



Mary Taylor, CPA
Auditor of State

**FINANCIAL CONDITION
MERCER COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Mercer County Commissioners
Central Services Building
220 West Livingston Street, Room A201
Celina, Ohio 45822

To the Board of County Commissioners:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County, (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 modified financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the modified 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 § 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 modified cash accounting basis. This is a comprehensive accounting 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County, as of December 31, 2005, and the respective changes in cash financial position and the respective budgetary comparison for the General, Real Estate Assessment, Motor Vehicle, and Mental Retardation and Developmental Disabilities funds thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2007, 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.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 22, 2007

**FINANCIAL CONDITION
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

The discussion and analysis of Mercer 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.

Using this Annual Report

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the County's modified cash basis of accounting.

The County has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing receipts, disbursements, and the related assets and liabilities. Under the County's modified cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

As a result of using the modified cash basis of accounting, certain assets and their related receipts (such as accounts receivable) and certain liabilities and their related disbursements (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

The statement of net assets and the statement of activities provide information about the cash activities of the whole County.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the County's most significant funds, with all other non-major funds presented in total in a single column. The County's major funds are the General, Real Estate Assessment, Motor Vehicle, Mental Retardation and Developmental Disabilities, Sanitary Sewer, and Solid Waste funds.

Reporting the County as a Whole

The statement of net assets and the statement of activities reflect how the County did financially during 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the County at fiscal year end. The statement of activities compares cash disbursements with program receipts for each department of the County's governmental activities. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental department draws from the County's general receipts.

**FINANCIAL CONDITION
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

These statements report the County's cash position and the changes in cash position. Factors which contribute to these changes may also include the County's property tax base and other factors.

In the statement of net assets and the statement of activities, the County is divided into two distinct types of activities:

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

Business-Type Activities – These services are provided on a charge for services basis and are intended to recover all or most of the costs of the services provided. The County's sanitary sewer, solid waste services, nursing home, and ambulance services are reported here.

Reporting the County's Most Significant Funds

Fund financial statements provide detailed information about the County's major funds, the General, Real Estate Assessment, Motor Vehicle, Mental Retardation and Developmental Disabilities, Sanitary Sewer, and Solid Waste funds. While the County uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds – The County's governmental funds are used to account for essentially the same programs reported as governmental activities on the government-wide financial statements. Most of the County's basic services are reported in these funds and focus on how money flows into and out of the funds as well as the balances available for spending at year end. These funds are reported on the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services being provided.

Proprietary Funds – The County maintains two different types of proprietary funds, enterprise and internal service funds. Enterprise funds are used to report the operating activity of the business-type activities on the government-wide financial statements. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's other programs and activities.

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 these funds are not available to support the County's programs.

**FINANCIAL CONDITION
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Government-Wide Financial Analysis

Table 1 provides a summary of the County's net assets for 2005 and 2004.

**Table 1
Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and Other Assets	\$5,545,472	\$4,694,210	\$2,734,372	\$2,336,296	\$8,279,844	\$7,030,506
Liabilities						
Current Liabilities	145,068	0	0	0	145,068	0
Net Assets						
Restricted	3,413,527	3,655,459	0	0	3,413,527	3,655,459
Unrestricted	1,986,877	1,038,751	2,734,372	2,336,296	4,721,249	3,375,047
Total Net Assets	<u>\$5,400,404</u>	<u>\$4,694,210</u>	<u>\$2,734,372</u>	<u>\$2,336,296</u>	<u>\$8,134,776</u>	<u>\$7,030,506</u>

The above table demonstrates that there was an increase in net assets for governmental activities, in the amount of \$706,194, or 15 percent. This increase is primarily a result of reduced expenditures in 2005. Net assets for the business-type activities increased significantly, 17 percent, and is the result of a 1 mil property tax levy for the county home.

Table 2 reflects the change in net assets for 2005 and 2004.

**Table 2
Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Receipts						
Program Receipts						
Charges for Services	\$2,718,587	\$2,601,500	\$1,886,912	\$1,765,167	\$4,605,499	\$4,366,667
Operating Grants, Contributions, and Interest	12,841,003	10,351,493	92,471	2,125	12,933,474	10,353,618
Capital Grants, Contributions, and Interest	1,225,303	3,817,517	0	0	1,225,303	3,817,517
Total Program Receipts	<u>16,784,893</u>	<u>16,770,510</u>	<u>1,979,383</u>	<u>1,767,292</u>	<u>18,764,276</u>	<u>18,537,802</u>

(Continued)

**FINANCIAL CONDITION
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

**Table 2
Change in Net Assets
(Continued)**

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
General Receipts						
Property Taxes						
General Operating	\$1,618,211	\$1,652,088	\$ 0	\$0	\$1,618,211	\$1,652,088
Human Services – Mental Retardation and Developmental Disabilities	2,495,608	2,471,707	0	0	2,495,608	2,471,707
County Home	0	0	662,776	0	662,776	0
Sales Taxes	3,628,677	3,452,481	0	0	3,628,677	3,452,481
Grants and Entitlements	1,121,531	1,136,537	0	0	1,121,531	1,136,537
Interest	372,082	257,282	0	0	372,082	257,282
Bonds Issued	60,225	0	0	0	60,225	0
Loans Issued	0	60,000	43,162	248,037	43,162	308,037
Notes Issued	462,400	647,100	104,400	167,700	566,800	814,800
Other	2,135,919	2,627,833	215,783	122,992	2,351,702	2,750,825
Total General Receipts	<u>11,894,653</u>	<u>12,305,028</u>	<u>1,026,121</u>	<u>538,729</u>	<u>12,920,774</u>	<u>12,843,757</u>
Total Receipts	<u>28,679,546</u>	<u>29,075,538</u>	<u>3,005,504</u>	<u>2,306,021</u>	<u>31,685,050</u>	<u>31,381,559</u>
Program Disbursements						
General Government						
Legislative and Executive	4,529,949	4,249,272	0	0	4,529,949	4,249,272
Judicial	1,250,537	1,241,522	0	0	1,250,537	1,241,522
Public Safety	3,233,734	3,229,078	0	0	3,233,734	3,229,078
Public Works	6,846,992	8,311,936	0	0	6,846,992	8,311,936
Health	389,765	415,945	0	0	389,765	415,945
Human Services	9,911,786	9,576,684	0	0	9,911,786	9,576,684
Conservation and Recreation	69,318	68,904	0	0	69,318	68,904
Economic Development and Assistance	923,326	998,973	0	0	923,326	998,973
Capital Outlay	78,494	226,443	0	0	78,494	226,443
Debt Service						
Principal Retirement	659,987	847,080	0	0	659,987	847,080
Interest and Fiscal Charges	188,271	195,237	0	0	188,271	195,237
Sanitary Sewer	0	0	1,017,232	1,324,098	1,017,232	1,324,098
Solid Waste	0	0	202,679	176,502	202,679	176,502
Other Enterprise	0	0	1,278,710	1,361,351	1,278,710	1,361,351
Total Disbursements	<u>28,082,159</u>	<u>29,361,074</u>	<u>2,498,621</u>	<u>2,861,951</u>	<u>30,580,780</u>	<u>32,223,025</u>
Increase (Decrease) in Net Assets Before Advances and Transfers	597,387	(285,536)	506,883	(555,930)	\$1,104,270	(\$841,466)
Advances	108,807	(425,356)	(108,807)	425,356	0	0
Transfers	0	(100,460)	0	100,460	0	0
Change in Net Assets	706,194	(811,352)	398,076	(30,114)	1,104,270	(841,466)
Net Assets at Beginning of Year	4,694,210	5,505,562	2,336,296	2,366,410	7,030,506	7,871,972
Net Assets at End of Year	<u>\$5,400,404</u>	<u>\$4,694,210</u>	<u>\$2,734,372</u>	<u>\$2,336,296</u>	<u>\$8,134,776</u>	<u>\$7,030,506</u>

**FINANCIAL CONDITION
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Program receipts represented 59 percent of total receipts for governmental activities (the same as in the prior year), the most significant portion of which is operating grants and contributions. While there was basically no change in the total program receipts, a comparison to the 2004 program receipts reflects that there was a substantial increase in operating grants (related to the public works and human services programs) and a substantial decrease in capital grants and contributions (related to the public works program). The public works program, primarily, the Engineer, receives a significant amount of resources from state levied gasoline taxes and motor vehicle licenses. The human services program also received substantial grant resources to fund those programs. General receipts, the primary sources of which are property taxes and sales taxes, remained very comparable to the prior year.

The programs which continue to account for the largest costs are legislative and executive (which are general government operations), public safety (sheriff), public works (engineer), and human services (primarily job and family services and mental retardation and development disabilities). These programs account for 87 percent of governmental disbursements. Program disbursements for all programs, with the exception of public works, were very comparable to 2004. Fewer road and bridge projects resulted in a decrease in public works disbursements.

Business-type activities are largely funded through program receipts; however, to a lesser degree in 2005 due to the addition of a property tax for the county home (a general receipt). Program disbursements remained comparable to the prior year.

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

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
General Government				
Legislative and Executive	\$ 4,529,949	\$ 4,249,272	\$ 2,885,636	\$ 3,113,919
Judicial	1,250,537	1,241,522	608,802	572,893
Public Safety	3,233,734	3,229,078	2,381,924	2,234,681
Public Works	6,846,992	8,311,936	405,656	184,138
Health	389,765	415,945	324,924	354,999
Human Services	9,911,786	9,576,684	3,231,948	3,977,149
Conservation and Recreation	69,318	68,904	27,303	15,763
Economic Development and Assistance	923,326	998,973	504,321	868,262
Capital Outlay	78,494	226,443	78,494	226,443
Debt Service				
Principal Retirement	659,987	847,080	659,987	847,080
Interest and Fiscal Charges	188,271	195,237	188,271	195,237
Total Disbursements	\$28,082,159	\$29,361,074	\$11,297,266	\$12,590,564

**FINANCIAL CONDITION
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

For 2005, 40 percent of the services provided by the County were paid for through general receipts. However, a review of the above table demonstrates that program receipts contributed significantly to several programs. The public works program was funded almost entirely with program receipts. Charges for services for the public works program consist of work performed by the County Engineer for townships and villages within the County. The public works program also receives a significant amount of operating grants and contributions from state levied shared gas taxes and motor vehicle licenses.

Program receipts provided 67 percent of the funding for the human service program in 2005. This is largely due to various grants restricted for human services related programs. A significant portion of the human services program is financed through a voted property tax levy for mental retardation and developmental disabilities.

The economic development and assistance program includes the revolving loan program. The program is supported mainly from the repayment of the outstanding loans and its related interest over a number of years.

Governmental Funds Financial Analysis

The County's major governmental funds are the General Fund, the Real Estate Assessment, Motor Vehicle, and Mental Retardation and Developmental Disabilities special revenue funds.

Fund balance almost doubled in the General Fund. Receipts increased by 5 percent. Increases occurred in sales taxes, charges for services, and interest. Other receipts increased significantly, although this receipt source is not consistent from year to year. In addition, a significant amount of advances from other funds were repaid in 2005. Disbursements decreased slightly.

The Motor Vehicle fund experienced a 47 percent decrease in net assets from costs of repairing bridges and roads throughout the year.

Fund balance decreased in the Mental Retardation and Development Disabilities fund from the repayment of an advance from the General Fund.

Business-Type Activities Financial Analysis

As can be seen on the statement of receipts, disbursements, and changes in fund net assets, the Sanitary Sewer and Solid Waste enterprise funds experienced an increase in net assets for 2005; however, the increases were minimal.

Budgetary Highlights

The County prepares an annual budget of receipts and disbursements for all funds of the County for use by County officials and department heads and such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of January.

The County's most significant budgeted fund is the General Fund. While changes from the original to final budget for receipts were not significant, actual receipts were 14 percent greater than final estimates. Almost all categories of receipts increased, with the most significant change in intergovernmental receipts which represents local government monies and property tax allocations. Changes for disbursements from the original to final budget were an overall increase of 7 percent. The increases were from a change in the property insurance pool, increases in salaries and related fringe benefits in the Sheriff's department, and legal expenses. The changes from actual disbursements to the amounts in the final budget were not significant.

**FINANCIAL CONDITION
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Current Issues

A five-year 2.42 mill operating levy was approved by the voters in 2005 for mental retardation and mental disabilities services. Collection on the levy began in 2006 and it is expected to result in \$1,748,000 in additional property tax receipts for those operations.

The County created a TIF District in 2006 in order to entice the construction of a \$8,400,000 dairy farm. Construction began in 2006 with completion expected in 2007. The County does not expect any revenue from the creation of the TIF District until 2008.

Due to the construction of the dairy farm, the County has issued \$700,000 in bond anticipation notes for road improvements on roads leading to the dairy farm. Increased traffic is anticipated on Hawk Road, Tama Road, and Township Line Road.

The design stage has started on Phase III of the Northeast Sanitary Sewer Extension. The project is estimated to cost approximately \$2,081,000.

The County Commissioners passed a resolution to apply for a 0 percent loan through the Ohio Public Works Commission for the construction of the West Jefferson sewer line. The anticipated cost of the sewer line is \$1,280,000.

A preliminary study for a new adult holding facility was completed in 2006. The estimated cost of a new facility is \$12,000,000.

Request 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 County's financial status. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Mark R. Giesige, County Auditor, 101 North Main Street, Room 105, Celina, Ohio 45822.

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**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2005**

	Governmental Activities	Business- Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$5,394,946	\$2,734,372	\$8,129,318
Cash and Cash Equivalents in Segregated Accounts	142,916		142,916
Due from External Parties	7,610		7,610
Total Assets	5,545,472	2,734,372	8,279,844
Liabilities			
Due to External Parties	145,068		145,068
Net Assets			
Restricted for:			
Debt Service	136,777		136,777
Capital Projects	152,551		152,551
Other Purposes	3,124,199		3,124,199
Unrestricted	1,986,877	2,734,372	4,721,249
Total Net Assets	\$5,400,404	\$2,734,372	\$8,134,776

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Services</u>	<u>Operating Grants, Contributions, and Interest</u>	<u>Capital Grants, Contributions, and Interest</u>
Governmental Activities				
General Government				
Legislative and Executive	\$4,529,949	\$1,172,245	\$18,468	\$453,600
Judicial	1,250,537	492,609	149,126	
Public Safety	3,233,734	193,172	655,285	3,353
Public Works	6,846,992	705,442	4,967,544	768,350
Health	389,765	64,841		
Human Services	9,911,786	90,278	6,589,560	
Conservation and Recreation	69,318		42,015	
Economic Development and Assistance	923,326		419,005	
Capital Outlay	78,494			
Debt Service				
Principal Retirement	659,987			
Interest and Fiscal Charges	188,271			
Total Governmental Activities	<u>28,082,159</u>	<u>2,718,587</u>	<u>12,841,003</u>	<u>1,225,303</u>
Business-Type Activities				
Sanitary Sewer	1,017,232	948,497		
Solid Waste	202,679	213,196		
Other Enterprise	1,278,710	725,219	92,471	
Total Business-Type Activities	<u>2,498,621</u>	<u>1,886,912</u>	<u>92,471</u>	
Total	<u>\$30,580,780</u>	<u>\$4,605,499</u>	<u>\$12,933,474</u>	<u>\$1,225,303</u>

General Receipts

Property Taxes Levied for:

General Operating
Health-Mental Retardation and Developmental Disabilities
County Home
Sales Taxes
Grants and Entitlements not Restricted to Other Programs
Interest
Bonds Issued
Notes Issued
Loans Issued
Other

Total General Receipts

Advances

Total General Receipts and Advances

Change in Net Assets

Net Assets at Beginning of Year

Net Assets at End of Year

See accompanying notes to the basic financial statements.

**Net (Disbursements) Receipts and
Change in Net Assets**

Governmental Activities	Business-Type Activities	Total
(\$2,885,636)		(\$2,885,636)
(608,802)		(608,802)
(2,381,924)		(2,381,924)
(405,656)		(405,656)
(324,924)		(324,924)
(3,231,948)		(3,231,948)
(27,303)		(27,303)
(504,321)		(504,321)
(78,494)		(78,494)
(659,987)		(659,987)
(188,271)		(188,271)
<u>(11,297,266)</u>		<u>(11,297,266)</u>
	(\$68,735)	(68,735)
	10,517	10,517
	<u>(461,020)</u>	<u>(461,020)</u>
	(519,238)	(519,238)
<u>(11,297,266)</u>	<u>(519,238)</u>	<u>(11,816,504)</u>
1,618,211		1,618,211
2,495,608		2,495,608
	662,776	662,776
3,628,677		3,628,677
1,121,531		1,121,531
372,082		372,082
60,225		60,225
462,400	104,400	566,800
	43,162	43,162
<u>2,135,919</u>	<u>215,783</u>	<u>2,351,702</u>
11,894,653	1,026,121	12,920,774
108,807	(108,807)	
<u>12,003,460</u>	<u>917,314</u>	<u>12,920,774</u>
706,194	398,076	1,104,270
<u>4,694,210</u>	<u>2,336,296</u>	<u>7,030,506</u>
<u><u>\$5,400,404</u></u>	<u><u>\$2,734,372</u></u>	<u><u>\$8,134,776</u></u>

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF MODIFIED CASH BASIS ASSETS, LIABILITIES, AND FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	General	Real Estate Assessment	Motor Vehicle	Mental Retardation and Developmental Disabilities	Other Governmental	Total
Assets						
Equity in Pooled Cash and Cash Equivalents	\$1,989,278	\$626,576	\$137,974	\$241,597	\$2,286,732	\$5,282,157
Cash and Cash Equivalents in Segregated Accounts				140,791	2,125	142,916
Due from External Parties					7,610	7,610
Restricted Assets						
Equity in Pooled Cash and Cash Equivalents	62,297					62,297
Total Assets	\$2,051,575	\$626,576	\$137,974	\$382,388	\$2,296,467	\$5,494,980
Liabilities and Fund Balances						
Liabilities						
Due to External Parties	\$51,548	\$7,777		\$85,743		\$145,068
Fund Balances						
Reserved for Encumbrances	296,537	139,831	610,649	63,118	1,002,399	2,112,534
Reserved for Unclaimed Monies	62,297					62,297
Unreserved, Reported in						
General Fund	1,641,193					1,641,193
Special Revenue Funds (Deficit)		478,968	(472,675)	233,527	1,004,740	1,244,560
Debt Service Funds					136,777	136,777
Capital Projects Funds					152,551	152,551
Total Fund Balances	2,000,027	618,799	137,974	296,645	2,296,467	5,349,912
Total Liabilities and Fund Balances	\$2,051,575	\$626,576	\$137,974	\$382,388	\$2,296,467	\$5,494,980

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Total Governmental Fund Balances	\$5,349,912
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Amounts reported for governmental activities on the statement of net assets are different because of the following:

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

50,492

Net Assets of Governmental Activities

\$5,400,404

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN MODIFIED CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>General</u>	<u>Real Estate Assessment</u>	<u>Motor Vehicle</u>	<u>Mental Retardation and Developmental Disabilities</u>	<u>Other Governmental</u>	<u>Total</u>
Receipts						
Property Taxes	\$1,618,211			\$2,495,608		\$4,113,819
Sales Taxes	3,628,677					3,628,677
Special Assessments					\$160,847	160,847
Charges for Services	999,577	\$378,657	\$512,260		494,217	2,384,711
Licenses and Permits	4,160				69,379	73,539
Fines and Forfeitures	50,170		30,245		19,075	99,490
Intergovernmental	1,121,531		4,953,337	1,747,290	7,170,087	14,992,245
Interest	372,082				103,694	475,776
Other	1,017,445		11,728	94,038	1,104,606	2,227,817
Total Receipts	<u>8,811,853</u>	<u>378,657</u>	<u>5,507,570</u>	<u>4,336,936</u>	<u>9,121,905</u>	<u>28,156,921</u>
Disbursements						
Current						
General Government						
Legislative and Executive	3,650,025	347,462			488,544	4,486,031
Judicial	961,273				289,264	1,250,537
Public Safety	2,352,719				881,015	3,233,734
Public Works	132,967		5,660,069		1,053,956	6,846,992
Health	329,335				60,430	389,765
Human Services	327,387			4,225,999	5,358,400	9,911,786
Conservation and Recreation					69,318	69,318
Economic Development and Assistance					923,326	923,326
Other					215	215
Capital Outlay					78,494	78,494
Debt Service						
Principal Retirement					659,987	659,987
Interest and Fiscal Charges					188,271	188,271
Total Disbursements	<u>7,753,706</u>	<u>347,462</u>	<u>5,660,069</u>	<u>4,225,999</u>	<u>10,051,220</u>	<u>28,038,456</u>
Excess of Receipts Over (Under) Disbursements	<u>1,058,147</u>	<u>31,195</u>	<u>(152,499)</u>	<u>110,937</u>	<u>(929,315)</u>	<u>118,465</u>
Other Financing Sources (Uses)						
Bonds Issued			60,225			60,225
Notes Issued					462,400	462,400
Advances In	315,036		500		57,673	373,209
Advances Out	(76,351)		(500)	(139,000)	(48,551)	(264,402)
Transfers In	40,432				490,728	531,160
Transfers Out	(340,876)		(29,887)		(160,402)	(531,165)
Total Other Financing Sources (Uses)	<u>(61,759)</u>		<u>30,338</u>	<u>(139,000)</u>	<u>801,848</u>	<u>631,427</u>
Changes in Fund Balances	996,388	31,195	(122,161)	(28,063)	(127,467)	749,892
Fund Balances at Beginning of Year	<u>1,003,639</u>	<u>587,604</u>	<u>260,135</u>	<u>324,708</u>	<u>2,423,934</u>	<u>4,600,020</u>
Fund Balances at End of Year	<u>\$2,000,027</u>	<u>\$618,799</u>	<u>\$137,974</u>	<u>\$296,645</u>	<u>\$2,296,467</u>	<u>\$5,349,912</u>

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**RECONCILIATION OF STATEMENT OF CASH RECEIPTS, CASH DISBRUSEMENTS, AND CHANGES
IN MODIFIED CASH BASIS FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Changes in Fund Balances - Total Governmental Funds \$749,892

Amounts reported for governmental activities on the statement of activities are different because of the following:

The internal service fund used by management to charge the cost of insurance to individual funds is not reported on the statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year.

(43,698)

Change in Net Assets of Governmental Activities

\$706,194

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Property Taxes	\$1,483,000	\$1,564,122	\$1,661,603	\$97,481
Sales Taxes	3,200,000	3,361,287	3,628,677	267,390
Charges for Services	818,100	920,074	1,007,733	87,659
Licenses and Permits	4,700	4,700	4,160	(540)
Fines and Forfeitures	46,000	46,000	50,170	4,170
Intergovernmental	658,879	660,170	1,121,531	461,361
Interest	210,000	210,000	372,082	162,082
Other	317,660	318,910	369,945	51,035
Total Receipts	6,738,339	7,085,263	8,215,901	1,130,638
Disbursements				
Current				
General Government				
Legislative and Executive	3,735,381	4,103,678	3,771,847	331,831
Judicial	979,655	1,072,831	992,973	79,858
Public Safety	2,240,197	2,531,199	2,449,689	81,510
Public Works	129,657	137,709	137,354	355
Health	343,621	344,080	343,564	516
Human Services	360,250	342,604	331,552	11,052
Total Disbursements	7,788,761	8,532,101	8,026,979	505,122
Excess of Receipts Over (Under) Disbursements	(1,050,422)	(1,446,838)	188,922	1,635,760
Other Financing Sources (Uses)				
Other Financing Sources	500,100	577,186	647,366	70,180
Other Financing Uses	(389,890)	(16,045)	(23,266)	(7,221)
Sale of Capital Assets			134	134
Advances In	431,000	431,000	315,036	(115,964)
Advances Out	(30,000)	(41,551)	(76,351)	(34,800)
Transfers In		38,342	40,432	2,090
Transfers Out	(106,479)	(279,267)	(340,876)	(61,609)
Total Other Financing Sources (Uses)	404,731	709,665	562,475	(147,190)
Changes in Fund Balance	(645,691)	(737,173)	751,397	1,488,570
Fund Balance at Beginning of Year	683,064	683,064	683,064	
Prior Year Encumbrances Appropriated	179,593	179,593	179,593	
Fund Balance at End of Year	\$216,966	\$125,484	\$1,614,054	\$1,488,570

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
REAL ESTATE ASSESSMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Charges for Services	\$300,000	\$300,000	\$386,434	\$86,434
Disbursements				
Current				
General Government				
Legislative and Executive	530,500	611,372	487,293	124,079
Changes in Fund Balance	(230,500)	(311,372)	(100,859)	210,513
Fund Balance at Beginning of Year	516,732	516,732	516,732	
Prior Year Encumbrances Appropriated	70,872	70,872	70,872	
Fund Balance at End of Year	<u>\$357,104</u>	<u>\$276,232</u>	<u>\$486,745</u>	<u>\$210,513</u>

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
MOTOR VEHICLE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Charges for Services	\$435,525	\$435,525	\$512,260	\$76,735
Fines and Forfeitures	30,000	30,000	30,245	245
Intergovernmental	6,235,862	6,237,368	4,953,337	(1,284,031)
Other	20	20	116	96
Total Receipts	6,701,407	6,702,913	5,495,958	(1,206,955)
Disbursements				
Current				
Public Works	5,609,270	6,618,578	6,270,718	347,860
Excess of Receipts Over (Under) Disbursements	1,092,137	84,335	(774,760)	(859,095)
Other Financing Sources (Uses)				
Other Financing Sources	35,000	35,000	11,612	(23,388)
Notes Issued			60,225	60,225
Advances In			500	500
Advances Out			(500)	(500)
Transfers Out		(28,381)	(29,887)	(1,506)
Total Other Financing Sources (Uses)	35,000	6,619	41,950	35,331
Changes in Fund Balance	1,127,137	90,954	(732,810)	(823,764)
Fund Balance (Deficit) at Beginning of Year	(611,680)	(611,680)	(611,680)	
Prior Year Encumbrances Appropriated	871,815	871,815	871,815	
Fund Balance (Deficit) at End of Year	<u>\$1,387,272</u>	<u>\$351,089</u>	<u>(\$472,675)</u>	<u>(\$823,764)</u>

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Property Taxes	\$2,574,000	\$2,628,192	\$2,495,608	(\$132,584)
Intergovernmental	1,481,800	1,543,628	1,747,290	203,662
Other	51,000	51,000	93,951	42,951
Total Receipts	4,106,800	4,222,820	4,336,849	114,029
Disbursements				
Current				
Human Services	4,106,800	4,374,007	4,289,117	84,890
Excess of Receipts Over (Under) Disbursements		(151,187)	47,732	198,919
Other Financing Sources (Uses)				
Other Financing Sources			87	87
Advances Out		(89,000)	(139,000)	(50,000)
Total Other Financing Sources (Uses)		(89,000)	(138,913)	(49,913)
Changes in Fund Balance		(240,187)	(91,181)	149,006
Fund Balance (Deficit) at Beginning of Year	(20,600)	(20,600)	(20,600)	
Prior Year Encumbrances Appropriated	167,186	167,186	167,186	
Fund Balance (Deficit) at End of Year	<u>\$146,586</u>	<u>(\$93,601)</u>	<u>\$55,405</u>	<u>\$149,006</u>

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2005**

	<u>Business-Type Activities</u>			<u>Total</u>	<u>Governmental</u>
	<u>Sanitary Sewer</u>	<u>Solid Waste</u>	<u>Other Enterprise</u>	<u>Enterprise Funds</u>	<u>Internal Service</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	<u>\$1,629,939</u>	<u>\$612,564</u>	<u>\$491,869</u>	<u>\$2,734,372</u>	<u>\$50,492</u>
Net Assets					
Unrestricted	<u>\$1,629,939</u>	<u>\$612,564</u>	<u>\$491,869</u>	<u>\$2,734,372</u>	<u>\$50,492</u>

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Business-Type Activities</u>				<u>Governmental Activity</u>
	<u>Sanitary Sewer</u>	<u>Solid Waste</u>	<u>Other Enterprise</u>	<u>Total Enterprise Funds</u>	<u>Internal Service</u>
Operating Revenues					
Charges for Services	\$948,497	\$213,196	\$725,219	\$1,886,912	\$2,603,977
Other	47,489	4,818	163,476	215,783	
Total Operating Revenues	<u>995,986</u>	<u>218,014</u>	<u>888,695</u>	<u>2,102,695</u>	<u>2,603,977</u>
Operating Expenses					
Personal Services	185,918	56,698	475,295	717,911	33,261
Contractual Services	354,001	119,134	591,423	1,064,558	
Materials and Supplies	92,133	26,847	211,992	330,972	
Claims					2,614,419
Other	6,137			6,137	
Debt Service					
Principal Retirement	<u>333,235</u>			<u>333,235</u>	
Total Operating Expenses	<u>971,424</u>	<u>202,679</u>	<u>1,278,710</u>	<u>2,452,813</u>	<u>2,647,680</u>
Operating Income (Loss)	<u>24,562</u>	<u>15,335</u>	<u>(390,015)</u>	<u>(350,118)</u>	<u>(43,703)</u>
Non-Operating Revenues (Expenses)					
Property Taxes			662,776	662,776	
Notes Issued	104,400			104,400	
Loans Issued	43,162			43,162	
Grants			92,471	92,471	
Interest Expense	<u>(45,808)</u>			<u>(45,808)</u>	
Total Non-Operating Revenues (Expenses)	<u>101,754</u>		<u>755,247</u>	<u>857,001</u>	
Income (Loss) Before Advances and Transfers	126,316	15,335	365,232	506,883	(43,703)
Advances In		9,000	30,000	39,000	
Advances Out	(6,525)	(10,822)	(130,460)	(147,807)	
Transfers In					5
Changes in Net Assets	119,791	13,513	264,772	398,076	(43,698)
Net Assets at Beginning of Year	<u>1,510,148</u>	<u>599,051</u>	<u>227,097</u>	<u>2,336,296</u>	<u>94,190</u>
Net Assets at End of Year	<u>\$1,629,939</u>	<u>\$612,564</u>	<u>\$491,869</u>	<u>\$2,734,372</u>	<u>\$50,492</u>

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Business-Type Activities				Governmental Activity
	Sanitary Sewer	Solid Waste	Other Enterprise	Total Enterprise Funds	Internal Service
Increases (Decreases) in Cash and Cash Equivalents					
Cash Flows from Operating Activities					
Cash Received from Customers	\$948,497	\$213,196	\$725,219	\$1,886,912	
Cash Received from Transactions with Other Funds					\$2,603,977
Cash Payments for Personal Services	(185,918)	(56,698)	(475,295)	(717,911)	
Cash Payments for Contractual Services	(354,001)	(119,134)	(591,423)	(1,064,558)	(33,261)
Cash Payments for Supplies	(92,133)	(26,847)	(211,992)	(330,972)	
Cash Payments for Claims					(2,614,419)
Cash Received from Other Revenues	47,489	4,818	163,476	215,783	
Cash Payments for Other Expenses	(6,137)			(6,137)	
Net Cash Provided by (Used for) Operating Activities	357,797	15,335	(390,015)	(16,883)	(43,703)
Cash Flows from Noncapital Financing Activities					
Property Taxes			662,776	662,776	
Grants			92,471	92,471	
Advances In		9,000	30,000	39,000	
Advances Out	(6,525)	(10,822)	(130,460)	(147,807)	
Transfers In					5
Net Cash Provided by (Used for) Noncapital Financing Activities	(6,525)	(1,822)	654,787	646,440	5
Cash Flows from Capital and Related Financing Activities					
Proceeds from Special Assessment Notes	104,400			104,400	
Proceeds from OWDA Loans	43,162			43,162	
Principal Paid on Special Assessment Notes	(167,700)			(167,700)	
Interest Paid on Special Assessment Notes	(4,099)			(4,099)	
Principal Paid on Special Assessment Bonds	(7,300)			(7,300)	
Interest Paid on Special Assessment Bonds	(4,605)			(4,605)	
Principal Paid on OPWC Loans	(17,780)			(17,780)	
Principal Paid on OWDA Loans	(140,455)			(140,455)	
Interest Paid on OWDA Loans	(37,104)			(37,104)	
Net Cash Used for Capital and Related Financing Activities	(231,481)			(231,481)	
Net Increase (Decrease) in Cash and Cash Equivalents	119,791	13,513	264,772	398,076	(43,698)
Cash and Cash Equivalents at Beginning of Year	1,510,148	599,051	227,097	2,336,296	94,190
Cash and Cash Equivalents at End of Year	\$1,629,939	\$612,564	\$491,869	\$2,734,372	\$50,492

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF MODIFIED CASH BASIS FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2005**

Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,389,273
Cash and Cash Equivalents in Segregated Accounts	276,856
Due from External Parties	<u>162,425</u>
Total Assets	<u><u>\$3,828,554</u></u>
Net Assets	
Due to External Parties	\$24,967
Undistributed Assets	<u>3,803,587</u>
Total Net Assets	<u><u>\$3,828,554</u></u>

See accompanying notes to the basic financial statements.

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**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. REPORTING ENTITY

Mercer County (the County) is a body politic and corporate established in 1824 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 commissioners elected by the voters of the County. Other officials elected by the voters of the County that manage various segments of the County's operations are the Auditor, Treasurer, Recorder, Clerk of Courts, Coroner, Engineer, Prosecuting Attorney, Sheriff, a Common Pleas Court Judge, and a Probate/Juvenile Court Judge.

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

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

A. Primary Government

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

B. Component Units

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

C.A. Group – C.A. Group is a legally separate, not-for-profit corporation, served by a board appointed by the Mercer County Board of Mental Retardation and Developmental Disabilities (MRDD). C.A. Group, under a contractual agreement with the Mercer County Board of MRDD, provides sheltered employment for mentally retarded or handicapped adults in Mercer County. The Mercer County Board of MRDD provides C.A. Group with personnel necessary for the operation of the habilitation services to the clients, land and buildings for the operation of the center, maintenance and repair of the buildings, and professional staff to supervise and train clients of C.A. Group. Based on the significant services and resources provided by the County to C.A. Group and C.A. Group's sole purpose of providing assistance to the retarded and handicapped adults of Mercer County, C.A. Group is a component unit of Mercer County. C.A. Group operates on a fiscal year ending December 31. Information about this component unit is presented in Note 19 to the basic financial statements. Further information for C.A. Group can be obtained from C.A. Group at P.O. Box 137, Celina, Ohio 45822.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

1. REPORTING ENTITY (Continued)

As custodian of public funds, the County Treasurer invests all public monies held on deposit in the County treasury. In the case of the separate organizations listed below, the County serves as fiscal agent, but the organizations are not considered part of Mercer County. Accordingly, the activity of the following organizations is reported as agency funds within the financial statements:

Mercer County Soil and Water Conservation District
Mercer County District Board of Health

The County participates in four jointly governed organizations, three insurance pools, and a related organization. These organizations are presented in Notes 16, 17, and 18 to the basic financial statements. These organizations are:

Mercer County Regional Planning Commission
Tri-County Mental Health Board
West Central Ohio Network
West Central Partnership, Inc.
County Commissioners Association of Ohio Service Corporation
Midwest Pool Risk Management Agency, Inc.
Midwest Employee Benefit Consortium
Mercer County District Library

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a modified cash basis of accounting. This 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 modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, 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 modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The County does not apply FASB statements issued after November 30, 1989, to its business-type activities or to its enterprise funds. 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 financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

1. Government-Wide Financial Statements

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

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of net assets presents the cash balance of the governmental and business-type 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 and business-type activities. Disbursements are reported by function. A function 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 program's goods or services and grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the general revenues of the County.

2. Fund Financial Statements

During the year, the County segregates transactions related to certain County functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the County at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund financial statements. 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 funds of the County are presented in three categories: governmental, proprietary, and fiduciary.

1. Governmental Funds

The County classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The County's major governmental funds are the General Fund, Real Estate Assessment, Motor Vehicle, and Mental Retardation and Developmental Disabilities special revenue 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.

Real Estate Assessment Fund – This fund accounts for state-mandated county-wide real estate reappraisals that are funded by charges to the County's political subdivisions.

Motor Vehicle Fund – This fund accounts for monies derived from gasoline taxes and the sale of motor vehicle licenses. Expenditures are restricted by State law to county road and bridge repair/improvement programs.

Mental Retardation and Developmental Disabilities Fund – This fund accounts for the operation of a school for the mentally retarded and developmentally disabled, financed by a county-wide property tax levy and federal and state grants.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Proprietary Funds

The County classifies funds financed primarily from user charges for goods or services as proprietary funds. These funds are classified as either enterprise funds or internal service funds.

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

Sanitary Sewer Fund – This fund accounts for sanitary sewer services provided to individuals and commercial users throughout the County.

Solid Waste Fund – This fund accounts for daily operations of the landfill.

The other enterprise funds of the County account for charges for services, property taxes, and operating grants for the county home, emergency medical services, and a water treatment system.

Internal Service Fund – The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis. The County's internal service fund accounts for monies received for the activities of the self insurance program for employee health benefits.

3. Fiduciary Funds

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

As a result of the use of the modified 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 the financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the certificate of estimated resources and the appropriations resolution, both of which are prepared on the budgetary basis of accounting. 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 expenditures plus encumbrances at the level of control selected by the County Commissioners. The legal level of control has been established by the County Commissioners at the fund, department, and object level for all funds.

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 on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources 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 appropriations 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.

E. Cash and Investments

To improve cash management, cash received by the County is pooled and invested. Individual fund integrity is maintained through County records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalents that are held separately within County departments or on a department's behalf are recorded as "Cash and Cash Equivalents in Segregated Accounts".

During 2005, the County invested in nonnegotiable certificates of deposit, federal agency securities, and STAR Ohio. All investments are reported at cost. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2005.

Interest earnings are allocated to County funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2005 were \$372,082 which includes \$324,633 assigned from other County funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. 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 have a legal restriction on their use are reported as restricted.

G. Capital Assets

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

H. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the modified cash basis of accounting used by the County.

I. Long-Term Obligations

Modified 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 disbursements are made.

J. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes primarily include resources restricted for the upkeep of the County's roads and bridges, child support and welfare services, services for the handicapped and mentally disabled, 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 resources are available. The County did not have any net assets restricted by enabling legislation at December 31, 2005.

K. Fund Balance Reserves

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

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Operating Receipts and Disbursements

Operating receipts are those receipts that are generated directly from the primary activity of the proprietary funds. For the County, these receipts are charges for services for the nursing home, for ambulance services, for water and sewer services, for solid waste services, and charges for health care premiums in the internal service fund. Operating disbursements are the necessary costs incurred to provide the service that is the primary activity of the fund. All receipts and disbursements not meeting these definitions are reported as non-operating.

M. Interfund Transactions

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

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

3. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2005, the Proactive Court of Justice special revenue fund had a deficit fund balance, in the amount of \$1,345. Fee collections began in 2005 and are anticipated to be sufficient to cover the disbursements within the fund in the future.

B. 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 modified 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.

Ohio Rev. Code Section 5705.36(A)(1) requires to certify to the county auditor the total amount from all sources available for expenditures from each fund in the tax budget along with any unencumbered balances existing at the end of the preceding year. The budget commission shall certify to the taxing authority of each subdivision an amended official certificate of estimated resources. The County Auditor did not prepare the Certificate of the Total Amount from All Sources Available for Expenditures and Balances for 2005. This resulted in the inability of the budget commission to certify to the County an amended certificate of estimated resources.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

Ohio Rev. Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Rev. Code Section 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation. The County did not properly obtain amended certificates throughout the year.

4. 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 may be deposited or invested in the following securities provided a written investment policy has been filed 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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the County;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities or cash, equal value for equal value;
9. Up to twenty-five percent of the County's average portfolio in either of the following:
 - a. commercial paper notes in entities incorporated under the laws of Ohio or any other State that have assets exceeding five hundred million dollars rated at the time of purchase, which are rated in the highest qualification established by two nationally recognized standard rating services, which do not exceed 10 percent of the value of the outstanding commercial paper of the issuing corporation and which mature within two hundred seventy days after purchase;
 - b. bankers acceptances eligible for purchase by the federal reserve system and which mature within one hundred eighty days after purchase;
10. Up to 15 percent of the County's average portfolio in notes issued by United States corporations or by depository institutions that are doing business under authority granted by the United States provided that the notes are rated in the second highest or higher category by at least two nationally recognized standard rating services at the time of purchase and the notes mature within two years from the date of purchase;
11. No-load money market mutual funds rated in the highest category at the time of purchase by at least one nationally recognized standard rating service consisting exclusively of obligations guaranteed by the United States, securities issued by a federal government agency or instrumentality, and/or highly rated commercial paper; and
12. Up to 1 percent of the County's average portfolio in 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.

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

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

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

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

A. 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, \$811,011 of the County's bank balance of \$4,180,632 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the County to a successful claim by the FDIC.

The County has no deposit policy for custodial credit 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 105 percent of the deposits being secured.

As of December 31, 2005, the County had the following investments:

	Total	Less Than Six Months	Six Months to One Year	More Than One Year
Federal Home Loan Mortgage Corporation Notes	\$3,481,779	\$1,482,132	\$ 500,000	\$1,499,647
Federal National Mortgage Association Notes	2,499,025	499,725	1,999,300	0
Federal Home Loan Bank Notes	1,494,838	495,050	499,788	500,000
STAR Ohio	528,959	528,959	0	0
Total Investments	<u>\$8,004,601</u>	<u>\$3,005,866</u>	<u>\$2,999,088</u>	<u>\$1,999,647</u>

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The investment policy restricts the County Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless matched to a specific obligation or debt of the County.

The Federal Home Loan Mortgage Corporation Notes, Federal National Mortgage Association Notes, and Federal Home Loan Bank Notes carry a rating of Aaa by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. The County has no policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

The County places no limit on the amount of its interim monies it may invest in a particular security. The following table indicates the percentage of each investment to the County's total portfolio.

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Federal Home Loan Mortgage Corporation Notes	\$3,481,779	43.50%
Federal National Mortgage Association Notes	2,499,025	31.22
Federal Home Loan Bank Notes	1,494,838	18.67

5. PERMISSIVE SALES AND USE TAX

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

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

6. PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the County. Real property tax revenues received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2005 became a lien on December 31, 2003, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in 2005 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portion of the taxes collected. The collection and distribution of taxes for all subdivisions within the County, excluding the County itself, is accounted for through agency funds. The amount of the County's tax collections is accounted for within the applicable funds.

The full tax rate for all County operations for the year ended December 31, 2005, was \$9.99 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	
Residential/Agriculture	\$551,604,817
Commercial/Industrial/Mineral	79,348,080
Public Utility Property	
Real	44,770
Personal	24,264,230
Tangible Personal Property	67,155,920
Total Assessed Value	<u>\$722,417,817</u>

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

7. INTERFUND ACTIVITY

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

Fund	Advances In	Advances Out
Governmental		
General Fund	\$315,036	\$76,351
Motor Vehicle Fund	500	500
Mental Retardation and Developmental Disabilities	-	139,000
Other Governmental Funds	57,673	48,551
	373,209	264,404
Business-Type Activities		
Sanitary Sewer Fund	-	6,525
Solid Waste	9,000	10,822
Other Enterprise Funds	30,000	130,460
	39,000	147,807

During 2005, the County made a number of cash advances to various funds. Cash advances are generally made to provide working capital for operations or projects or to provide cash flow resources. With the exception of \$111,313 due to the General Fund from the Sanitary Sewer enterprise fund and \$132,000 due to the Sanitary Sewer enterprise fund from other enterprise funds, all amounts are expected to be repaid within one year.

8. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005, the County contracted with Midwest Pool Risk Management Agency, Inc. for insurance coverage. Coverage provided was as follows:

General Liability	\$7,000,000
Law Enforcement Professional Liability	7,000,000
Public Officials Errors and Omissions Liability	7,000,000
Automobile Liability	7,000,000
Ohio Stop Gap (Additional Workers' Compensation Coverage)	1,000,000
Building and Contents	228,804,606
Flood and Earthquake	36,000,000
Comprehensive Boiler and Machinery	30,000,000

There has been no significant reduction in insurance coverage from 2004, and settled claims have not exceeded this coverage in the past three years.

For 2005, the County participated in the County Commissioners Association of Ohio Service Corporation, a worker's compensation group rating plan (Plan). The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The workers' compensation experience of the participating counties is calculated as one experience and a common premium rate is applied to all counties in the Plan. Each county pays its workers' compensation premium to the State based on the rate for the Plan rather than the county's individual rate.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

8. RISK MANAGEMENT (Continued)

In order to allocate the savings derived by the formation of the Plan, and to maximize the number of participants in the Plan, the Plan's executive committee annually calculates the total savings which accrued to the Plan through its formation. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants. Participation in the Plan is limited to counties that can meet the Plan's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control, and actuarial services to the Plan. Each year, the County pays an enrollment fee to the Plan to cover the costs of administering the program.

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

The County provides employee medical coverage through a self insured program. The County established a Health Insurance fund (an internal service fund) to account for and finance employee health benefits. Under this program, the Health Insurance fund provides coverage up to a maximum of \$75,000 per year for each individual. The County purchases commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in the past three years.

All funds of the County participate in the program and make payments to the Health Insurance internal service fund based on actuarial estimates of the amounts needed to pay prior- and current-year claims. Under the modified cash basis of accounting, the County does not report claims payable, which is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. Claims paid during 2005 were \$2,614,419.

9. SIGNIFICANT CONTRACTUAL COMMITMENTS

The County had the following contractual commitments outstanding as of December 31, 2005:

<u>Contractor</u>	<u>Purpose</u>	<u>Commitment</u>
Fanning and Howey	Menchofer Woods Sewer	\$ 33,050
Fanning and Howey	Fleetfoot Road Sewer	24,475
Arcadis	Northeast Sewer Phase III	123,135
Fanning and Howey	E. J. Water	34,505
Independent Concrete Pipe	Philothea Road	4,480
Independent Concrete Pipe	Tobe Road	22,133
Statewide Ford Mercury	Vehicles	39,964
Shremshock Architects	Jail Needs Assessment	12,000
Appraisal Research	Property Reevaluation	137,440
Jutte Excavating	Celina-Mendon Road	172,611
Northwoods Consulting Partners	Digital Imaging Systems	164,954

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

10. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

County employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by OPERS 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 publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

For the year ended December 31, 2005, 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 salary to fund pension obligations. 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 contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$1,027,410, \$973,303, and \$877,512, respectively; 89 percent has been contributed for 2005 and 100 percent has been contributed for 2004 and 2003. Contributions to the member-directed plan for 2005 were \$19,155 made by the County and \$12,016 made by plan members.

B. State Teachers Retirement System

For certified teachers employed by the school for mental retardation and developmental disabilities, the County contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the County was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The County's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2005, 2004, and 2003 were \$3,594, \$6,588, and \$6,780, respectively; 100 percent has been contributed for all three fiscal years. There were no contributions for the DCP and CP for the fiscal year ended June 30, 2005.

11. POST-EMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Post-employment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Post-employment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 employer contribution rate was 13.55 percent of covered payroll (16.7 percent for law enforcement and public safety); 4.00 percent was the portion used to fund health care.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

11. POST-EMPLOYMENT BENEFITS (Continued)

Benefits are advance-funded using the entry age normal actuarial 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 .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

All investments are carried at market value. 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. Actual employer contributions for 2005 which were used to fund post-employment benefits were \$430,329. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2004 (the latest information available), was \$10.8 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

B. State Teachers Retirement System

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the County, this amount was \$276.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000, and STRS had 115,395 eligible benefit recipients.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

12. COMPENSATED ABSENCES

County employees earn vacation and sick leave at varying rates depending on length of service. Currently, employees are not permitted to accrue or carry over more than the equivalent of three year's vacation leave. All accumulated unused vacation time is paid upon separation from the County. County employees are paid for 50 percent of accumulated unused sick leave upon retirement at the rate of pay in effect at the time of retirement.

13. NOTES PAYABLE

The changes in the County's notes payable during 2005 were as follows:

	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005
Governmental Activities					
Bond Anticipation Notes					
Various Purpose Ditch Improvement					
Series 2002, Second Renewal	2.436	\$51,200	\$0	\$51,200	\$0
Airport Improvement	2.446	126,000	0	0	126,000
Various Purpose Ditch Improvement					
Series 2001, Third Renewal	2.441	133,300	0	133,300	0
Various Purpose Series 2004	2.5	258,700	0	258,700	0
Various Purpose Series 2005	3.18	0	93,550	0	93,550
Various Purpose Series 2004	3.095	0	224,400	0	224,400
Total Bond Anticipation Notes		<u>569,200</u>	<u>317,950</u>	<u>443,200</u>	<u>443,950</u>
Special Assessment Notes					
Marion Township Industrial Park					
Various Purpose Series 2002, Second Renewal	2.406	51,500	0	51,500	0
Marion Township Industrial Park	2.45	26,400	0	26,400	0
Various Purpose Series 2005	3.18	0	38,650	0	38,650
Various Purpose Series 2005	3.5	0	105,800	0	105,800
Total Special Assessment Notes		<u>77,900</u>	<u>144,450</u>	<u>77,900</u>	<u>144,450</u>
Total Governmental Activities		<u>\$647,100</u>	<u>\$462,400</u>	<u>\$521,100</u>	<u>\$588,400</u>
Business-Type Activities					
Special Assessment Notes					
Various Purpose Series 2002, Second Renewal					
Various Purpose Series 2005	2.45%	\$167,700	\$0	\$167,700	\$0
Various Purpose Series 2005	3.5	0	104,400	0	104,400
Total Business-Type Activities		<u>\$167,700</u>	<u>\$104,400</u>	<u>\$167,700</u>	<u>\$104,400</u>

All of the County's notes are backed by the full faith and credit of the County. The bond anticipation notes mature within one year. The special assessment notes will be paid from assessments made on the property owners affected by the improvements. In the event that an assessed property owner fails to make payments, the County will be required to pay the related debt.

On February 23, 2004, the County issued bond anticipation notes, in the amount of \$51,200, to partially retire notes previously issued to construct various ditches. The notes had an interest rate of 2.436 percent and were paid from the Ditch Special Assessment Notes debt service fund.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

13. NOTES PAYABLE (Continued)

On March 31, 2004, the County issued bond anticipation notes, in the amount of \$126,000, to acquire real property for the County airport. The notes had an interest rate of 2.446 percent and were paid from the General Obligation Bond Anticipation Note debt service fund.

On May 6, 2004, the County issued bond anticipation notes, in the amount of \$133,300, to partially retire notes previously issued to construct various ditches. The notes had an interest rate of 2.441 percent and were paid from the Ditch Special Assessment Notes debt service fund.

On August 5, 2004, the County issued bond anticipation notes, in the amount of \$258,700, to partially retire notes previously issued to construct various ditches and make improvements to the fairgrounds, including the construction of new restroom and shower facilities. The notes had an interest rate of 2.5 percent and were paid from the Ditch Special Assessment Notes debt service fund and the General Obligation Bond Anticipation Note debt service fund, in the amount of \$197,100 and \$61,600, respectively.

On May 6, 2005, the County issued bond anticipation notes, in the amount of \$93,550, to partially retire notes previously issued to construct various ditches. The notes had an interest rate of 3.18 percent and in 2006 were paid from the Ditch Special Assessment Notes debt service fund.

On August 5, 2005, the County issued bond anticipation notes, in the amount of \$224,400, to partially retire notes previously issued to construct various ditches and make improvements to the fairgrounds, including the construction of new restroom and shower facilities. The notes had an interest rate of 3.095 percent and in 2006 were paid from the Ditch Special Assessment Notes debt service fund and the General Obligation Bond Anticipation Note debt service fund, in the amount of \$166,200 and \$58,200, respectively.

On May 6, 2004, the County issued special assessment notes, in the amount of \$51,500, to partially retire notes previously issued to make improvements in the Marion Township Industrial Park, including street drainage and sanitary sewer improvements. The notes had an interest rate of 2.406 percent and were paid from the Marion Township Industrial Park debt service fund.

On September 24, 2004, the County issued special assessment notes, in the amount of \$194,100, to partially retire notes previously issued to make improvements to the Northeast Grand Lake sewer and to pay a portion of the cost of improvements in the Renoir-Visions area of the County. The notes had an interest rate of 2.45 percent and were paid from the General Obligation Bond Anticipation Note debt service fund and the Sanitary Sewer enterprise fund, in the amount of \$26,400 and \$167,700, respectively.

On May 6, 2005, the County issued special assessment notes, in the amount of \$38,650, to partially retire notes previously issued to make improvements in the Marion Township Industrial Park, including street drainage and sanitary sewer improvements. The notes have an interest rate of 3.18 percent and in 2006 were paid from the Marion Township Industrial Park debt service fund.

On September 23, 2005, the County issued special assessment notes, in the amount of \$210,200, to partially retire notes previously issued to make improvements to the Northeast Grand Lake sewer, to pay a portion of the cost of improvements in the Renoir-Visions area of the County, to pay for the costs related to the Sites Davis Ditch, and to pay for a portion of the cost of improvements to the St. Mary's River. The notes had an interest rate of 3.5 percent and in 2006 were paid from the General Obligation Bond Anticipation Note debt service fund and the Sanitary Sewer enterprise fund, in the amount of \$105,800 and \$104,400, respectively.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

14. LONG-TERM OBLIGATIONS

The County's long-term debt activity for the year ended December 31, 2005, was as follows:

	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Governmental Activities						
General Obligation Bonds						
1998 Central Services (Original Amount \$3,750,000)	4.4-7.4%	\$3,270,000	\$ 0	\$105,000	\$3,165,000	\$110,000
OPWC Loans						
1995 Karch/Tama (Original Amount \$174,070)	0	87,036	0	8,704	78,332	8,703
1997 Siegrist-Jutte and Kahn Road Bridge (Original Amount \$256,554)	0	147,519	0	12,828	134,691	12,828
2001 Four Bridge Replacement (Original Amount \$76,979)	0	61,583	0	3,849	57,734	3,849
2002 Home Waterline Improvement (Original Amount \$80,000)	0	74,000	0	4,000	70,000	4,000
2002 Five Bridge Replacement (Original Amount \$60,000)	0	57,000	0	3,000	54,000	3,000
2005 Six Bridge Repair (Original Amount \$60,225)	0	0	60,225	1,506	58,719	3,011
Total OPWC Loans		<u>427,138</u>	<u>60,225</u>	<u>33,887</u>	<u>453,476</u>	<u>35,391</u>
Total Governmental Activities		<u>\$3,697,138</u>	<u>\$60,225</u>	<u>\$138,887</u>	<u>\$3,618,476</u>	<u>\$145,391</u>
	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Business-Type Activities						
Special Assessment Bonds						
1992 Southwest Sanitary Sewer (Original Amount \$148,600)	5.0%	\$ 92,100	\$0	\$ 7,300	\$ 84,800	\$ 7,700
OPWC Loans						
1993 Northwood Collection System (Original Amount \$55,600)	0	26,410	0	2,780	23,630	2,780
2003 Philothea Area Wastewater (Original Amount \$300,000)	0	262,500	0	15,000	247,500	15,000
Total OPWC Loans		<u>288,910</u>	<u>0</u>	<u>17,780</u>	<u>271,130</u>	<u>17,780</u>

continued

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

14. LONG-TERM OBLIGATIONS (Continued)

	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Business-Type Activities						
(continued)						
OWDA Loans						
1988 MCI (Original Amount \$831,193)	2.0%	\$ 293,715	\$ 0	\$36,699	\$ 257,016	\$ 37,433
1990 MCI (Original Amount \$1,233,890)	7.89	108,872	0	72,581	36,291	36,291
2002 Staeger Road Sanitary Sewer (Original Amount \$109,521)	3.64	93,454	0	4,395	89,059	4,557
2002 SR 129 and Burge Road (Original Amount \$400,463)	3.49	356,560	0	15,677	340,883	16,228
2005 Lake Acres (Original Amount \$248,037)	2.75	248,037	43,162	11,103	280,096	11,411
Total OWDA Loans		<u>1,100,638</u>	<u>43,162</u>	<u>140,455</u>	<u>1,003,345</u>	<u>105,920</u>
Ohio Water and Sewer Loans						
1991 Sandy Beach Area Sewer District (Original Amount \$42,822)	0	42,822	0	0	42,822	0
1992 Southwest Sewer (Original Amount \$269,223)	0	269,223	0	0	269,223	0
2001 Rotary SR 269 Sewer (Original Amount \$110,167)	0	88,673	0	0	88,673	0
Total Ohio Water and Sewer Loans		<u>400,718</u>	<u>0</u>	<u>0</u>	<u>400,718</u>	<u>0</u>
Rural Industrial Park Loan						
2001 Rural Industrial Park - SR269 (Original Amount \$200,000)	0-3	- 200,000	0	0	200,000	0
Total Business-Type Activities		<u>\$2,082,366</u>	<u>\$43,162</u>	<u>\$165,535</u>	<u>\$1,959,993</u>	<u>\$131,400</u>

A. General Obligation Bonds

All general obligation bonds are supported by the full faith and credit of Mercer County and are payable from unvoted property tax receipts to the extent that other resources are not available to meet annual principal and interest payments.

B. 1998 Central Services

The bonds maturing in 2018 are subject to mandatory sinking fund redemption prior to maturity at a price of par plus accrued interest to the date of redemption, in the following principal amounts, on November 1 in each of the following years:

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

14. LONG-TERM OBLIGATIONS (Continued)

<u>Year</u>	<u>Amount</u>
2010	\$140,000
2011	145,000
2012	150,000
2013	160,000
2014	165,000
2015	175,000
2016	185,000
2017	190,000

Unless previously redeemed, the remaining principal, in the amount of \$200,000, will mature at stated maturity on November 1, 2018.

The bonds maturing in 2023 are subject to mandatory sinking fund redemption prior to maturity at a price of par plus accrued interest to the date of redemption, in the following principal amounts, on November 1 in each of the following years:

<u>Year</u>	<u>Amount</u>
2019	\$210,000
2020	220,000
2021	235,000
2022	245,000

Unless previously redeemed, the remaining principal, in the amount of \$260,000, will mature at stated maturity on November 1, 2023.

The bonds maturing November 1, 2009, and thereafter will be subject to optional redemption, in whole at any time or in part on any interest payment date, at the option of the County, on or after November 1, 2008, as follows:

<u>Redemption Date</u>	<u>Redemption Price</u>
November 1, 2008, through October 31, 2009	100.5%
November 1, 2009, and thereafter	100.0

C. Special Assessment Bonds

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

D. OPWC Loans

OPWC loans consist of monies owed to the Ohio Public Works Commission for the improvement and replacement of the County's infrastructure. OPWC loans are payable from the governmental debt service funds and from the gross revenues of the enterprise funds.

E. OWDA Loans

OWDA loans consist of monies owed to the Ohio Water Development Authority for various water and sewer projects. OWDA loans are payable solely from special assessments and the gross revenues of the enterprise funds.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

14. LONG-TERM OBLIGATIONS (Continued)

F. Ohio Water and Sewer Loans

The Ohio Water and Sewer Loans were provided to the County for the deferral of special assessment collections on agricultural land. The loan principal is being deferred as long as the land is used for agriculture purposes. If the land is ever used for other than agricultural purposes, the loan is due and payable, the special assessments are then due and collectible by the County, and the monies collected are to be remitted to the Ohio Water and Sewer Rotary Commission (OWSRC) within one year of collection.

The loans are non-interest bearing as long as the land is used for agricultural purposes. If the land is ever used for other than agriculture purposes and the required special assessments are not remitted to OWSRC, the loans become interest bearing at an interest rate to be determined by OWSRC. Several of these loans were used for purposes other than agricultural and were required to submit monies to OWSRC.

G. Rural Industrial Park Loan

The County has obtained a loan from the Rural Industrial Park Loan Program to acquire a public right-of-way and extend the sanitary and water main lines to serve the State Route 29 industrial corridor project. The Rural Industrial Park Loan will be paid from special assessments and the gross revenues of the Sanitary Sewer enterprise fund.

The Ohio Revised Code provides that net general obligation debt of the County, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 1 percent of the total assessed valuation of the County. The Revised Code further provides that the total voted and unvoted net debt of the County less the same exempt debt shall never exceed a sum equal to 3 percent of the first \$100,000,000 of assessed valuation, plus 1.5 percent of such valuation in excess of \$100,000,000 and not in excess of \$300,000,000, plus 2.5 percent of such valuation in excess of \$300,000,000.

At December 31, 2005, the County's overall debt margin was \$13,211,245 with an unvoted debt margin of \$3,874,978.

The following is a summary of the County's future annual debt service requirements for governmental activities:

Year	General Obligation Bonds		OPWC Loans	
	Principal	Interest	Principal	Interest
2006	\$110,000	\$163,725	\$35,391	\$0
2007	120,000	155,585	35,392	0
2008	125,000	146,705	35,391	0
2009	130,000	137,455	35,392	0
2010	140,000	131,735	35,391	0
2011-2015	795,000	551,248	168,253	0
2016-2020	1,005,000	338,502	75,712	0
2021-2023	740,000	75,250	32,554	0
	<u>\$3,165,000</u>	<u>\$1,700,205</u>	<u>\$453,476</u>	<u>\$0</u>

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

14. LONG-TERM OBLIGATIONS (Continued)

The following is a summary of the County's future annual debt service requirements for business-type activities:

Year	Special Assessment Bonds		OPWC Loans		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$7,700	\$4,240	\$17,780	\$0	\$105,920	\$30,591
2007	8,100	3,855	17,780	0	71,433	25,925
2008	8,500	3,450	17,780	0	73,286	24,073
2009	8,900	3,025	17,780	0	75,192	22,167
2010	9,300	2,580	17,780	0	77,148	20,210
2011-2015	42,300	5,420	84,730	0	264,205	73,579
2016-2020	0	0	75,000	0	237,461	36,460
2021-2022	0	0	22,500	0	98,700	5,223
	<u>\$84,800</u>	<u>\$22,570</u>	<u>\$271,130</u>	<u>\$0</u>	<u>\$1,003,345</u>	<u>\$238,228</u>

Year	Rural Industrial Park Loan	
	Principal	Interest
2006	\$0	\$0
2007	14,474	4,838
2008	17,853	5,322
2009	18,396	4,779
2010	18,955	4,219
2011-2015	103,784	12,089
2016-2019	26,538	500
	<u>\$200,000</u>	<u>\$31,747</u>

15. INTERFUND TRANSFERS

During 2005, the following transfers were made:

	Transfers Out			
	General Fund	Motor Vehicle	Other Governmental	Total
Governmental Activities				
General	\$ 0	\$ 0	\$ 40,432	\$ 40,432
Other Governmental	340,871	29,887	119,970	490,728
Total Governmental Activities	340,871	29,887	160,402	531,160
Internal Service	5	0	0	5
Total	<u>\$340,876</u>	<u>\$29,887</u>	<u>\$160,402</u>	<u>\$531,165</u>

During 2005, the General Fund made transfers to other governmental funds, in the amount of \$340,871; \$61,251 to subsidize operations of other funds and \$279,620 as debt payments came due. The Motor Vehicle special revenue fund made transfers to other governmental funds, in the amount of \$29,887 as debt payments came due. Other governmental funds made transfers to the General Fund and to other governmental funds, in the amount of \$40,432 and \$119,970, respectively, to distribute monies to other funds as allowed by State law and to move resources from discontinued funds to other funds as applicable.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS

A. Mercer County Regional Planning Commission

The Mercer County Regional Planning Commission (Commission) is a joint venture among the County, the City of Celina, and townships and villages within the County. The Board is comprised of the Mercer County Engineer, Mercer County Health Commissioner, seven county members appointed by the County Commissioners (one for each of the two townships in the county), a representative from each municipal corporation wishing to participate, except that municipalities of city status are entitled to two representatives, and two citizens of Mercer County designated by the County Commissioners. The degree of control exercised by any participating government is limited to its representation on the Board.

The Commission makes plans and maps of the region showing the Commission's recommendations for systems of transportation, highways, park and recreational facilities, water supply, sewerage and sewage disposal, garbage disposal, civic centers, and other public improvements which affect the development of the region as a whole, or more than one political subdivision within the region and which do not begin and terminate within the boundaries of any single subdivision in the municipality. During 2005, the County did not contribute to the operations of the Commission. The Commission is not accumulating significant financial resources and is not experiencing financial stress that may cause an additional financial benefit to or burden on members in the future. Financial information can be obtained from the Commission, 220 West Livingston Street, Room A201, Celina, Ohio 45822.

B. Tri-County Mental Health Board (Alcohol, Drug Addiction, and Mental Health Services Board of Mercer, Paulding, and Van Wert Counties)

The Tri-County Mental Health Board is a jointly governed organization among Mercer, Paulding, and Van Wert Counties. The Tri-County Mental Health Board provides leadership in planning for and supporting community-based alcohol, drug addiction, and mental health services in cooperation with public and private resources with emphasis on the development of prevention and early intervention programming while respecting, protecting, and advocating for the rights of persons as consumers of alcohol, drug addiction, and mental health services. The Board of Trustees consists of eighteen members; four members appointed by the Director of the Ohio Department of Mental Health, four members appointed by the Director of the Ohio Department of Alcohol and Drug Addiction Services, and ten members appointed by the County Commissioners of Mercer, Paulding, and Van Wert counties in the same proportion as the County's population. During 2005, a tax levy provided \$487,430 for the operations of the organization. Financial information can be obtained from the Mercer County Auditor, 101 North Main Street, Room 105, Celina, Ohio 45822-1794.

C. West Central Ohio Network

The West Central Ohio Network (West CON) is a regional council of governments comprised of the boards of Mental Retardation and Developmental Disabilities (MRDD) of Auglaize, Darke, Logan, Mercer, Miami, Shelby, Union, and Hardin Counties. The Board of Directors is made up of the superintendents from each of these MRDD Boards. The degree of control exercised by any participating government is limited to its representation on the Board. West CON is the administrator of supported living programs for each of these Boards of MRDD. Financial information can be obtained from West Central Ohio Network, 315 East Court Street, Sidney, Ohio 45365.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

16. JOINTLY GOVERNED ORGANIZATIONS (Continued)

D. West Central Partnership, Inc.

The West Central Partnership, Inc. (Partnership) is a jointly governed organization among Allen, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The Partnership was formed to administer local loan programs in these counties for the Ohio Department of Development. The Board of Trustees consists of nine members, including a County Commissioner from each member county and the Director of Region 3, West Central SBDC Partnership. Financial information can be obtained from the West Central Partnership, Inc., 545 West Market Street, Suite 305, Lima, Ohio 45801.

17. INSURANCE POOLS

A. County Commissioners Association of Ohio Service Corporation

The County participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The County Commissioners Association of Ohio Service Corporation (CCAOSC) was established through the County Commissioners' Association of Ohio (CCAO) as an insurance 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 participants. The group executive committee consists of nine members. Two members are the president and the treasurer of the CCAOSC; the remaining seven members are representatives of the participants. These seven members are elected for the ensuing year by the participants at a meeting held in December of each year. No participant can have more than one member on the group executive committee in any year, and each elected member shall be a county commissioner.

B. Midwest Pool Risk Management Agency, Inc.

The Midwest Pool Risk Management Agency, Inc. (Pool) was created under Section 2744.081 of the Ohio Revised Code to establish a risk sharing insurance program for Auglaize, Hancock, Mercer, Shelby, and Van Wert Counties. Member counties agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by the Pool. These coverages include comprehensive general liability, automobile liability, certain property insurance, and public officials' errors and omissions liability insurance.

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

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

17. INSURANCE POOLS (Continued)

C. Midwest Employee Benefit Consortium

The County participates in the Midwest Employee Benefit Consortium (MEBC), an insurance purchasing pool for medical and life insurance. MEBC is made up of Auglaize, Hancock, Mercer, Shelby, and Van Wert Counties. The County pays premiums to MEBC for employee medical and life insurance benefits. MEBC is responsible for the administration of the program.

MEBC is governed by a Board of Trustees consisting of one county commissioner from each participating member. Each participant decides which plans offered by the Board of Trustees will be extended to its employees. Participation in MEBC is by written application subject to acceptance by the Board of Trustees and payment of the monthly premiums.

18. RELATED ORGANIZATION

The Mercer County District Library is a district political subdivision of the State of Ohio created under Chapter 3311.05 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Mercer County Commissioners and the Common Pleas Court Judge. The Board of Trustees possess its own contracting and budgeting authority, hires and fires personnel, and does not depend on Mercer County for operational subsidies. Although the Mercer County Commissioners serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees.

19. C.A. GROUP

**C.A. Group
Statement of Net Assets
December 31, 2005**

Assets	
Equity in Pooled Cash and Cash Equivalents	\$540,996
Investments	98,489
Accounts Receivable	94,101
Intergovernmental Receivable	8,647
Other Assets	1,480
Depreciable Capital Assets	34,083
Total Assets	777,796
Liabilities	
Accounts Payable	12,756
Accrued Wages Payable	15,237
Intergovernmental Payable	1,180
Total Liabilities	29,173
Net Assets	
Capital Assets Net of Related Debt	\$34,083
Unrestricted	714,540
Total Net Assets	\$748,623

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

19. C.A. GROUP (Continued)

**C.A. Group
Statement of Revenues, Expenses, and Changes
in Fund Net Assets
For the Year Ended December 31, 2005**

Operating Revenues	
Charges for Services	\$698,541
Contributions	286,951
Other Operating Revenues	4,931
Total Operating Revenues	990,423
Operating Expenses	
Personnel Services	\$376,300
Contractual Services	99,693
Materials and Supplies	96,006
Sales and Marketing	21,845
Bad Debt	8,689
Depreciation	8,640
Other	286,951
Total Operating Expenses	898,124
Operating Income	92,299
Non-Operating Revenues	
Interest	8,841
Donations	1,028
Total Non-Operating Revenues	9,869
Income Before Discontinued Operations	102,168
(Co)Loss on Sale of Discontinued Operations	(8,772)
Change in Net Assets	93,396
Net Assets at Beginning of Year	655,227
Net Assets at End of Year	\$748,623

**C.A. Group
Statement of Cash Flows
December 31, 2005**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities	
Cash Received from Customers	\$658,367
Cash Payments for Personal Services	(376,929)
Cash Payments to Suppliers	(217,334)
Cash Received from Other Revenues	4,931
Net Cash Provided by Operating Activities	69,035
Cash Flows from Non-capital Financing Activities	
Cash Received from Donations	1,028
Cash Received from Deposits	648
Cash Received from Bike Shop Activity	16,167
Cash Payments for Bike Shop Activity	(21,336)
Net Cash Used for Non-capital Financing Activities	(3,493)

(Continued)

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

19. C.A. GROUP (Continued)

**C.A. Group
Statement of Cash Flows
December 31, 2005
(Continued)**

Cash Flows from Capital Financing Activities	
Acquisition of Capital Assets	(1,529)
 Cash Flows from Investing Activities	
Purchase of Investments	(107,478)
Sale of Investments	103,464
Investment Fees	(1,944)
Interest	13,710
Net Cash Provided by Investing Activities	7,752
Net Increase in Cash and Cash Equivalents	71,765
Cash and Cash Equivalents at Beginning of Year	469,231
Cash and Cash Equivalents at End of Year	540,996
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	92,299
 Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	8,640
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(40,174)
Increase in Accounts Payable	9,101
Decrease in Accrued Wages Payable	(629)
Decrease in Intergovernmental Payable	(202)
Net Cash Provided by Operating Activities	\$69,035

A. Summary of Significant Accounting Policies

1. Basis of Presentation

Financial statement presentation follows the recommendations of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments".

2. Measurement Focus and Basis of Accounting

C.A. Group is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. C.A. Group uses the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

3. Materials and Supplies Inventory

Inventory is presented at the lower of actual cost or market and is expensed when used. Inventory consists of expendable supplies held for consumption.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

19. C.A. GROUP (Continued)

B. Deposits and Investments

Custodial credit risk for deposits is the risk that in the event of bank failure, C. A. Group will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$443,492 of the C. A. Group's bank balance of \$543,492 was exposed to custodial credit risk because it was uninsured and collateralized.

C. A. Group has investments in mutual funds, with a fair value of \$98,489. The mutual funds have a AAA rating.

C. Capital Assets

Property and equipment are recorded at cost. It is C.A. Group's policy to capitalize items with a useful life in excess of three years and having a value of over \$500. Donated assets are capitalized at fair value on the date donated. Depreciation is calculated on a straight line basis over the useful life of the asset, which ranges from three to fifteen years.

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005
Depreciable Capital Assets				
Equipment	\$159,245	\$1,529	\$0	\$160,774
Vehicles	154,242	0	0	154,242
Total Depreciable Capital Assets	313,487	1,529	0	315,016
Less Accumulated Depreciation for				
Equipment	118,051	8,640	0	126,691
Vehicles	154,242	0	0	154,242
Total Accumulated Depreciation	272,293	8,640	0	280,933
Depreciable Capital Assets, Net	<u>\$ 41,194</u>	<u>(\$7,111)</u>	<u>\$0</u>	<u>\$34,083</u>

D. Risk Management

C.A. Group is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005, C.A. Group contracted with the Ohio School Plan for commercial, directors and officers liability, and individual fidelity bond; and with Erie Insurance for property and general liability, medical liability, and uninsured motorist auto liability.

Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in insurance coverage from the prior year.

E. Significant Concentration of Business with Two Customers

Two customers provide approximately 36 percent of the service revenue to C.A. Group. If canceled, the volume of business would have a severe impact on the production operations of C.A. Group. However, management would still carry on mental retardation programs regardless of services it could lose until new customers were secured. Management is unsure of the risk of these companies canceling during the next year or thereafter.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

20. RELATED PARTY TRANSACTIONS

During 2005, Mercer County provided facilities, certain equipment, transportation, and salaries for administration, implementation, and supervision of its programs to C.A. Group. C.A. Group, a component unit of Mercer County, reported \$286,951 for such contributions.

21. CONTINGENT LIABILITIES

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

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

22. SUBSEQUENT EVENTS

On May 5, 2006, the County issued bond anticipation notes, in the amount of \$70,700, to partially retire notes previously issued for improvements in the Marion Township Industrial Park and various ditches within the County. The notes have an interest rate of 4.675 percent and mature on May 4, 2007.

On August 4, 2006, the County issued bond anticipation notes, in the amount of \$241,200, to partially retire notes previously issued to construct various ditches and make improvements to the fairgrounds. The notes have an interest rate of 4.54 percent and mature on August 3, 2007.

On September 22, 2006, the County issued bond anticipation notes, in the amount of \$117,700 to partially retire notes previously issued for improvements to the Northeast Grand Lake Sewer and for improvements to the Sites Davis Ditch and the St. Marys River area. The notes have an interest rate of 4.36 percent and mature on September 21, 2007.

On December 15, 2006, the County issued bond anticipation notes, in the amount of \$700,000, to make road improvements within the County. The notes have an interest rate of 3.98 percent and mature on December 12, 2008.

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**FINANCIAL CONDITION
MERCER COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>(Passed through Ohio Department of Development)</i>			
Community Development Block Grants:			
Community Development Block Grants/Revolving Loan Program	B-E-05-0501	14.228	\$321,200
Community Development Block Grants/State's Program	B-C-03-050-1		195,094
	B-F-05-05-01		752
	B-F-04-05-01		63,748
	B-F-03-05-01		130,633
	B-X-02-050-1		297,556
Total			<u>1,008,983</u>
<i>Direct</i>			
HOME Investment Partnership	B-C-03-050-2	14.239	<u>137,369</u>
Total U.S. Department of Housing and Urban Development			1,146,352
U.S. GENERAL SERVICES ADMINISTRATION BEHALF OF ELECTION ASSISTANCE COMMISSION			
<i>(Passed through Ohio Secretary of State)</i>			
Help America Vote Act of 2002	E05-0168-54	90.401	<u>430,709</u>
Total U.S. General Services Administration			430,709
U.S. DEPARTMENT OF JUSTICE			
<i>(Passed through Attorney General's Crime Victim Services)</i>			
Crime Victim Assistance	2004VAGENE068T	16.575	21,374
	2005VAGENE068T		5,797
Total			<u>27,171</u>
<i>(Passed through Office of Criminal Justice Services)</i>			
Violence Against Women Act	2004-WF-VA2-8116	16.588	21,192
	2002-WF-VA2-8116B		6,700
Total			<u>27,892</u>
Law Enforcement Assistance - Byrne Grant	2004-DG-CO1-7090	16.579	31,642
	2004-DG-B02-7248		6,277
Total			<u>37,919</u>
Law Enforcement Block Grant	2004-LE-LEB-3638	16.592	13,937
	2003-LE-LEB-3406		23,252
Total			<u>37,189</u>
<i>(Passed through Bureau of Justice Assistance)</i>			
Bulletproof Vest Partnership Program		16.607	<u>3,353</u>
Total U.S. Department of Justice			133,524

**FINANCIAL CONDITION
MERCER COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>(Passed through Ohio Emergency Management Agency)</i>			
State Domestic Preparedness Equipment Support Program	2004-GE-T4-0025	97.004	153,884
	2003-TE-TX-0199		2,687
	2002-TE-CX-0106		3,782
	2003-MUP-30015		84,287
Total			<u>244,640</u>
State and Local All Hazards Emergency Operations Planning	EMC-2003-GR-7026	97.051	1,135
Public Assistance Grants	FEMA-1580-DR-107	97.036	14,207
Citizens Corps	2004-GC-T4-0025	97.053	3,584
	2005-GC-T5-0001		1,788
Total			<u>5,372</u>
State Homeland Security Program	2005-GE-T5-0001	97.073	26,226
<i>(Passed through Ohio Department of Public Safety)</i>			
Emergency Management Performance Grant	2005-EM-T5-0001	97.042	28,786
Total U.S. Department of Homeland Security			<u>320,366</u>
U.S DEPARTMENT OF TRANSPORTATION			
<i>(Passed through Ohio Department of Transportation)</i>			
Highway Planning and Construction	MER CR 135-0.00	20.205	132,899
	MER GUARDRAIL		294,206
	MER TR 121-0.44		2,190
	MER PM COUNTY		107,735
Total U.S. Department of Transportation			<u>537,030</u>
UNITED STATES DEPARTMENT OF LABOR			
<i>(Passed through Ohio Department of Job & Family Services)</i>			
WIA Cluster:			
Workforce Investment Act - Youth	N/A	17.259	478,319
Workforce Investment Act - Youth Administration	N/A		60,875
Workforce Investment Act - Youth Total			<u>539,194</u>
Workforce Investment Act - Adult	N/A	17.258	430,957
Workforce Investment Act - Adult Administration	N/A		54,847
Workforce Investment Act - Adult Total			<u>485,804</u>
Workforce Investment Act - Dislocated Worker	N/A	17.260	276,202
Workforce Investment Act - Dislocated Worker Administration	N/A		35,152
Workforce Investment Act - Dislocated Worker Total			<u>311,354</u>
Workforce Investment Act - Vet Short Term Training (VSTP)	N/A	17.260	6,972
Workforce Investment Act - VSTP Administration	N/A		3,713
Workforce Investment Act - Total VSTP			<u>10,685</u>
Total WIA Cluster			<u>1,347,037</u>
Reed Act - Unemployment Insurance Program		17.255	97,245
Workforce Services		17.255	5,813
Total U.S. Department of Labor			<u>1,450,095</u>

**FINANCIAL CONDITION
MERCER COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>(Passed through Ohio Department of MRDD)</i>			
Social Services Block Grant	MR-54 (06)	93.667	16,133
	MR-54 (05)		<u>16,870</u>
Total			33,003
Medical Assistance Program - CAFS	5400015 - 2005	93.778	344,026
Medical Assistance Program - TCM	5400015 - 2005		155,226
Medical Assistance Program - CAFS	5400015 - 2004		<u>4,673</u>
			503,925
State Childrens Insurance Program - SCHIP	5400015 - 2005	93.767	3,394
<i>(Passed through Ohio Department of Job & Family Services)</i>			
Emergency Service Assistance	N/A	93.556	22,086
Access Visitation Grant	N/A	93.597	33,632
Independent Living	N/A	93.674	3,715
Title VI-B Allocation	N/A	93.645	38,070
Child Abuse and Neglect State Grant	N/A	93.669	<u>1,998</u>
Total U.S. Department of Health and Human Services			<u>639,823</u>
Total Federal Assistance			<u><u>\$4,657,899</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**FINANCIAL CONDITION
MERCER COUNTY**

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

NOTE A—SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—MATCHING REQUIREMENTS

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

NOTE C—COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS

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

These loans are collateralized by mortgages on the property. At December 31, 2005, the gross amount of loans outstanding under this program totaled \$2,477,315. Delinquent amounts due were \$29,279.



Mary Taylor, CPA

Auditor of State

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

Mercer County Commissioners
Central Services Building
220 West Livingston Street, Room A201
Celina, Ohio 45822

To the Board of County Commissioners:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County, (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 January 22, 2007, wherein we noted that 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 opinion on the 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 material weaknesses. In a separate letter to the County's management dated January 22, 2007, 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 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 through 2005-004. In a separate letter to the County's management dated January 22, 2007, we reported other matters related to noncompliance we deemed immaterial.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

We intend this report solely for the information and use of the audit committee, management, 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

January 22, 2007



Mary Taylor, CPA

Auditor of State

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

Mercer County Commissioners
Central Services Building
220 West Livingston Street, Room A201
Celina, Ohio 45822

To the Board of County Commissioners:

Compliance

We have audited the compliance of Mercer County, (the County), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to 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 its major federal programs. 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, Mercer County, complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2005. In a separate letter to the County's management dated January 22, 2007, we reported a matter 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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**Internal Control Over Compliance
(Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the County's management in a separate letter dated January 22, 2007.

We intend this report solely for the information and use of the audit committee, management, 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

January 22, 2007

**FINANCIAL CONDITION
MERCER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Community Development Block Grant CFDA# 14.228 Help America Vote Act of 2002 CFDA #90.401 Medical Assistance Program CFDA # 93.778
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**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 Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Administrative Code Section 117-2-3(B), requires the County to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). 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 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.

The County should prepare their annual financial statements in accordance with generally accepted accounting principles.

Official's Response:

Mercer County has not gone to GAAP reporting because it is cost prohibitive. The County has switched to an other comprehensive basis of accounting (OCBOA) for reporting which meets managements needs without substantial additional costs.

FINDING NUMBER 2005-002

NONCOMPLIANCE CITATION

Ohio Rev Code 319.15 states on the first business day of each month, the county auditor shall prepare in duplicate a statement of the finances of the county for the preceding month, showing the amount of money received to the credit of each fund and account, the amount disbursed from each, the balance remaining to the credit of each, and the balance of money in the treasury and depository. After careful comparison with the county treasurer's balances, he shall submit such statement to the board of county commissioners, which shall place it on file and post one copy in the auditor's office, such copy to remain posted for at least thirty days for the inspection of the public.

Ohio Rev Code 321.09 states that each business day, the county treasurer shall make a statement to the county auditor for the preceding day, showing the amount of taxes received and credited to the various undivided tax funds, the amount received on auditor's draft, the amount received from all other sources, the total amount deposited in the depository, the total amount paid by check on the depository, the total amount paid out in cash, the balance in the depository, and the balance in the county treasury.

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

The Treasurer's office reconciled the County Treasurer book balance to the manually prepared Form 6; however, the Treasurer's Office did not (1) accurately reconcile with the bank or (2) balance with the County Auditor's book balance. A four column reconciliation prepared by the Auditor of State's Local Government Services determined the following:

- The outstanding warrant reports were not accurate;
- Treasurer's side of the County's software system balance was incorrect and it was necessary to adjust Fund 9999 in order to decrease the December 31, 2005, balance in the amount of \$77,529 because of the July 2004 direct deposit amount that was not recorded on the Treasurer's side of the system or appropriately reflected on the Form 6;
- There were issues with reduction of revenues (RIR) transactions because total revenues and expenditures did not match because each department was not consistent in the way that the transactions were recorded to the system; therefore, not affecting fund balance but reporting incorrect revenue and expenditure amounts;
- County Auditor's office voided warrants that were not on the County Treasurer's outstanding warrant report, causing additional reconciling problems;
- There were posting errors with interfund advance/transfer transactions:
 - March 2005 - \$25,000 transfer was double posted by the Treasurer
 - December 2005 - \$2,875.57 transfer was not posted by the Treasurer

The Treasurer's office should prepare an accurate Form 6 daily to be given to the Auditor's office. At month's end, the Treasurer's office should reconcile with the bank and the Auditor's office should balance with the Treasurer's office. After the offices are balanced, Fund Reports (including the Auditor/Treasurer Reconciliation Report) should be run and distributed to the Board of County Commissioners and the Tri County Alcohol, Drug Addition and Mental Health Board.

Official's Response:

These are ongoing problems we have had since our software conversion. They will be resolved when the reconciliation process is finished and appropriate steps are taken or new procedures are adopted to correct the problems.

FINDING NUMBER 2005-003

NONCOMPLIANCE CITATION

Ohio Rev. Code Section 5705.36(A)(1), states, in part, that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units shall certify to the county auditor the total amount from all sources available for expenditures from each fund in the tax budget along with any unencumbered balances existing at the end of the preceding year. The budget commission, taking into consideration the balances and revenues to be derived from taxation and other sources, shall revise its estimate of the amounts that will be credited to each fund from such sources, and shall certify to the taxing authority of each subdivision an amended official certificate of estimated resources.

The County Auditor did not prepare the Certificate of the Total Amount from All Sources Available for Expenditures and Balances for 2005. This resulted in the inability of the budget commission to certify to the County an amended certificate of estimated resources for 2005.

The County Auditor should prepare the Certificate of the Total Amount from All Sources Available for Expenditures and Balances annually on or about the first day of the fiscal year. Upon receipt of the certificate, the budget commission should certify to the County an amended certificate of estimated resources.

**FINDING NUMBER 2005-003
 (Continued)**

Official's Response:

The County Auditor's office will prepare the Certificate of Total Amounts from All Sources Available in the future.

FINDING NUMBER 2005-004

NONCOMPLIANCE CITATION

Ohio Rev. Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

Ohio Rev. Code Section 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation.

The County did not properly obtain amended certificates for the following funds as of December 31, 2005:

<u>Fund</u>	<u>Estimated Revenue</u>	<u>Actual Revenue</u>	<u>Variance</u>
Motor Vehicle Gas Tax Fund	\$6,737,913	\$5,568,295	\$1,169,617
Workforce Investment Act	2,481,000	1,533,297	947,703
Federal Block Grant	417,251	201,171	216,080
CHIP Community Housing Grant	329,506	202,539	126,967
CHIP Community Housing Federal	231,003	140,750	90,253
Proactive Court of Justice	30,400	7,025	23,375
Diversion Officer Grant	53,333	39,499	13,833
2004 State Homeland Security	175,381	154,296	21,085
2005 State Homeland Security	131,746	26,226	105,520

The estimated resources and actual revenue plus fund balance for each fund should be reviewed periodically in order to determine that the County has received enough funding to cover expenditures plus encumbrances.

Official's Response:

The actual revenue and estimated resources will be compared periodically by the County Auditor's office in the future. The problems with the County's software conversion were considered a priority and used staff hours that would have normally been spent performing the needed reviews.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**FINANCIAL CONDITION
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	ORC 117.38 and OAC 117-2-03 (B) – failure to file financial statements prepared in accordance with generally accepted accounting principles (GAAP).	No	See Finding Number 2005-001
2004-002	Ohio Rev. Code Section 319.15 - the county auditor did not compare their month end balances with the county treasurer's balances.& Ohio Rev. Code Section 321.09 - The Treasurer's office reconciled the County Treasurer book balance to the manually prepared Form 6; however, did not (1) accurately reconcile with the bank or (2) balance with the County Auditor's book balance.	No	See Finding Number 2005-002
2004-003	Ohio Rev. Code Section 325.31(B) – unallowable expenditure of funds for the purchase of budgetary accounting software	No	Partially corrected – Management Letter noncompliance issued



Mary Taylor, CPA
Auditor of State

FINANCIAL CONDITION

MERCER 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
FEBRUARY 20, 2007**