed through taxes, intergovernmental receipts, or other nonexchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the County at year end. The statement of activities compares disbursements and program receipts for each program or function of the County's governmental activities. Disbursements are reported by program. A program is a group of related activities designed to accomplish a major service or regulatory program for which the County is responsible. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program.

Receipts which are not classified as program receipts are presented as general receipts of the County, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental program is self-financing on a cash basis or draws from the general receipts of the County.

**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 fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**B. 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. The County classifies each fund as either governmental or 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. The following are the County's major governmental funds:

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

**Job and Family Services Fund** The Job and Family Services Fund accounts for various federal and State grants as well as transfers from the General Fund used to provide public assistance to general relief recipients and to pay their providers of medical assistance and certain public social services.

**Motor Vehicle and Gasoline Tax Fund** This fund accounts for revenue derived from motor vehicle licenses, gasoline taxes, grants, permissive sales taxes, and interest. Expenditures in this fund are restricted by State law to County road and bridge repair/improvements programs.

**Morgan County, Ohio**  
*Notes to the Basic Financial Statements*  
*December 31, 2005*

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***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. The County's fiduciary funds are all classified as agency funds. The agency funds account for assets held by the County as agent for the Board of Health and other districts and entities and for various taxes, assessments, and state shared resources collected on behalf of and distributed to other local governments. Agency funds are custodial and are used to account for assets held by the County for political subdivisions for which the County acts as fiscal agent and for taxes, state-levied shared revenues, and fines and forfeitures collected and distributed to other political subdivisions.

*C. Basis of Accounting*

The County's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the County's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the County are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

*D. Budgetary Process*

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the County Commissioners may appropriate. The appropriations resolution is the County Commissioners' authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the County Commissioners. The legal level of control has been established by County Commissioners at the fund, program, department, and object level.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the County Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued in effect at the time final appropriations were passed by the County Commissioners.

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the County Commissioners during the year.

**Morgan County, Ohio**  
*Notes to the Basic Financial Statements*  
*December 31, 2005*

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*E. Cash and Cash Equivalents*

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

Investments of the cash management pool and investments with an original maturity 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 not purchased from the pool are reported as investments.

During 2005, the County had investments in non-negotiable certificates of deposit, which are reported at cost.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

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 2005 amounted to \$76,262, which includes \$71,709 assigned from other County funds.

*F. Inventory and Prepaid Items*

The County reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

*G. Capital Assets*

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

*H. Accumulated Leave*

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

*I. Employer Contributions to Cost-Sharing Pension Plans*

The County recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

*J. Long-term Obligations*

The County's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither other financing sources nor capital outlay are reported at inception. Lease payments are reported when paid.

**Morgan County, Ohio**  
*Notes to the Basic Financial Statements*  
*December 31, 2005*

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*K. Fund Balance Reserves*

The County reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balances indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for unclaimed monies and encumbrances.

*L. Restricted Assets*

Assets are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Unclaimed monies that are required to be held for five years before they may be utilized by the County are reported as restricted.

*M. Net Assets*

Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include services for the handicapped and mentally retarded, ambulance services, activities involving community development, and activities of the County's courts. The County's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide statement of net assets reports \$2,883,485 of restricted net assets, of which \$224,643 is restricted by enabling legislation.

*N. Interfund Activity*

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE**

For 2005, the County has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

GASB Statement No. 40 establishes new disclosure requirements for risks associated with deposits and investments.

**Morgan County, Ohio**  
*Notes to the Basic Financial Statements*  
*December 31, 2005*

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**NOTE 4 – COMPLIANCE**

Ohio Administrative Code, section 117-2-03 (B), requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. However, the County prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The County can be fined and various other administrative remedies may be taken against the County.

**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

Monies held by the County which are not considered active are classified as inactive. Beginning June 15, 2004, inactive monies could be deposited or invested with certain limitations in the following securities provided the County has filed a written investment policy with the Ohio Auditor of State:

1. United States Treasury Bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States, or any book entry, zero-coupon United States treasury security that is a direct obligation of the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality;
3. Written repurchase agreements in the securities listed above;
4. Bond and other obligations of the State of Ohio or its political subdivisions;
5. Time certificates of deposits or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds;
7. The State Treasurer's investment pool (STAROhio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to simultaneously exchange similar securities or cash, equal value for equal value;
9. Commercial paper notes, corporate notes and bankers acceptances; and
10. Debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government. All interest and principal shall be denominated and payable in United States funds.

**Morgan County, Ohio**  
*Notes to the Basic Financial Statements*  
*December 31, 2005*

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Reverse repurchase agreements, investments in derivatives, and investments in stripped principal or interest obligations that are not issued or guaranteed by the United States, are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Bankers' acceptances must mature within 180 days. Commercial paper and corporate notes must mature within 270 days. All other investments must mature within five years from the date of settlement unless matched to a specific obligation or debt of the County. Investments must be purchased with the expectation that they will be held to maturity. Investments may only be made through specified dealers and institutions.

**Cash on Hand** At year end, the County had \$25,189 in undeposited cash on hand which is included on the financial statements of the County as part of "Equity in Cash and Cash Equivalents."

**Deposits** Custodial credit risk for deposits is the risk that in the event of bank failure, the County will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the County's bank balance was \$ 4,404,492. Of the bank balance \$400,000 was covered by Federal depository insurance and \$4,004,492 was collateralized with securities held by the pledging financial institution's trust department in the County's name. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirement could potentially subject the County to a successful claim by the FDIC.

The County has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the County or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**NOTE 6 – BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual (Budget Basis) for the General Fund and each major special revenue fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is (are) outstanding year end encumbrances are treated as expenditures (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to:

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Net Change in Fund Balances  
 General and Major Special Revenue Funds

	General	Job and Family Services	Motor Vehicle and Gasoline Tax
Cash Basis	(\$220,366)	(\$259,676)	\$513,846
Unreported Cash - Beginning of Year	16,009	36	605
Agency Fund Distribution:			
Beginning of Year	62,869	0	0
End of Year	(49,567)	0	0
Encumbrances	(19,566)	(208,700)	(245,324)
Budget Basis	(\$210,621)	(\$468,340)	\$269,127

**NOTE 7 – PROPERTY TAXES**

*A. Property Taxes*

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the County. Property tax revenue received during 2005 for real and public utility property taxes represents collections of 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) is for 2005 taxes.

2005 real property taxes are levied after October 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2005 public utility property taxes became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for all property except inventory, which is 23 percent.

The full tax rate for all County operations for the year ended December 31, 2005, was \$9.87 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	\$168,176,140
Public Utility Tangible Personal Property	53,181,560
Tangible Personal Property	11,054,800
Total Assessed Value	\$232,412,500

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Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in 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.

**NOTE 8 - PERMISSIVE SALES AND USE TAX**

For the purposes of providing additional receipts, the County has levied a sales tax at the rate of one and one-half percent upon certain 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. The State Auditor then has five days in which to draw the warrant payable to the County. Proceeds of the tax are credited to the General Fund.

**NOTE 9 - RISK MANAGEMENT**

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; employee injuries; and natural disasters. During 2005, the County contracted with the Buckeye Joint-County Self-Insurance Council, an insurance purchasing pool (see Note 16), for liability, auto, and crime insurance. Each member pays a premium for their coverage. The agreement provides that the Council will be self-sustaining through member premiums. In the event of losses, the first \$250 to \$2,500 of any valid claim, depending on type of loss, will be paid by the member. The next payment, with a maximum pay out ranging from \$100,000 to \$1,000,000 per occurrence, will come from the insurance purchasing pool based on the member's percentage of contribution. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments. Morgan County does not have any ongoing financial interest or responsibility. The agreement between the counties and the Council indicates that a voluntary withdrawal or termination by any county shall constitute a forfeiture of any pro rate share of the Council reserve fund. Current calculation of this potential residual interest is, therefore, not possible. During 2005, Morgan County paid \$117,159 to the Council for insurance coverage. Coverage provided to the County is as follows:

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	<u>Coverage</u>	<u>Deductible</u>
General Liability	\$1,000,000/3,000,000	\$0
Medical Expense Limit	10,000/50,000	0
Employer's Liability (Ohio Stop Gap)	1,000,000	0
Employee Benefits Liability	1,000,000/3,000,000	0
Property Damage Liability	14,156,649	1,000
Public Official Liability	1,000,000/3,000,000	5,000
Law Enforcement	1,000,000/3,000,000	5,000
Crime Coverage:		
Theft, Disappearance and Destruction	50,000	0
Public Dishonesty	250,000	0
Forgery or Alteration	5,000	0
Computer Fraud	50,000	100
Inland Marine	1,479,765	1,000
Electronic Equipment/Media Coverage:		
Electronic Equipment	500,000	1,000
Electronic Media	5,000	1,000
Extra Expense	5,000	1,000
Automobile	1,000,000 Per Occurrence	500

Settled claims have not exceeded coverage in any of the last three years. There has been no significant reduction in coverage from the prior year.

For 2005, the County participated in the County Commissioners Association of Ohio Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool (see Note 16). The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The worker's compensation experience of the participating Counties is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. In order to allocate the savings derived by formation of the Plan, and to maximize the number of participants in the Plan, the Plan's executive committee annually calculates the total savings which accrued to the Plan through its formation. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants. Participation in the Plan is limited to Counties that can meet the Plan's selection criteria. The firm of Gates McDonald, Inc. provides administrative, cost control and actuarial services to the Plan. Each year, the County pays an enrollment fee to the Plan to cover the cost of administering the program.

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

The County pays all elected official bonds by State statute.

**NOTE 10 - DEFINED BENEFIT PENSION PLAN**

*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 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The County's contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the County's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The County's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$471,357, \$641,337, and \$636,893. 100 percent has been contributed for 2005, 2004, and 2003. There were no contributions to the member-directed plan for 2005.

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**NOTE 11 - POSTEMPLOYMENT BENEFITS**

*Ohio Public Employees Retirement System*

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent was the portion that was used to fund health care for 2005.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 376,109. The County's actual contributions for 2005 which were used to fund postemployment benefits were \$209,888. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

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 increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which allow additional funds to be allocated to the health care plan.

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**NOTE 12 - CONTRACTUAL COMMITMENTS**

As of December 31, 2005, the County had contractual purchase commitments as follows:

Projects	Fund	Purchase Commitments	Amounts Paid as of 12/31/2005	Amounts Remaining on Contracts
Airport Overlay Project	Motor Vehicle Gasoline Tax Fund	\$209,365	\$0	\$209,365
Bishopville-Ringgold Area Water Project Phase II	Community Development Block Grant Fund	569,998	213,503	356,495
Tieber Road Lift Station	Community Development Block Grant Fund	13,641	0	13,641
Flood Damage Repairs	Other Grant Funds	140,038	0	140,038
Round 18, Issue II Paving	Issue II Capital Projects Fund	319,613	52,359	267,254

**NOTE 13 - LONG-TERM OBLIGATIONS**

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

	Original Issue Amount	Principal Outstanding 12/31/04	Additions	Deductions	Principal Outstanding 12/31/05	Amounts Due within One Year
<b>Governmental Activities</b>						
<b>General Obligation Debt:</b>						
2003 Sales Tax Supported Building Improvement Limited Tax General Obligation Bonds - 4.625%	\$2,000,000	\$1,967,905	\$0	\$33,579	\$1,934,326	\$35,133
2004 General Obligation County Garage Facility Note - 3.25%	149,813	96,172	0	50,207	45,965	45,965
1997 Ohio Water Development Authority Loan - 4.12%	190,884	132,472	0	8,734	123,738	9,098
<b>Total General Obligation Debt</b>		<b>2,196,549</b>	<b>0</b>	<b>92,520</b>	<b>2,104,029</b>	<b>90,196</b>
2001 Tax Increment Financing Loan - 4.98%	93,266	83,939	0	3,109	80,830	3,109
<b>Total Governmental Activities</b>		<b>\$2,280,488</b>	<b>\$0</b>	<b>\$95,629</b>	<b>\$2,184,859</b>	<b>\$93,305</b>

The County issued a general obligation bond anticipation note in 2001 to finance the renovation of a county building to provide county offices. The County refinanced the note with the U.S. Department of Agriculture on February 27, 2003, by issuing \$2,000,000 in Sales Tax Supported Building Improvement Limited Tax General Obligation Bonds.

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The County issued a general obligation construction note to finance the building of a new County Garage in 1999. The full faith and credit of the County has been pledged to repay this debt. Gasoline and Motor Vehicle License Tax monies are being used to repay this debt. In March 2004, the note was refinanced through a local bank at a 3.25 percent interest rate for three years.

Proceeds from the 1997 Ohio Water Development Authority loan were used to pay for a study to determine the cap, leachate management, explosive gas monitoring, ground water monitoring, and other technical services to close the County's landfill. General Fund monies are being used to repay the debt.

The County obtained a tax increment financing loan in 2001. Proceeds from this loan will be used to pay for water line chlorination systems and a bulk station to provide potable water for industry. Tax Increment Financing service payments are being used to repay this debt.

The following is a summary of the County's future annual principal and interest requirements to retire general obligation bonds:

Year Ended December 31,	Building Improvement General Obligation Bonds			General Obligation County Garage Facility Notes		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$35,133	\$89,463	\$124,596	\$45,965	\$1,077	\$47,042
2007	36,757	87,838	124,595	0	0	0
2008	38,457	86,138	124,595	0	0	0
2009	40,236	84,359	124,595	0	0	0
2010	42,097	82,498	124,595	0	0	0
2011-2015	241,553	381,421	622,974	0	0	0
2016-2020	302,824	320,151	622,975	0	0	0
2021-2025	379,636	243,339	622,975	0	0	0
2026-2030	475,932	147,043	622,975	0	0	0
2031-2033	341,701	32,084	373,785	0	0	0
Total	<u>\$1,934,326</u>	<u>\$1,554,334</u>	<u>\$3,488,660</u>	<u>\$45,965</u>	<u>\$1,077</u>	<u>\$47,042</u>

The following is a summary of the County's future annual principal and interest requirements to retire the OWDA and Tax Increment Financing Loans:

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Year Ended December 31,	Ohio Water Development Authority Loan			Tax Increment Financing Loan		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$9,098	\$5,005	\$14,103	\$3,109	\$4,025	\$7,134
2007	9,477	4,627	14,104	3,109	3,871	6,980
2008	9,871	4,232	14,103	3,109	3,716	6,825
2009	10,282	3,821	14,103	3,109	3,561	6,670
2010	10,710	3,393	14,103	3,109	3,406	6,515
2011-2015	60,620	9,896	70,516	15,545	14,708	30,253
2016-2020	13,680	424	14,104	15,545	10,838	26,383
2021-2025	0	0	0	15,545	6,967	22,512
2026-2030	0	0	0	15,543	3,096	18,639
2031-2033	0	0	0	3,107	155	3,262
Total	<u>\$123,738</u>	<u>\$31,398</u>	<u>\$155,136</u>	<u>\$80,830</u>	<u>\$54,343</u>	<u>\$135,173</u>

**B. Debt Margin**

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 valuation of the County. The Code further provides that the total shall never exceed a sum equal to three percent of the first \$100,000,000 of the assessed valuation, plus one and one-half percent of such valuation in excess of \$100,000,000 and not in excess of \$300,000,000, plus two and one-half percent of such valuation in excess of \$300,000,000. The County's unvoted debt margin was \$3,005,897 at December 31, 2005.

**C. Conduit Debt**

Pursuant to State statute, various industrial revenue bonds have been issued for private industry within the County. The proceeds of the industrial revenue bonds are used by the various private industries for new construction or improvements. The bonds are to be repaid by the recipients of the proceeds and do not represent an obligation of the County. As of December 31, 2005, \$3,000,000 of industrial revenue bonds had been issued and \$2,109,571 of those remained outstanding.

**NOTE 14 – INTERFUND BALANCES AND TRANSFERS**

Interfund balances, as of December 31, 2005, consist of the following individual interfund receivables and payables:

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Interfund Receivable	
	Major Funds
Interfund Payable	General
Other Nonmajor Governmental	\$149,968
Total All Funds	\$149,968

The Advances From/To are due to lags between the dates transactions recorded in the accounting system and payments between funds were made.

Interfund transfers for the year ended December 31, 2005, consisted of the following:

Transfer to	Transfer from		Total
	General	Other Nonmajor Governmental	
Major Funds:			
General Fund	\$0	\$227,000	\$227,000
Job and Family Services	81,855	0	81,855
Other Nonmajor Governmental	17,458	0	17,458
Total All Funds	\$99,313	\$227,000	\$326,313

The above mentioned Transfers From/To were used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The Transfer from the Other Nonmajor Governmental Funds to the General Fund was a court ordered transfer from the Capital Improvements Fund to the General Fund as a result of a sale of real estate in 2003.

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**NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS**

A. *Buckeye Hills-Hocking Valley Regional Development District*

The Buckeye Hills-Hocking Valley Regional Developmental District serves as the Area Agency on Aging for Washington, Athens, Hocking, Meigs, Monroe, Morgan, Noble, and Perry Counties. The District was created to foster a cooperative effort in regional planning, programming, and implementing plans and programs. The District is governed by a fifteen member board of directors. The board is composed of one County Commissioner from each county, one member from the City of Athens, one member from the City of Marietta, four at-large members appointed from the ten government members, and one member from the minority sector. The board has total control over budgeting, personnel, and all other financial matters. The District administers County Community Development Block Grant and Issue II monies. During 2005, the District received \$9,590 in administrative fees from Morgan County. The continued existence of the District is not dependent on the County's continued participation and no equity interest exists.

B. *Joint Solid Waste District*

The County is a member of the Joint Solid Waste District which consists of Washington, Guernsey, Monroe, Morgan, Muskingum, and Noble Counties. The purpose of the District is to make disposal of waste in the six-county area more comprehensive in terms of recycling, incinerating, and land filling. The District was created in 1989 as required by Ohio Revised Code.

The Joint Solid Waste District is governed and operated through three groups. An eighteen-member board of directors, composed of the three Commissioners from each County, is responsible for the District's financial matters. Financial records were maintained by Muskingum County until May 1993 at which time Noble County assumed the responsibility. The District's sole revenue source is a waste disposal fee for in-district and out-of-district waste. Although the County contributed amounts to the District at the time of its creation, no contributions were received from the County in 2005. No future contributions by the County are anticipated. A thirty-one member policy committee composed of five members from each county and one at-large member appointed by the policy committee, is responsible for preparing the solid waste management plan of the District in conjunction with a Technical Advisory Council whose members are appointed by the Policy Committee. Continued existence of the District is not dependent on the County's continued participation, no equity interest exists, and no debt is outstanding.

C. *Morgan County Family and Children First Council*

The Morgan County Family and Children First Council provides services to multi-need youth in Morgan County. Members of the Cluster include the Morgan County Health Department, the Regional Office of Youth Services, the Morgan County Juvenile Court, the Morgan County Mental Health Board, Morgan County Children Services, the General Health District, and a representative of the Morgan County School Districts. The operation of the Council is controlled by an advisory committee which consists of a representative from each agency. The continued existence of the Council is not dependent on the County's continued participation and no equity interest exists.

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*D. Washington-Morgan Community Action Corporation*

The Community Action Program Corporation of Washington-Morgan Counties is operated as non-profit organization formed to provide various programs in Washington and Morgan Counties. Currently, the Corporation administers the Family Service and Outreach Program, the Community Action Bus Line (CABL), the Child Development Program, the Senior Nutrition Program, Women, Infants and Childrens' Supplemental Nutrition Program, the Home Weatherization Assistance and Energy Program, the Job Training and Partnership Act Program, Housing and Urban Development Section 8 Existing Housing Voucher/Certificate Program, and various other state and federal programs. The Corporation is the direct recipient of the federal and state monies. The Corporation is governed by a fifteen member council. The council is composed of the Mayor of the City of Marietta, the Mayor of the City of Belpre, two commissioners from Washington County, one Commissioner from Morgan County, five lower income representatives, and five private sector representatives from Washington and Morgan Counties selected by outreach workers. Currently, the Corporation, by contract with the City of Marietta and Morgan Counties, provides administrative services to these governments in specific programs. The continued existence of the Corporation is not dependent on the County's continued participation and no equity interest exists. In 2005, the County contributed \$239,378 to the Corporation.

*E. Buckeye Hills Resource Conservation and Development Project*

The Buckeye Hills Resource Conservation and Development Project was organized to lead local efforts directed toward improving social and economic conditions of the Buckeye Hills RC&D Area through development, conservation, and proper use of all the resources of the area. It serves Athens, Belmont, Hocking, Meigs, Monroe, Morgan, Noble, Perry, and Washington Counties. The Project is governed by an executive council. The Council is composed of one County Commissioner from each county, one member from the Soil and Water Conservation District of each county, a representative chosen jointly by the county commissioners and Soil and Water Conservation Districts of each county, a member from the Muskingum Watershed Conservancy District, and one member from the Rush Creek Conservancy District. The Council has total control over budgeting, personnel, and all other financial matters. During 2005, the Council received \$300 in administrative fees from Morgan County. The continued existence of the District is not dependent on the County's continued participation and no equity interest exists.

*F. Mental Health and Recovery Services Board of Muskingum County*

The Mental Health and Recovery Services Board of Muskingum County (the Board) provides alcohol, drug addiction and mental health services and programs, primarily through contracts with private and public agencies. The Board also provides forensic evaluation services to adult felony courts, and residential services to youth experiencing emotional problems which prevent them from living at home. The Board serves Coshocton, Guernsey, Morgan, Muskingum, Noble, and Perry Counties and operates under the direction of an eighteen-member appointed Board. Each participating county has agreed to levy a tax within their county to assist in the operation of the Board. The Board also directly receives state and federal funding for its operations. Although the Muskingum County Auditor and County Treasurer are responsible for fiscal control of the resources of the Board, the Board is responsible for budgeting and accounting for the resources at its disposal. Membership on the Board is based upon Ohio law. The continued existence of the Board is not dependent upon the County's continued participation and no equity interest exists. In 2005, the County contributed \$155,713 to the Board.

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*G. Mid Eastern Ohio Regional Council of Governments (MEORC)*

The Mid Eastern Ohio Regional Council of Governments is a regional council of governments created pursuant to Ohio Revised Code Chapter 167. Participating counties include Belmont, Carroll, Coshocton, Fairfield, Guernsey, Harrison, Hocking, Holmes, Jefferson, Knox, Monroe, Morgan, Muskingum, Noble, Perry, Tuscarawas, and Washington Counties. MEORC was created to provide the best possible services to persons with mental retardation and disability in their respective counties. Each county has representation on the MEORC board. Member counties have a contract between its county MR/DD board and the MEORC for MEORC to provide supported living services or housing to eligible persons in the member counties.

**NOTE 16 - INSURANCE PURCHASING POOLS**

*A. Buckeye Joint-County Self-Insurance Council*

The Buckeye Joint-County Self-Insurance Council is an insurance purchasing pool that serves Washington, Athens, Hocking, Jackson, Lawrence, Meigs, Monroe, Morgan, Noble, Perry, Pike, and Vinton Counties. It was formed as an Ohio not-for-profit corporation for the purpose of establishing an insurance pool to obtain general liability, law enforcement, professional, and fleet insurance. Member counties provide operating resources to the Council based on actuarially determined rates.

The degree of control exercised by any participating government is limited to its representation on the Council. The Governing Board is composed of at least one County Commissioner from each of the participating counties. The Governing Board annually elects officers which include a President, Vice President, Second Vice President, and two Governing Board members. The expenses and investment of funds by the officers must be approved by the Governing Board unless specific limits have been set by the Governing Board to permit otherwise.

*B. County Commissioners Association of Ohio Workers' Compensation Group Rating Plan*

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

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

**Morgan County, Ohio**  
*Notes to the Basic Financial Statements*  
*December 31, 2005*

---

**NOTE 17 – FEDERAL FOOD STAMP PROGRAM**

The County's Department of Job and Family Services distributes federal food stamps to entitled recipients within Morgan County. The receipt and issuance of food stamps have the characteristics of federal "grants"; however, the Department of Job and Family Services merely acts in an intermediary capacity. The inventory value of these stamps is not reflected in the accompanying financial statements as the only economic interest related to the stamps rests with the ultimate recipient. The County's Department of Job and Family Services had on hand for distribution approximately \$1,733 of federal food stamps at December 31, 2005.

**NOTE 18 - CONTINGENT LIABILITIES**

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

Several claims and lawsuits are pending against the County. In the opinion of the County Prosecutor, any potential liability would not have a material effect on the County's financial condition.

**NOTE 19 – LANDFILL**

The Commissioners leased land from F. E. and Eileen Haines to operate the Morgan County Landfill (the Facility). William Miller was the operator and license holder for the Facility from 1974 to 1988, when the Facility was closed. The Ohio Administrative Code requires the operator to complete certain environmental remediation to the Facility within sixty days after closing and to maintain the site after closure. Subsequent to the closure on September 1, 1988, the Ohio Environmental Protection Agency (OEPA) conducted inspections and documented various violations of closure requirements. On February 13, 1995, the Director of the OEPA issued Final Findings and Orders to the Morgan County Commissioners, F. E. and Eileen Haines, and William R. Miller concerning violations of closure and post-closure requirements. Post-closure requirements extend 30 years beyond the closure date.

As a result of the Directors Final Findings and Orders, the Commissioners contracted for a study to determine the cap, leachate management, explosive gas monitoring, ground water monitoring, and for other technical services relating to closure procedures for the Facility. During 1997, the County paid for the construction phase of capping the Facility. In 2001, the Commissioners contracted with an engineering firm to prepare a corrective measure plan to address the remaining OEPA concerns, including post-closure care. Other alternative plans ranging from approximately \$1.5 million to \$15.9 million have been documented and presented by Advanced Geo Services, who are employees of Gould, Inc., to the OEPA. Advanced GeoServices continues to monitor gas and groundwater pollutant levels for Gould. The Commissioners are also responsible for providing \$33,000 of in-kind contributions for illegal dump cleanup. To date, approximately \$26,000 of these in-kind contributions have been provided.

As of the date of this report, the Commissioners cannot determine which plan will be accepted, if any, or what portion of the remaining costs may have to be paid by the County. However, plans are being made to install a leachate collection tank.

**Morgan County, Ohio**  
*Notes to the Basic Financial Statements*  
*December 31, 2005*

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**NOTE 20 – COMPONENT UNIT DISCLOSURES**

*A. Morgan County Regional Airport Authority*

The following are the Morgan County Regional Airport Authority (the Authority) notes to the financial statements for the year ended December 31, 2005:

*Summary of Significant Accounting Policies*

Basis of Presentation: The Summary of Significant Accounting Policies is presented to assist in understanding the Authority's financial statements. The financial statements and notes are representations of the Authority's management, who are responsible for their integrity and objectivity. These accounting policies conform to the basis of accounting prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Liability for Income Taxes: The Authority is exempt from income tax under Section 501(c)(3) of Internal Revenue Code.

Cash and Cash Equivalents: The Authority considers deposits with maturities of twelve months or less to be cash equivalents.

Property, Plant and Equipment: Capital assets acquired or constructed for the Authority are recorded as disbursements. Depreciation is not recorded for these capital assets.

Cash and Cash Equivalents: At December 31, 2005, the carrying amount of the Authority's deposits was \$6,305 and the bank balance was \$6,305. The bank balance was covered by federal depository insurance.

*B. Mary Hammond Adult Activity Center, Inc.*

The following are the Mary Hammond Adult Activity Center, Inc. (the Workshop), notes to the financial statements for the year ended December 31, 2005:

*Summary of Significant Accounting Policies*

Basis of Presentation: The Summary of Significant Accounting Policies is presented to assist in understanding the Workshop's financial statements. The financial statements and notes are representations of the Workshop's management, who are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and are prepared on an accrual basis. Revenue is recognized when earned, and expenditures are recognized when a liability is incurred.

Cash and Cash Equivalents: The Workshop considers deposits with maturities of twelve months or less to be cash equivalents. At December 31, 2005, the carrying amount of the Workshop's deposits was \$4,301 and the bank balance was \$4,515. The bank balance was covered by federal depository insurance.

Accounts Receivable: Accounts receivable are carried at cost, which is the amount the Workshop expects to collect on balances outstanding at year-end. Management has not recorded an allowance for bad debt.

**Morgan County, Ohio**  
*Notes to the Basic Financial Statements*  
*December 31, 2005*

---

Fixed Assets: Fixed assets are carried at cost less accumulated depreciation for items that have a value greater than \$2,500 and intended for long-term use (more than one year). Depreciation is provided over the estimated useful lives of the related assets. Maintenance and repairs are charges to operations when incurred. Renewals and betterments of a nature considered to materially extend the useful life of the assets are capitalized. When assets are retired or otherwise disposed of, the assets and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income. Depreciation for financial reporting purposes is based on the following policies:

<u>Asset Category</u>	<u>Estimated Lives</u>
Machinery and Equipment	5 – 8 years
Vehicles	5 years

Income Taxes: The Organization has applied for exemption from federal income taxes under Internal Revenue Code Section 501(c)(3) and has been recognized as nonprofit by the State of Ohio. Therefore, no provision has been made for federal or Ohio income taxes in the accompanying financial statements.

Debt:

In 2004, the Workshop opened a line of credit with North Valley Bank for \$7,500 with an interest rate of 6.5 percent. Each year this line of credit is renewed. During 2005, \$5,000 principle payments were made by the Workshop to pay off the December 31, 2004, outstanding balance.

Related Party Transactions: During 2005, Morgan County provided facilities, certain equipment, transportation, and salaries for administration, implementation, and supervision of programs to the Workshop. These in-kind contributions were valued at \$115,519. The in-kind contributions are reflected in the Statement of Revenues, Expenses, Changes in Retained Earnings as “Support Services” revenue and correspondingly as “Support Services” expenses.

Retirement System: All employees of the Workshop are covered by Social Security. The Workshop’s liability is 6.2% of wages paid. Employees contribute a matching amount.

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MORGAN COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2005

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Entity Number	Expenditures
<b>UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
<i>Passed through the Ohio Department of Development:</i>			
Community Development Block Grants - State's Program	14.228	BF-02-053-1	\$ 1,327
		BF-03-053-1	76,076
		BF-04-053-1	13,500
		BW-03-053-1	<u>213,503</u>
Total Community Development Block Grants - State's Program			304,406
HOME Investment Partnerships Program	14.239	BC-02-053-1	41,043
		BC-02-053-2	26,921
		BC-04-053-1	31,760
		BC-04-053-2	<u>58,385</u>
Total HOME Investment Partnerships Program			<u>158,109</u>
Total United States Department of Housing and Urban Development			462,515
<b>UNITED STATES DEPARTMENT OF JUSTICE</b>			
<i>Passed through the Ohio Attorney General's Office:</i>			
Crime Victim Assistance	16.575	2005-VA-GENE-336	17,267
		2006-VA-GENE-336	<u>6,291</u>
Total Crime Victim Assistance			<u>23,558</u>
<i>Passed through the Ohio Office of Criminal Justice Services and the Village of McConnelsville:</i>			
Violence Against Women Formula Grants	16.588	2004-WF-VA2-8423	27,397
<i>Passed through the Ohio Office of Criminal Justice Services:</i>			
Local Law Enforcement Block Grants Program	16.592	2004-LE-LEB-3109	<u>13,704</u>
Total United States Department of Justice			64,659
<b>UNITED STATES DEPARTMENT OF LABOR</b>			
<i>Passed through the Workforce Investment Act Area 15:</i>			
Workforce Investment Act Cluster:			
WIA Adult	17.258	N/A	97,468
WIA Youth Activities	17.259	N/A	82,354
WIA Dislocated Worker	17.260	N/A	<u>300,348</u>
Total Workforce Investment Act Cluster			<u>480,170</u>
Total United States Department of Labor			480,170
<b>UNITED STATES DEPARTMENT OF TRANSPORTATION</b>			
<i>Passed through the Ohio Department of Transportation:</i>			
Formula Grants for Other than Urbanized Areas	20.509	RPT-4058-024-051	32,508
		RPT-4058-023-041	5,388
		RPT-4058-024-052	<u>10,103</u>
Total Formula Grants for Other than Urbanized Areas			<u>47,999</u>
Total United States Department of Transportation			47,999

MORGAN COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Entity Number	Expenditures
<b>ELECTION ASSISTANCE COMMISSION</b>			
<i>Pass through the Ohio Secretary of State:</i>			
Help America Vote Act - Training	39.011	05-SOS-HAVA-58	\$ 6,908
Help America Vote Act - Requirements Payments	90.401	E05-0050-58	<u>128,187</u>
Total Election Assistance Commission			135,095
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>			
<i>Direct from the Federal Government</i>			
Fund for the Improvement of Postsecondary Education	84.116Z	P116Z040004	21,925
<i>Passed through the Ohio Department of Health:</i>			
Special Education - Grants for Infants and Families with Disabilities	84.181	58-1-002-1-EG-05	20,984
		58-1-002-1-EG-06	<u>33,933</u>
Total Special Education - Grants for Infants and Families with Disabilities			<u>54,917</u>
Total United States Department of Education			76,842
<b>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<i>Passed through Ohio Department of Aging and the Area Agency on Aging:</i>			
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	N/A	5,685
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	N/A	35,876
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>			
Social Services Block Grant	93.667	N/A	14,571
State Children's Insurance Program	93.767	N/A	218
Medical Assistance Program - Community Alternative Funding System	93.778	N/A	119,977
Medical Assistance Program - Target Case Management	93.778	N/A	<u>75,169</u>
Total Medical Assistance Program			<u>195,146</u>
Total United States Department of Health and Human Services			251,496
<b>UNITED STATES DEPARTMENT OF HOMELAND SECURITY</b>			
<i>Passed through the Ohio Emergency Management Agency:</i>			
State Domestic Preparedness Equipment Support Program	97.004	2004-GE-T4-0025	5,230
Public Assistance Grants	97.036	FEMA-1556-DR-115-UJ68G	66,237
		FEMA-1507-DR-115-UJ68G	110,206
		FEMA-1580-DR-115-05B0A	<u>480,726</u>
Total Public Assistance Grants			657,169
Emergency Management Performance Grants	97.042	2005-EM-T5-0001	18,539
State Homeland Security Program	97.073	2005-GE-T5-0001	<u>43,921</u>
Total United States Department of Homeland Security			<u>724,859</u>
<b>Total Federal Awards Expenditures</b>			<b><u>\$ 2,243,635</u></b>

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

**MORGAN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
DECEMBER 31, 2005**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – SUBRECIPIENTS**

The County passes-through certain Federal assistance received from the U.S. Department of Housing and Urban Development to other governments or not-for-profit agencies (subrecipients). As described in Note A, the County records expenditures of Federal awards to subrecipients when paid in cash.

The subrecipient agencies have certain compliance responsibilities related to administering these Federal Programs. Under OMB Circular A-133, the County is responsible for monitoring subrecipients to help assure that Federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, and that performance goals are achieved.

**NOTE C – MATCHING REQUIREMENTS**

Certain Federal programs require the County to 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.

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Morgan County  
155 East Main Street  
Room 217  
McConnelsville, Ohio 43756-1297

To the Board of County Commissioners:

We have audited the financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Morgan County, Ohio (the County), as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 22, 2006, wherein, we noted, that except for the Mary Hammond Adult Activity Center, Inc., the County uses a comprehensive basis of accounting other than generally accepted accounting principles. 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 the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the County's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control 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 material to the financial statements we audited may occur and not be timely detected by employees when 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. In a separate letter to the County's management dated September 22, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the County's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2005-001 and 2005-002. In a separate letter to the County's management dated September 22, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Morgan County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*

We intend this report solely for the information and use of management, the Board of County Commissioners, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

September 22, 2006



## Auditor of State Betty Montgomery

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

Morgan County  
155 East Main Street  
Room 217  
McConnelsville, Ohio 43756-1297

To the Board of County Commissioners:

#### Compliance

We have audited the compliance of Morgan 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 apply to each of its major federal programs for the year ended December 31, 2005. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the County's major federal programs. The County's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, the County complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that OMB Circular A-133 requires us to report, which are described in the accompanying Schedule of Findings as items 2005-003 and 2005-005. In a separate letter to the County's management dated September 22, 2006, we reported other matters related to federal noncompliance not requiring inclusion in this report.

#### Internal Control Over Compliance

The County's management 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 directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Morgan County  
Independent Accountants' Report on Compliance with Requirements Applicable  
To Each Major Federal Program and on Internal Control Over Compliance in  
Accordance with OMB Circular A-133

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings as items 2005-004, 2005-006 and 2005-007.

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 a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not believe the reportable conditions described above are material weaknesses. We also noted other matters involving the internal control over federal compliance not requiring inclusion in this report that we have reported to the County's management in a separate letter dated September 22, 2006.

We intend this report solely for the information and use of management, the Board of County Commissioners, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

September 22, 2006

**MORGAN COUNTY**  
**SCHEDULE OF FINDINGS**  
**OMB CIRCULAR A -133 § .505**  
**DECEMBER 31, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other reportable conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	Yes
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under §.510?</b>	Yes
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Workforce Investment Act Cluster – CFDA #17.258, 17.259, 17.260 Public Assistance Grants – CFDA #97.036
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	No

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

**FINDING NUMBER 2005-001**

**Noncompliance Citation**

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Admin. Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38

**MORGAN COUNTY**  
**SCHEDULE OF FINDINGS**  
**OMB CIRCULAR A -133 § .505**  
**DECEMBER 31, 2005**  
**(Continued)**

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

**FINDING NUMBER 2005-001 (Continued)**

**Noncompliance Citation – Ohio Rev. Code Section 117.38 (Continued)**

Ohio Admin. Code Section 117-2-03 (B) requires the County to file its annual financial reports pursuant to generally accepted accounting principles. However, the County prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the County may be fined and subject to various other administrative remedies for its failure to file the required financial report.

We recommend the County take the necessary steps to ensure the annual financial report is prepared in accordance with generally accepted accounting principles.

**Official's Response:**

Morgan County has not filed GAAP financial statements because we feel that the costs related to the GAAP filing requirements far outweigh the benefits that Morgan County would realize.

**FINDING NUMBER 2005-002**

**Finding For Recovery – Repaid Under Audit**

Auditor of State Bulletin 2003-005 states that the Auditor of State's Office does not view the expenditure of public funds for alcoholic beverages as a proper public purpose and will issue findings for recovery for such expenditures as manifestly arbitrary and incorrect.

Ohio Attorney General Opinion 82-006 addresses the expenditure of funds for public purposes. This opinion, citing the Ohio Supreme Court case of McClure v. Hagerman (1951), 155 Ohio St. 320, provides guidance as to what may be construed as a public purpose. There are two criteria that demonstrate whether an expenditure is for a public purpose. First, the expenditure is required for the general good of all inhabitants. Second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

The determination of what constitutes a public purpose is primarily a legislative function. As such, the decision to expend public funds "...must be made in accordance with the procedural formalities governing the exercise of legislative power. Specifically, the decision must be memorialized by a duly enacted ordinance or resolution and may have prospective effect only." 1982 Op. Atty. Gen. 82-006.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 57; 1980 Op. Atty. Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State ex. rel. Village of Linndale v. Masten* (1985), 18 Ohio St. 3d 228.

**MORGAN COUNTY**  
**SCHEDULE OF FINDINGS**  
**OMB CIRCULAR A -133 § .505**  
**DECEMBER 31, 2005**  
**(Continued)**

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

**FINDING NUMBER 2005-002 (Continued)**

**Finding For Recovery – Repaid Under Audit (Continued)**

The Furtherance of Justice (FOJ) Fund Policy of the Morgan County Sheriff included the following prohibited expenses:

1. Furtherance of Justice Funds shall not be used to pay for any non law enforcement related expenses.
2. Furtherance of Justice Funds shall not be used to pay for any expenses incurred by any person not employed by or assisting the Morgan County Sheriff's Office.

During a review of the expenditures of the Morgan County Sheriff's FOJ account, we noted the following:

	<b>Date</b>	<b>Amount</b>
Alcohol Purchases Reimbursed	8/27/2005	\$ 2.49
	10/2/2005	10.00
	10/3/2005	3.95
	10/3/2005	2.50
Total Alcohol		18.94
Spouse Meals Reimbursed	10/3/2005	49.98
	10/4/2005	37.40
	10/6/2005	17.90
	10/6/2005	9.78
Total Meals		115.06
Total All		\$ 134.00

This resulted in FOJ funds being expended in a manner inconsistent with the Morgan County Sheriff's policy, Ohio Attorney General's Opinion 82-006 and Auditor of State Bulletin 2003-005.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery is hereby issued for public monies illegally expended against Thomas Jenkins, Morgan County Sheriff, and the American States Insurance Company, his bonding company, jointly and severally, in the amount of \$134.00, in favor of the Furtherance of Justice Fund of the Morgan County Sheriff.

This finding was repaid in full on September 21, 2006.

**Official's Response:**

We did not receive a response from Officials to this finding.

**MORGAN COUNTY**  
**SCHEDULE OF FINDINGS**  
**OMB CIRCULAR A -133 § .505**  
**DECEMBER 31, 2005**  
**(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS</b>
---------------------------------------

<b>Finding Number</b>	2005-003
<b>CFDA Title and Number</b>	Workforce Investment Act Cluster – CFDA #17.258, 17.259, 17.260
<b>Federal Award Number / Year</b>	N/A
<b>Federal Agency</b>	U.S. Department of Labor
<b>Pass-Through Agency</b>	Workforce Investment Act Area 15

**Noncompliance Citation – Cash Management**

2 C.F.R. Section 215.22(b)(2) requires that cash advances be limited to the minimum amounts needed and be timed to be in accord with the actual, immediate cash requirements of the organization in carrying out the purpose of the program or project. Since the Ohio Department of Job and Family Services has a ten-day disbursement cycle, Workforce Investment Act (WIA) program cash balances should not significantly exceed the amounts needed in the next 10 days.

During 2005, WIA cash balances on hand exceeded the amounts needed in the next 10 days on the dates listed below:

<u>Date</u>	<u>WIA Cash Balance</u>	<u>Amount Spent within 10 Days</u>	<u>Amount Not Spent within 10 Days</u>
July 31, 2005	\$ 27,026	\$ 1,075	25,951
August 31, 2005	60,541	85	60,456
September 30, 2005	39,686	5,683	34,003
October 31, 2005	187,006	39,480	147,526
November 30, 2005	148,797	24,843	123,954

We recommend WIA cash balances be monitored on a regular basis and that weekly cash draw requests be reduced or eliminated during times when the WIA program cash balance is adequate to cover immediate cash needs.

**Official's Response and Corrective Action Plan:**

Previous drawdowns were made monthly. However, Ohio Valley Employment Resources (OVER) now requests drawdowns on a bi-weekly basis.

**MORGAN COUNTY**  
**SCHEDULE OF FINDINGS**  
**OMB CIRCULAR A -133 § .505**  
**DECEMBER 31, 2005**  
**(Continued)**

**3. FINDINGS FOR FEDERAL AWARDS (Continued)**

<b>Finding Number</b>	2005-004
<b>CFDA Title and Number</b>	Public Assistance Grants – CFDA #97.036
<b>Federal Award Number / Year</b>	FEMA-1556-DR-115-UJ68G FEMA-1507-DR-115-UJ68G FEMA-1580-DR-115-05B0A
<b>Federal Agency</b>	U.S. Department of Homeland Security
<b>Pass-Through Agency</b>	Ohio Emergency Management Agency

**Reportable Condition – Cash Management**

Public Assistance Handbook Section F – Funds/Documenting states that persons responsible for tracking costs by project worksheet and the individuals performing the work in the field should become familiar with the scope of work approved in the project worksheet. Further, the Section states that disaster related costs are to be tracked by project worksheet. Information to be maintained, for example, might include, but is not limited to, daily activity reports, copies of invoices and vouchers for materials, contract information including bidding and bid documents, and any documentation pertaining to special considerations, if any.

However, the recordkeeping suggested in Section F is offered as a suggestion. Any entity receiving disaster funds may utilize a recordkeeping system of their own design. At a minimum, however, in order to be eligible, records must apply to and be identifiable as within the scope of work of a particular project worksheet. The Morgan County Engineer’s Office elected to utilize OEMA’s suggested forms for recordkeeping.

14 of the approximate 61 project worksheets completed during the audit period were selected for testing. For those 14 project worksheets, the applicable Work Completed to Date Cost Summary Sheet was tested. Of the Work Completed to Date Cost Summary Sheets, the following errors were noted:

<b>Error</b>	<b>Percent of Work Completed to Date Cost Summary Sheets with the error</b>
Incorrect fringe benefit rate used	7%
Incorrect employee hourly rate used	86%
Employee hours could not be traced to support	21%
Incorrect unit price used for materials	8%
Incorrect quantity rate used for materials	14%
Amount reported did not agree to support	36%
Amount did not agree to amount reported on Project Completion and Certification Report	* 21%

\* - this only reflects that amounts reported on the two reports did not agree; the additional errors reported here would have resulted in amounts on the Project Completion and Certification Report to be reported inaccurately.

**MORGAN COUNTY**  
**SCHEDULE OF FINDINGS**  
**OMB CIRCULAR A -133 § .505**  
**DECEMBER 31, 2005**  
**(Continued)**

**3. FINDINGS FOR FEDERAL AWARDS (Continued)**

**FINDING NUMBER 2005-004 (Continued)**

**Reportable Condition – Cash Management (Continued)**

The underlying records supporting the Work Completed to Date Cost Summary Sheets were utilized to generate the summaries. Accordingly, if an error was made on an underlying record, it was carried forward to the summary. This resulted in 86% of the Work Completed to Date Cost Summary Sheets containing errors. The amounts included on this report are carried forward to the Project Completion and Certification Report, which is the close-out report for the funding. An error rate of 86% of the reports tested did not provide assurance that these reports were generally accurate.

We recommend the Engineer recalculate every Work Completed to Date Cost Summary Sheet and every Project Completion and Certification Reports. Any variances should be reported to OEMA. In addition, we recommend the Engineer take steps to ensure future reports are accurately completed.

**Official’s Response and Corrective Action Plan:**

This will be completed and all corrections addressed with those at FEMA and OEMA.

<b>Finding Number</b>	2005-005
<b>CFDA Title and Number</b>	Public Assistance Grants – CFDA #97.036
<b>Federal Award Number / Year</b>	FEMA-1556-DR-115-UJ68G FEMA-1507-DR-115-UJ68G FEMA-1580-DR-115-05B0A
<b>Federal Agency</b>	U.S. Department of Homeland Security
<b>Pass-Through Agency</b>	Ohio Emergency Management Agency

**Noncompliance Citation – Cash Management**

Public Assistance Handbook Section F – Funds/Documenting states each subgrantee must create a FEMA fund within their books. This does not necessarily need to be a separate account, but at least a separate line item within the subgrantee’s budget. Even if the funding is strictly reimbursement (all work 100% complete when project worksheets are written), the subgrantee must “deposit” the federal monies into a FEMA fund.

This requirement is such for several reasons:

- The subgrantee should be paying bills or reimbursing funds where expenses were already paid, but only 75% from the federal funds.
- Creating a FEMA fund enables the subgrantee to account for expenditure of federal funds for Single Audit Act Requirements.

It was noted during testing that all invoices paid directly from the FEMA appropriation line item established in the Engineer’s fund were paid entirely with the Federal funds instead of with 75% of Federal funds and 12.5% each of State and Local funds.

**MORGAN COUNTY**  
**SCHEDULE OF FINDINGS**  
**OMB CIRCULAR A -133 § .505**  
**DECEMBER 31, 2005**  
**(Continued)**

**3. FINDINGS FOR FEDERAL AWARDS (Continued)**

**FINDING NUMBER 2005-005 (Continued)**

**Noncompliance Citation – Cash Management (Continued)**

We recommend the Engineer expend Federal Funds only in the amount and/or proportion allowed under the grant.

**Official's Response and Corrective Action Plan:**

This was done under a misconception that only the total at the end must meet the 75% federal, 12.5% state, and 12.5% local match. In the future, each project worksheet will be addressed on the proper split of funds.

<b>Finding Number</b>	2005-006
<b>CFDA Title and Number</b>	Public Assistance Grants – CFDA #97.036
<b>Federal Award Number / Year</b>	FEMA-1556-DR-115-UJ68G FEMA-1507-DR-115-UJ68G FEMA-1580-DR-115-05B0A
<b>Federal Agency</b>	U.S. Department of Homeland Security
<b>Pass-Through Agency</b>	Ohio Emergency Management Agency

**Reportable Condition - Reporting**

Federal Emergency Management Agency "Work Completed to Date Cost Summary Sheets" were supported by "Force Account Labor Summary Records", "Force Account Equipment Summary Records", "Material Summary Sheets" and "Contract Work Summary Records". All of the aforementioned reports included a line that stated "I certify that the above information was obtained from payroll records, invoices or other documents that are available for audit" and was followed by a signature line.

14 (23%) of the approximate 61 Project Worksheets completed in 2005 were selected for testing. Of the 14 tested, none had a Work Completed to Date Cost Summary Sheet signed by the Engineer or his designee. Of the 14 Work Completed to Date Cost Summary Sheets, 12 did not have signatures on any of the supporting documents and two had some, but not all, of the supporting documents signed by the Highway Superintendent.

In addition, especially because the Timekeeper/Custodian who was responsible for FEMA reporting had no prior experience with FEMA reporting, the Engineer should have checked the computations performed for reporting. Finding 2005-004 also identifies errors related to computations and reporting.

This did not provide the required certification by County officials and did not provide monitoring that could have detected errors.

**MORGAN COUNTY**  
**SCHEDULE OF FINDINGS**  
**OMB CIRCULAR A -133 § .505**  
**DECEMBER 31, 2005**  
**(Continued)**

**3. FINDINGS FOR FEDERAL AWARDS (Continued)**

**FINDING NUMBER 2005-006 (Continued)**

**Reportable Condition – Reporting (Continued)**

We recommend the County Engineer, or a qualified designee, check the computations and support for FEMA reporting and then sign, and thereby certify, all FEMA reports.

**Official’s Response and Corrective Action Plan:**

All future events will be handled in the recommended manner. The Engineer’s Office will review the 1556 and 1580 events and project worksheets to correct the errors and omissions noted above.

<b>Finding Number</b>	2005-007
<b>CFDA Title and Number</b>	Public Assistance Grants – CFDA #97.036
<b>Federal Award Number / Year</b>	FEMA-1556-DR-115-UJ68G FEMA-1507-DR-115-UJ68G FEMA-1580-DR-115-05B0A
<b>Federal Agency</b>	U.S. Department of Homeland Security
<b>Pass-Through Agency</b>	Ohio Emergency Management Agency

**Reportable Condition - Reporting**

The Public Assistance Handbook stated “each subgrantee must create a FEMA fund within your books. This does not need to be a separate account, just a separate line item within your budget.” Additional guidance is provided by Auditor of State Bulletin 96-012 which stated “each separate FEMA grant or loan received by your government should be accounted for in a separate fund.”

The Engineer’s office established a separate FEMA receipt and corresponding expense line within the Engineer’s fund for each of the three disasters under audit. In November, 2005 a separate FEMA fund was established for the one remaining on-going disaster. The three disasters under audit carried over between two years. By simply utilizing lines within the Engineer’s fund, cash balances did not carry forward from year to year, although these could be manually calculated. Even though utilizing lines within the Engineer’s fund did not provide the necessary sub-accounting to account for the entire time period of the Disasters, no other information was generated to compensate for this deficiency. In addition, when the FEMA fund was established, there was no sub-accounting to reconcile the newly established FEMA fund and the applicable receipt and expenditure line in the Engineer’s fund. The transition was made to the FEMA fund without transferring activity from the line-item in the Engineer’s fund.

Because the three disasters under audit carried over between two years and the sub-accounting for these disasters was limited, accounting for FEMA activity by lines within the Engineer’s fund did not provide a means to accurately and completely account for all the activity for the disasters.

**MORGAN COUNTY**  
**SCHEDULE OF FINDINGS**  
**OMB CIRCULAR A -133 § .505**  
**DECEMBER 31, 2005**  
**(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS (Continued)</b>
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**FINDING NUMBER 2005-007 (Continued)**

**Reportable Condition – Reporting (Continued)**

We recommend the Engineer create the appropriate sub-accounting records to account for all the activity of the disasters. This should reconcile Federal, Administrative, State and Local Shares and the actual expenditures. The Engineer should also ensure reports submitted to FEMA agree to his reconciliation. If any variances are located, the Engineer should contact FEMA and report the errors.

**Official's Response and Corrective Action Plan:**

This will be completed as requested. Part of this issue is a misunderstanding by the new Engineer as to how multi-year events were to be accounted for.

MORGAN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
 OMB CIRCULAR A-133 §.315(b)  
 DECEMBER 31, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2004-001	A Finding for Recovery for public money illegally expended was issued against the County Court Judge.	Yes	N/A
2004-002	A material noncompliance citation was issued under Ohio Admin. Code Section 117-2-03(B) for failing to prepare and file financial statements pursuant to GAAP.	No	Not Corrected:  The County does not believe the benefits associated with filing GAAP statements outweigh the costs associated with preparing them. This situation is repeated in the current audit as Finding 2005-001.
2004-003	A material federal noncompliance citation was issued against the WIA Program Cluster in accordance with 31 C.F.R. Section 205.33(a) for not spending cash advances within 10 days.	No	Not Corrected:  This was repeated in the current audit as Finding 2005-003.



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## **FINANCIAL CONDITION**

### **MORGAN 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  
DECEMBER 5, 2006**