



Mary Taylor, CPA
Auditor of State

HIGHLAND COUNTY
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HIGHLAND COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Highland County
200 Governor Foraker Place
Hillsboro, Ohio 45133

To the Board of County Commissioners:

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

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

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

The financial statements do not include financial data for the County's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the County's primary government unless the County also issues financial statements for the reporting entity that include the component unit's financial data. The County has not issued reporting entity financial statements. We cannot determine the amount of assets, net assets, revenues and expenses that the accompanying statements should present for the omitted discretely-presented component units.

In our opinion, because of the omission of the discretely-presented component unit, as discussed above, the financial statements referred to above do not present fairly, the cash basis financial position of the discretely presented component unit of the County as of December 31, 2005 and the changes in its cash basis financial position, for the year ended in conformity with the basis of accounting described in Note 2.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects the respective cash basis financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Highland County, Ohio, as of December 31, 2005, and the respective changes in cash basis financial position thereof and the respective budgetary comparison for the General, Board of Mental Retardation and Developmental Disabilities, Public Assistance, and Repair MVL Funds for the year then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America 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 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.



Mary Taylor, CPA
Auditor of State

January 31, 2007

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

This discussion and analysis of Highland County's financial performance provides an overall review of the County's financial activities for the year ended December 31, 2005, within the limitations of the County's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the County's financial performance.

Highlights

Key highlights for 2005 are as follows:

Net assets of governmental activities increased \$1,227,225 from the prior year.

Net assets of business-type activities decreased by \$49,996.

Using the Basic Financial Statements

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 cash basis of accounting.

Report Components

The statement of net assets – cash basis and the statement of activities – cash basis provide information about the cash activities of the County as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the County as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The County has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than what is required by generally accepted accounting principles. Under the County's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (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 cash basis of accounting.

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

Reporting the County as a Whole

The statement of net assets – cash basis and the statement of activities – cash basis reflect how the County did financially during 2005, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the County at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. 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 function or business-type activity draws from the County's general receipts.

These statements report the County's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the County's financial health. Over time, increases or decreases in the County's cash position is one indicator of whether the County's financial health is improving or deteriorating. When evaluating the County's financial condition, you should also consider other nonfinancial factors as well such as the County's property tax base, the condition of the County's capital assets and infrastructure, the extent of the County's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

In the statement of net assets – cash basis and the statement of activities – cash basis, we divide the County into two types of activities:

Governmental activities: Most of the County's basic services are reported here including general government, judicial, public safety, public works, health, and human services. State and federal grants and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Business-type activity: The County has one business-type activity, the provision of sewer. Business-type activities are financed by a fee charged to the customers receiving the service.

Reporting the County's Most Significant Funds

Fund financial statements provide detailed information about the County's major funds – not the County as a whole. The County establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the County are split into three categories: governmental, proprietary and fiduciary.

Governmental Funds - Most of the County's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the County's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the County's programs. The County's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The County's major governmental funds are the General, Public Assistance, Repair MVL, Board of MRDD and Rocky Fork Lake Debt Service Funds. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

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

Proprietary Funds – When the County charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The County's major enterprise fund is the Rocky Fork Lake Sewer District Fund.

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

The County as a Whole

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

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Cash and Cash Equivalents	\$6,710,433	\$5,483,208	\$387,513	\$437,509	\$7,097,946	\$5,920,717
Total Assets	\$6,710,433	\$5,483,208	\$387,513	\$437,509	\$7,097,946	\$5,920,717
Net Assets						
Restricted for:						
Capital Projects	\$171,946	\$54,421	\$0	\$0	\$171,946	\$54,421
Debt Service	1,064,324	764,067	0	0	1,064,324	764,067
Other Purposes	4,669,066	3,841,033	0	0	4,669,066	3,841,033
Unrestricted	805,097	823,687	387,513	437,509	1,192,610	1,261,196
Total Net Assets	\$6,710,433	\$5,483,208	\$387,513	\$437,509	\$7,097,946	\$5,920,717

As mentioned previously, net assets of governmental activities increased by \$1,227,225 during 2005. The primary reason contributing to this was the issuance of debt. The County received \$4,062,925 in bond and note proceeds during the year thereby increasing receipts for the year. The County also increased the sales tax from 1 percent to 1.5 percent in July of 2005. Collections of the increased sales tax began in October of 2005.

The net assets of business-type activities decreased by \$49,996. The main reasons for the decrease were due to an increase in contractual services to provide sewer upkeep and a decrease in fee collections due to delinquencies. The County is monitoring the costs to see if an increase in charges is necessary.

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

Table 2 reflects the changes in net assets in 2005 and 2004.

(Table 2)
Changes in Net Assets

	Governmental Activities 2005	Governmental Activities 2004	Business Type Activities 2005	Business Type Activities 2004	Total 2005	Total 2004
Receipts:						
Program Receipts:						
Charges for Services and Sales	\$3,500,328	\$2,203,013	\$470,856	\$327,010	\$3,971,184	\$2,530,023
Operating Grants and Contributions	12,036,187	13,071,326	0	0	12,036,187	13,071,326
Capital Grants and Contributions	821,821	712,838	0	0	821,821	712,838
Total Program Receipts	16,358,336	15,987,177	470,856	327,010	16,829,192	16,314,187
General Receipts:						
Property Taxes	3,651,319	4,193,145	0	0	3,651,319	4,193,145
Special Assessments	0	515,039	0	0	0	515,039
Sales Tax Levied for General Purposes	4,561,831	3,169,671	0	0	4,561,831	3,169,671
Conveyance Fees	409,301	356,824	0	0	409,301	356,824
Payments in Lieu of Taxes	19,130	0	0	0	19,130	0
Grants and Entitlements Not Restricted to Specific Programs	2,318,582	1,043,089	0	0	2,318,582	1,043,089
Gifts and Donations	23,554	156,598	0	0	23,554	156,598
Interest	207,681	169,657	0	0	207,681	169,657
Bonds Issued	1,638,000	266,500	0	0	1,638,000	266,500
Notes Issued	3,039,925	2,804,999	0	0	3,039,925	2,804,999
Miscellaneous	1,505,705	1,169,254	0	7,487	1,505,705	1,176,741
Total General Receipts	17,375,028	13,844,776	0	7,487	17,375,028	13,852,263
Total Receipts	33,733,364	29,831,953	470,856	334,497	34,204,220	30,166,450
Disbursements:						
General Government	4,084,782	4,668,872	0	0	4,084,782	4,668,872
Public Safety	4,596,135	4,365,567	0	0	4,596,135	4,365,567
Public Works	5,187,859	4,316,784	0	0	5,187,859	4,316,784
Health	4,658,520	4,411,398	0	0	4,658,520	4,411,398
Human Services	7,981,286	7,904,098	0	0	7,981,286	7,904,098
Other	70,000	0	0	0	70,000	0
Capital Outlay	1,155,058	1,054,030	0	0	1,155,058	1,054,030
Debt Service	4,772,499	3,093,125	0	0	4,772,499	3,093,125
Sewer	0	0	520,852	551,540	520,852	551,540
Total Disbursements	32,506,139	29,813,874	520,852	551,540	33,026,991	30,365,414
Increase (Decrease) in Net Assets	1,227,225	18,079	(49,996)	(217,043)	1,177,229	(198,964)
Net Assets Beginning of Year	5,483,208	5,465,129	437,509	654,552	5,920,717	6,119,681
Net Assets End of Year	\$6,710,433	\$5,483,208	\$387,513	\$437,509	\$7,097,946	\$5,920,717

Program receipts represent 50 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money.

General receipts represent 50 percent of the County's total receipts, and of this amount, 17 percent are property taxes and 11 percent are sales tax receipts. State and federal grants and entitlements make up 4 percent. Other receipts are very insignificant and somewhat unpredictable revenue sources. The County issued \$3,039,925 in bond anticipation notes for geographic information systems, real estate acquisition, airport improvement, and the juvenile detention center. The County also issued \$1,638,000 in General Obligation Bonds for acquiring a building, installing a geographic information system, and renovating and making improvements to the County Courthouse.

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

Disbursements for General Government represent the overhead costs of running the County and the support services provided for the other Government activities. These include the costs of the commissioners, auditor, treasurer, and recorder.

Public Safety disbursements represent costs associated with the sheriff's office and probation and correction departments. Public Works expenditures represent expenditures associated with the engineer's office that maintain the infrastructure within the County. Health expenditures consisted mostly of expenditures related to MRDD and the Dog and Kennel Fund. Human Services expenditures consisted of expenditures made out of the Public Assistance Fund, the Children's Services Fund, and the Child Support Enforcement Agency Fund.

Governmental Activities

If you look at the statement of activities – cash basis, you will see that the first column lists the major services provided by the County. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for Human Services and Public Works, which account for 25 and 16 percent of all governmental disbursements, respectively. Public Safety also represents a significant cost, about 14 percent. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the County that must be used to provide a specific service. The Net (Disbursements) Receipts column compares the program receipts to the cost of the service. This “net cost” amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

Governmental Activities

	Total Cost Of Services 2005	Total Cost Of Services 2004	Net Cost of Services 2005	Net Cost of Services 2004
General Government	\$4,084,782	\$4,668,872	(\$2,100,436)	(\$3,192,534)
Public Safety	4,596,135	4,365,567	(3,542,199)	(3,193,136)
Public Works	5,187,859	4,316,784	(2,522,524)	(428,446)
Health	4,658,520	4,411,398	(1,676,402)	(1,282,296)
Human Services	7,981,286	7,904,098	(1,289,903)	(2,295,968)
Other	70,000	0	(70,000)	0
Capital Outlay	1,155,058	1,054,030	(173,840)	(341,192)
Debt Service	4,772,499	3,093,125	(4,772,499)	(3,093,125)
Total Disbursements	<u>\$32,506,139</u>	<u>\$29,813,874</u>	<u>(\$16,147,803)</u>	<u>(\$13,826,697)</u>

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

Business-Type Activities

The sewer operation of the County is relatively small. The infrastructure is used to support a few subdivisions within the County. Charges to residents within the subdivisions maintain the infrastructure. Contractual services for sewer maintenance exceeded the fees collected from the participating residents resulting in an operating loss. The County also experienced a higher amount of delinquencies this year. The County is looking at the need to increase the fees charged to residents to keep up with the rising costs of maintaining the system.

The County's Funds

Total governmental funds had receipts of \$29,055,439 and disbursements of \$32,506,139. The General, Public Assistance, Repair MVL and Board of MRDD funds all saw increases in fund balances for the year while the Rocky Fork Lake Debt Service fund saw a decrease in fund balance. The increase in the General Fund was the result of receipts exceeding disbursements along with the issuance of bond anticipation notes. The Board of MRDD fund saw the biggest increase in fund balance which is due to an increase in property tax collections over 2004. The decrease in the Rocky Fork Lake Debt Service Fund was the result of debt service payments exceeding actual assessments collected.

General Fund Budgeting Highlights

The County's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2005, the County amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were below original budgeted receipts due to unexpected slow growth in tax receipts. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$8,842,105 while actual disbursements were \$8,562,666. The County's original appropriations were \$8,850,505. The variance between original and final appropriations was \$8,400 and not significant.

Capital Assets and Debt Administration

Capital Assets

The County does not currently keep track of its capital assets and infrastructure.

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

Debt

At December 31, 2005, the County's outstanding debt included \$7,592,029 in general obligation bonds issued for improvements to buildings and structures, and \$8,109,192 in special assessment, OWDA, OPWC, long-term loans and ODOD loans for facilities and equipment. The County also has \$2,805,000 outstanding in short-term notes. For further information regarding the County's debt, refer to Notes 12 and 13 to the basic financial statements.

Current Issues

The State reduced funding to the County in areas such as local government funds and local government revenue assistance. As a result of this reduction, the County Commissioners approved a resolution to increase sales tax by one-half percent.

The vacancy rate of the County's general business district is not tracked; however, much of the district is utilized by service entities such as government offices, banks, insurance offices, restaurants, etc. There are only a few retail stores located in the County. Sales tax revenue has remained basically the same. The current construction of Lowes gives some hope of future revenues.

Each of these factors was considered in preparing Highland County's budget for 2006.

Contacting the County's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the County's finances and to reflect the County's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Bill Fawley, Highland County Auditor, Ohio, 119 Governor Foraker Pl., Hillsboro, Ohio 45133.

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Highland County
Statement of Net Assets - Cash Basis
December 31, 2005

	Primary Government		Total
	Governmental Activities	Business - Type Activities	
Assets			
Equity in Pooled Cash and Cash Equivalents	\$6,710,433	\$387,513	\$7,097,946
<i>Total Assets</i>	<u>\$6,710,433</u>	<u>\$387,513</u>	<u>\$7,097,946</u>
Net Assets			
Restricted for:			
Capital Projects	\$171,946	\$0	\$171,946
Debt Service	1,064,324	0	1,064,324
Health	1,451,501	0	1,451,501
Legislative and Executive Services	643,257	0	643,257
Public Works	989,313	0	989,313
Other Purposes	1,584,995	0	1,584,995
Unrestricted	<u>805,097</u>	<u>387,513</u>	<u>1,192,610</u>
<i>Total Net Assets</i>	<u>\$6,710,433</u>	<u>\$387,513</u>	<u>\$7,097,946</u>

See accompanying notes to the basic financial statements

Highland County
Statement of Activities - Cash Basis
For the Year Ended December 31, 2005

	Program Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government:				
Legislative and Executive	\$2,608,348	\$1,409,264	\$31,484	\$3,648
Judicial	1,476,434	434,473	105,477	0
Public Safety	4,596,135	517,327	532,095	4,514
Public Works	5,187,859	131,417	2,421,558	112,360
Health	4,658,520	319,981	2,662,137	0
Human Services	7,981,286	407,947	6,283,436	0
Other	70,000	0	0	0
Capital Outlay	1,155,058	279,919	0	701,299
Debt Service:				
Principal Retirement	4,148,955	0	0	0
Interest and Fiscal Charges	623,544	0	0	0
<i>Total Governmental Activities</i>	32,506,139	3,500,328	12,036,187	821,821
Business-Type Activities				
Sewer	520,852	470,856	0	0
<i>Total Primary Government</i>	<u>\$33,026,991</u>	<u>\$3,971,184</u>	<u>\$12,036,187</u>	<u>\$821,821</u>

General Receipts

Property Taxes Levied for:
 General Purposes
 Emergency Management
 Mental Retardation and Developmental Disabilities
Sales Taxes Levied for General Purposes
Conveyance Fees
Payments in Lieu of Taxes
Grants and Entitlements not Restricted to Specific Programs
Gifts and Donations
Interest
Bonds Issued
Notes Issued
Miscellaneous

Total General Receipts

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts
and Changes in Net Assets

Primary Government		
Governmental Activities	Business-Type Activities	Total
(\$1,163,952)	\$0	(\$1,163,952)
(936,484)	0	(936,484)
(3,542,199)	0	(3,542,199)
(2,522,524)	0	(2,522,524)
(1,676,402)	0	(1,676,402)
(1,289,903)	0	(1,289,903)
(70,000)	0	(70,000)
(173,840)	0	(173,840)
(4,148,955)	0	(4,148,955)
(623,544)	0	(623,544)
(16,147,803)	0	(16,147,803)
0	(49,996)	(49,996)
(16,147,803)	(49,996)	(16,197,799)
1,584,725	0	1,584,725
8,353	0	8,353
2,058,241	0	2,058,241
4,561,831	0	4,561,831
409,301	0	409,301
19,130	0	19,130
2,318,582	0	2,318,582
23,554	0	23,554
207,681	0	207,681
1,638,000	0	1,638,000
3,039,925	0	3,039,925
1,505,705	0	1,505,705
17,375,028	0	17,375,028
1,227,225	(49,996)	1,177,229
5,483,208	437,509	5,920,717
<u>\$6,710,433</u>	<u>\$387,513</u>	<u>\$7,097,946</u>

Highland County
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2005

	General Fund	Public Assistance Fund	Repair MVL Fund
Assets			
Equity in Pooled Cash and Cash Equivalents	\$805,097	\$265,033	\$873,088
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	88,500	0	0
<i>Total Assets</i>	<u>\$893,597</u>	<u>\$265,033</u>	<u>\$873,088</u>
Fund Balances			
Reserved:			
Reserved for Encumbrances	\$75,405	\$49,470	\$98,099
Reserved for Unclaimed Monies	88,500	0	0
Unreserved:			
Undesignated, Reported in:			
General Fund	729,692	0	0
Special Revenue Funds	0	215,563	774,989
Debt Service Fund	0	0	0
Capital Projects Funds	0	0	0
<i>Total Fund Balances</i>	<u>\$893,597</u>	<u>\$265,033</u>	<u>\$873,088</u>

See accompanying notes to the basic financial statements

Board of MRDD Fund	Rocky Fork Lake Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$876,900	\$629,273	\$3,172,542	\$6,621,933
0	0	0	88,500
<u>\$876,900</u>	<u>\$629,273</u>	<u>\$3,172,542</u>	<u>\$6,710,433</u>
\$6,169	\$0	\$143,103	\$372,246
0	0	0	88,500
0	0	0	729,692
870,731	0	2,422,442	4,283,725
0	629,273	435,051	1,064,324
0	0	171,946	171,946
<u>\$876,900</u>	<u>\$629,273</u>	<u>\$3,172,542</u>	<u>\$6,710,433</u>

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

	General Fund	Public Assistance Fund	Repair MVL Fund
Receipts			
Property Taxes	\$1,584,725	\$0	\$0
Sales Taxes	4,561,831	0	0
Charges for Services	1,507,934	263,837	58,226
Licenses and Permits	4,432	0	0
Fines and Forfeitures	121,769	0	1,440
Intergovernmental	323,338	4,344,492	4,065,936
Payments in Lieu of Taxes	19,130	0	0
Special Assessments	0	0	0
Interest	205,232	0	48,442
Rentals	198,325	0	0
Contributions and Donations	0	0	0
Other	160,455	0	41,965
<i>Total Receipts</i>	<u>8,687,171</u>	<u>4,608,329</u>	<u>4,216,009</u>
Disbursements			
Current:			
General Government:			
Legislative and Executive	2,022,183	0	0
Judicial	1,445,408	0	0
Public Safety	3,690,617	0	0
Public Works	660,783	0	3,983,451
Health	328,577	0	0
Human Services	339,693	4,561,166	0
Other	0	0	0
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	2,400	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Disbursements</i>	<u>8,489,661</u>	<u>4,561,166</u>	<u>3,983,451</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>197,510</u>	<u>47,163</u>	<u>232,558</u>
Other Financing Sources (Uses)			
Bonds Issued	0	0	0
Notes Issued	572,756	0	0
Transfers In	1,000	0	0
Transfers Out	(625,605)	0	(150,000)
Advances In	21,751	0	0
Advances Out	(97,502)	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(127,600)</u>	<u>0</u>	<u>(150,000)</u>
<i>Net Change in Fund Balances</i>	69,910	47,163	82,558
<i>Fund Balances Beginning of Year</i>	<u>823,687</u>	<u>217,870</u>	<u>790,530</u>
<i>Fund Balances End of Year</i>	<u><u>\$893,597</u></u>	<u><u>\$265,033</u></u>	<u><u>\$873,088</u></u>

See accompanying notes to the basic financial statements

Board of MRDD Fund	Rocky Fork Lake Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$2,058,241	\$0	\$8,353	\$3,651,319
0	0	0	4,561,831
206,510	0	1,432,001	3,468,508
0	0	36,574	41,006
0	0	78,581	201,790
1,282,084	0	4,355,047	14,370,897
0	0	0	19,130
0	480,999	47,649	528,648
0	0	2,449	256,123
0	0	0	198,325
340	0	251,817	252,157
78,013	3,911	1,221,361	1,505,705
<u>3,625,188</u>	<u>484,910</u>	<u>7,433,832</u>	<u>29,055,439</u>
0	0	586,165	2,608,348
0	0	31,026	1,476,434
0	0	905,518	4,596,135
0	0	543,625	5,187,859
3,379,161	0	950,782	4,658,520
0	0	3,080,427	7,981,286
0	0	70,000	70,000
0	0	1,155,058	1,155,058
0	374,872	3,771,683	4,148,955
0	140,550	482,994	623,544
<u>3,379,161</u>	<u>515,422</u>	<u>11,577,278</u>	<u>32,506,139</u>
<u>246,027</u>	<u>(30,512)</u>	<u>(4,143,446)</u>	<u>(3,450,700)</u>
0	0	1,638,000	1,638,000
0	0	2,467,169	3,039,925
58,000	0	903,905	962,905
(123,150)	0	(64,150)	(962,905)
0	0	135,277	157,028
<u>(32,775)</u>	<u>0</u>	<u>(26,751)</u>	<u>(157,028)</u>
<u>(97,925)</u>	<u>0</u>	<u>5,053,450</u>	<u>4,677,925</u>
148,102	(30,512)	910,004	1,227,225
<u>728,798</u>	<u>659,785</u>	<u>2,262,538</u>	<u>5,483,208</u>
<u>\$876,900</u>	<u>\$629,273</u>	<u>\$3,172,542</u>	<u>\$6,710,433</u>

Highland County
*Statement of Receipts, Disbursements and Changes
 In Fund Balance - Budget and Actual -Budget Basis
 General Fund
 For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Property Taxes	\$1,927,460	\$1,927,460	\$1,560,915	(\$366,545)
Sales Taxes	4,839,411	4,328,769	4,561,831	233,062
Charges for Services	1,599,689	1,430,894	1,507,934	77,040
Licenses and Permits	4,702	4,206	4,432	226
Fines and Forfeitures	129,178	115,548	121,769	6,221
Intergovernmental	343,013	306,819	323,338	16,519
Payments in Lieu of Taxes	20,294	18,153	19,130	977
Interest	217,720	194,747	205,232	10,485
Rentals	210,393	188,193	198,325	10,132
Other	133,199	119,144	125,559	6,415
<i>Total Receipts</i>	<u>9,425,059</u>	<u>8,633,932</u>	<u>8,628,465</u>	<u>(5,467)</u>
Disbursements				
Current:				
General Government				
Legislative and Executive	2,105,445	2,103,447	2,022,183	81,264
Judicial	1,493,996	1,492,578	1,445,408	47,170
Public Safety	3,877,334	3,873,654	3,766,022	107,632
Public Works	682,996	682,347	660,783	21,564
Health	339,622	339,300	328,577	10,723
Human Services	351,112	350,779	339,693	11,086
Debt Service:				
Principal Retirement	0	0	2,400	(2,400)
<i>Total Disbursements</i>	<u>8,850,505</u>	<u>8,842,105</u>	<u>8,565,066</u>	<u>277,039</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>574,554</u>	<u>(208,173)</u>	<u>63,399</u>	<u>271,572</u>
Other Financing Sources (Uses)				
Notes Issued	607,607	543,494	572,756	29,262
Transfers In	38,080	34,062	35,896	1,834
Transfers Out	(646,635)	(646,021)	(625,605)	20,416
Advances In	23,075	20,640	21,751	1,111
Advances Out	(100,780)	(100,684)	(97,502)	3,182
<i>Total Other Financing Sources (Uses)</i>	<u>(78,653)</u>	<u>(148,509)</u>	<u>(92,704)</u>	<u>55,805</u>
<i>Net Change in Fund Balance</i>	495,901	(356,682)	(29,305)	327,377
<i>Fund Balance Beginning of Year</i>	715,106	715,106	715,106	0
Prior Year Encumbrances Appropriated	37,391	37,391	37,391	0
<i>Fund Balance End of Year</i>	<u>\$1,248,398</u>	<u>\$395,815</u>	<u>\$723,192</u>	<u>\$327,377</u>

See accompanying notes to the basic financial statements

Highland County
*Statement of Receipts, Disbursements and Changes
 In Fund Balance - Budget and Actual -Budget Basis
 Public Assistance Fund
 For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Charges for Services	\$335,510	\$263,711	\$263,837	\$126
Intergovernmental	5,524,695	4,342,411	4,344,492	2,081
<i>Total Receipts</i>	5,860,205	4,606,122	4,608,329	2,207
Disbursements				
Current:				
Human Services	5,534,074	4,823,992	4,561,166	262,826
<i>Net Change in Fund Balance</i>	326,131	(217,870)	47,163	265,033
<i>Fund Balance Beginning of Year</i>	39,283	39,283	39,283	0
Prior Year Encumbrances Appropriated	178,587	178,587	178,587	0
<i>Fund Balance End of Year</i>	<u>\$544,001</u>	<u>\$0</u>	<u>\$265,033</u>	<u>\$265,033</u>

See accompanying notes to the basic financial statements

Highland County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Repair MVL Fund
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Receipts				
Charges for Services	\$59,390	\$58,203	\$58,226	\$23
Fines and Forfeitures	1,469	1,439	1,440	1
Intergovernmental	4,146,927	4,064,026	4,065,665	1,639
Interest	49,410	48,422	48,442	20
Other	42,804	41,948	41,965	17
<i>Total Receipts</i>	4,300,000	4,214,038	4,215,738	1,700
Disbursements				
Current:				
Public Works	4,147,574	4,377,277	4,081,550	295,727
<i>Excess of Receipts Over (Under) Disbursements</i>	152,426	(163,239)	134,188	297,427
Other Financing Uses				
Transfers Out	(152,426)	(160,868)	(150,000)	10,868
<i>Net Change in Fund Balance</i>	(0)	(324,107)	(15,812)	308,295
<i>Fund Balance Beginning of Year</i>	773,660	773,660	773,660	0
Prior Year Encumbrances Appropriated	16,870	16,870	16,870	0
<i>Fund Balance End of Year</i>	<u>\$790,530</u>	<u>\$466,423</u>	<u>\$774,718</u>	<u>\$308,295</u>

See accompanying notes to the basic financial statements

Highland County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Board of MRDD Fund
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Receipts				
Property Taxes	\$1,938,590	\$1,938,590	\$2,031,618	\$93,028
Charges for Services	316,848	218,333	206,510	(11,823)
Intergovernmental	1,967,097	1,355,483	1,282,084	(73,399)
Contributions and Donations	522	359	340	(19)
Other	12,294	8,472	8,013	(459)
<i>Total Receipts</i>	4,235,350	3,521,237	3,528,565	7,328
Disbursements				
Current:				
Health	3,495,952	3,562,860	3,384,841	178,019
<i>Excess of Receipts Over (Under) Disbursements</i>	739,399	(41,623)	143,724	185,347
Other Financing Sources (Uses)				
Transfers In	196,390	135,328	128,000	(7,328)
Transfers Out	(127,698)	(130,142)	(123,639)	6,503
Advances Out	(33,851)	(34,499)	(32,775)	1,724
<i>Total Other Financing Sources (Uses)</i>	34,841	(29,312)	(28,414)	898
<i>Net Change in Fund Balance</i>	774,240	(70,935)	115,310	186,245
<i>Fund Balance Beginning of Year</i>	650,164	650,164	650,164	0
Prior Year Encumbrances Appropriated	10,295	10,295	10,295	0
<i>Fund Balance End of Year</i>	<u>\$1,434,699</u>	<u>\$589,524</u>	<u>\$775,769</u>	<u>\$186,245</u>

See accompanying notes to the basic financial statements

Highland County
Statement of Fund Net Assets - Cash Basis
Proprietary Funds
December 31, 2005

	Rocky Fork Lake Sewer District Fund	All Other Enterprise Funds	Total Enterprise Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$312,120	\$75,393	\$387,513
Net Assets			
Unrestricted	\$312,120	\$75,393	\$387,513

See accompanying notes to the basic financial statements

Highland County
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Funds
For the Year Ended December 31, 2005*

	Rocky Fork Lake Sewer District Fund	All Other Enterprise Funds	Total Enterprise Funds
Operating Receipts			
Charges for Services	\$449,235	\$21,621	\$470,856
Operating Disbursements			
Contractual Services	511,907	8,945	520,852
<i>Change in Net Assets</i>	(62,672)	12,676	(49,996)
<i>Net Assets Beginning of Year</i>	374,792	62,717	437,509
<i>Net Assets End of Year</i>	<u>\$312,120</u>	<u>\$75,393</u>	<u>\$387,513</u>

See accompanying notes to the basic financial statements

Highland County
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
December 31, 2005

	<u>Agency Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,435,542
Cash and Cash Equivalents in Segregated Accounts	<u>\$589,328</u>
<i>Total Assets</i>	<u><u>\$2,024,870</u></u>
Net Assets	
Undistributed Monies	<u><u>\$2,024,870</u></u>

See accompanying notes to the basic financial statements

Note 1 - Reporting Entity

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

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

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

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

Highco Inc. is a legally separate, not for profit corporation, served by a board of trustees appointed by the MRDD Board. The workshop under contractual agreement with the Highland County Board of Mental Retardation and Developmental Disabilities (MR/DD), provides sheltered employment for mentally and/or physically handicapped adults in Highland County.

The Highland County Board of MR/DD provides the workshop with staff salaries, transportation, equipment, staff to administer and supervise training programs, and other funds necessary for the operation of the workshop. Based on the significant services and resources provided by the County to the workshop and the workshop's sole purpose of providing assistance to the mentally and/or physically handicapped adults of Highland County, the workshop is considered a component unit of Highland County, however, Highco Inc. is not presented as a component unit in these financial statements. Separately issued financial statements can be obtained for Highco Inc. at 8919 US Rt. 50, Hillsboro, Ohio 45133.

Note 1 - Reporting Entity (continued)

The Highland Regional Airport Authority is a legally separate body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Authority is directed by a five member Board, appointed by the Highland County Commissioners. The Authority is responsible for the safety and efficient operation and maintenance of the airport. The Highland County Commissioners administer and account for bond anticipation notes for airport improvements. The Highland County Regional Airport Authority is a component unit of the County, however, it is not presented as a component unit in these financial statements. Separately issued financial statements can be obtained from the Highland County Regional Airport Authority.

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 Highland County. Accordingly, the activity of the following organizations is reported as agency funds within the financial statements:

Highland County Soil and Water Conservation District
Highland County District Board of Health
Highland County Family and Children First Council

Jointly Governed Organizations

The County participates in three jointly governed organizations, a public entity risk pool and an insurance purchasing pool. These organizations are presented in Notes 17 and 18 to the basic financial statements. These organizations are:

Ross, Pickaway, Highland and Fayette Counties Joint Solid Waste District
Paint Valley Board of Alcohol, Drug Addiction and Mental Health Services
South Central Regional Juvenile Detention Center
County Risk Sharing Authority, Inc.
County Commissioner Association of Ohio Workers' Compensation Group Rating Plan

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

The County's basic financial statements consist of government-wide 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.

Government-Wide Financial Statements

The cash basis statement of net assets and 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. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets – cash basis presents the cash balance of the governmental and business-type activities of the County at year-end. The statement of activities – cash basis 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 goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program.

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

Note 2 - Summary of Significant Accounting Policies (continued)

Fund Financial Statements

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

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

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.

Governmental Funds

Governmental funds are those through which most governmental functions of the County are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The following are the County's major governmental funds:

General - 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.

Public Assistance - This fund accounts for federal, state, and local monies used to provide general relief and to pay providers of medical assistance and social services.

Repair MVL - This fund accounts for State-levied, shared monies derived from gasoline taxes and the sale of motor vehicle licenses. Disbursements are restricted by State law to county road and bridge repair/improvement programs.

Board of MRDD - 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.

Note 2 - Summary of Significant Accounting Policies (continued)

Rocky Fork Lake Debt Service – This fund accounts for special assessments collected for the payment of principal, interest and fiscal charges.

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

Proprietary Funds

The County classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as enterprise 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 is the County's major enterprise fund:

Rocky Fork Lake Sewer District - This fund accounts for tap in fees and set user fees. Each resident in this Sewer District pays the same amount each month. There is set billing and rates are not based on actual usage per resident. Monies are used to upgrade and operate the treatment plant.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the County under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the County's own programs. The County did not have any trust funds in 2005. Agency funds are purely custodial in nature and are used to account for assets held by the County for political subdivisions for which the County acts as fiscal agent and for taxes, State-levied shared revenues, and fines and forfeitures collected and distributed to other political subdivisions.

C. Basis of Accounting

The County's financial statements are prepared using the cash basis of accounting. 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.

Note 2 - Summary of Significant Accounting Policies (continued)

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

D. Budgetary Process

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

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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.

During 2005, the County invested in federal agency securities, a repurchase agreement and a money market mutual fund. Investments are reported at cost, except for the money market mutual fund. The County's money market mutual fund investment is recorded at the amount reported by Fifth Third Securities, Inc. at 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 \$205,232 which includes \$188,911 assigned from other County funds.

F. Restricted Assets

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

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

H. Interfund Receivables/Payables

The County reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

I. Accumulated Leave

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

Note 2 - Summary of Significant Accounting Policies (continued)

J. Employer Contributions to Cost-Sharing Pension Plans

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

K. Long-Term Obligations

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

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities involving the upkeep of the County's roads and bridges, various mental health services, child support and welfare services, services for the handicapped and mentally retarded, and activities of the County's courts. Unclaimed monies that are required to be held for five years before they may be utilized by the County are reported as restricted for other purposes. The County's policy is to first apply restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide statement of net assets – cash basis reports \$5,905,425 of restricted net assets, of which \$1,518,754 are restricted by enabling legislation.

M. Fund Balance Reserves

The County reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund 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.

N. Interfund Transactions

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

Note 2 - Summary of Significant Accounting Policies (continued)

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 nonoperating receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

Note 3 – Changes in Accounting Principles

For fiscal year 2005, the County has implemented GASB Statement No. 40, “*Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No 3*” and GASB Statement No. 46, “*Net Assets Restricted by Enabling Legislation – an Amendment of GASB Statement No. 34*”.

GASB Statement No. 40 creates new disclosure requirements for deposits and investments related to risk, including credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the County’s financial statements for 2005.

GASB Statement No. 46 clarifies how legal enforceability should be applied when determining whether restricted net assets should be classified as restricted. The implementation of this statement had no effect on the County’s financial statements for 2005.

Note 4 - Compliance

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

The County did not certify the availability of funds for certain commitments as required by Ohio Revised Code, section 5705.41 (D).

Highland County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 5 - Budgetary Basis of Accounting

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

	<u>General</u>	<u>Public Assistance</u>	<u>Repair MVL</u>	<u>Board of MRDD</u>
Cash Basis	\$69,910	\$47,163	\$82,558	\$148,102
Encumbrances	(75,405)	0	(98,099)	(6,169)
Agency Fund Distribution:				
Beginning of Year	71,190	0	0	68,339
End of Year	(95,000)	0	(271)	(94,962)
Budget Basis	<u><u>(\$29,305)</u></u>	<u><u>\$47,163</u></u>	<u><u>(\$15,812)</u></u>	<u><u>\$115,310</u></u>

Note 6 – 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. Inactive monies could be deposited or invested with certain limitations in the following securities provided the County has filed a written investment policy with the Ohio Auditor of State:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States, or any book entry, zero coupon United States treasury security that is a direct obligation of the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or its political subdivisions;

Highland County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 6 - Deposits and Investments (continued)

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds;
7. The State Treasurer's investment pool (STAROhio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to simultaneously exchange either securities or cash, equal value for equal value;
9. Commercial paper notes, corporate notes and bankers' acceptances; and
10. Debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government. All interest and principal shall be denominated and payable in United States funds.

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

Investments

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

	Carrying Value	Investment Maturities (In Years)		
		Less than 1	1 - 2	3 - 4
Fifth Third Institutional Money Market Mutual Fund	\$251,875	\$251,875	\$0	\$0
Repurchase Agreement	2,477,656	2,477,656	0	0
Federal National Mortgage Association Notes	976,812	676,812	300,000	0
Federal Home Loan Mortgage Corporation Notes	2,670,789	2,420,789	250,000	0
Federal Home Loan Banks Bonds	2,571,153	751,371	821,415	998,367
Total Investments	<u>\$8,948,285</u>	<u>\$6,578,503</u>	<u>\$1,371,415</u>	<u>\$998,367</u>

The carrying value of investments exceeding the value of cash and cash equivalents presented on the financial statements at year end was the result of funds being invested overnight and yet available to meet outstanding obligations the next day.

Note 6 - Deposits and Investments (continued)

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The County's investment policy addresses interest rate risk by requiring that the County's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

The money market mutual fund carries a rating of Aaa by Moodys. The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes and the Federal Home Loan Bank Bonds carry a rating of Aaa by Moodys and AAA by Standard and Poor's. The County has no investment policy dealing with investment credit risk beyond the requirements in State statutes. Ohio law requires that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, and the Federal Home Loan Bank Bonds are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the County's name. The County has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.35(J)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

Note 7 - 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. In 2005, the County increased the sales tax ½ percent to the current 1.5 percent tax. In 2005, the County received a total of \$3,753,814. The allocation of the sales tax is 100 percent to the County's General Fund. 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 the amount of the tax to be returned to the County to the State Auditor. 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.

Note 8 - 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 receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2005, on the assessed values as of January 1, 2005, 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 receipts 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, 2004, were levied after October 1, 2005, and are collected in 2006 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 receipts 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.

Highland County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 8 - Property Taxes (continued)

The full tax rate for all County operations for the year-ended December 31, 2005, was \$9.25 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 and Agricultural	\$454,784,830
Other	70,559,170
Public Utility Property	
Real	136,830
Personal	28,332,050
Tangible Personal Property	57,515,324
Total Assessed Value	\$611,328,204

Note 9 - 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 County Risk Sharing Authority, Inc. (CORSA) for insurance coverage. The CORSA program has a \$2,500 deductible. Coverage provided by CORSA is as follows:

	Liability
General Liability	\$1,000,000
Law Enforcement Liability	1,000,000
Automobile Liability	1,000,000
Uninsured/Underinsured Motorists	250,000
Errors and Omissions Liability (\$1,000,000 annual aggregate)	1,000,000
Excess Liability (sublimit \$5,000,000 for sexual harassment)	9,000,000
Property (total covered value)	42,893,744
Equipment Breakdown	100,000,000
Crime Insurance	1,000,000
Stop Gap Liability	1,000,000
Medical Professional Liability (sublimit \$6,000,000 for sexual harassment)	10,000,000
Foster Parents (sublimit \$6,000,000 for sexual harassment)	10,000,000

There has been no significant reduction in insurance coverage from 2004, and settled claims have not exceeded this coverage in the past three years. The County pays all elected officials' bonds by statute.

Note 9 - Risk Management (continued)

For 2005, the County participated in the County Commissioner Association of Ohio Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (See Note 18). The plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The workers' compensation experience of the participating counties is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than the individual rate.

In order to allocate the savings derived by formation of the Plan, and to maximize the number of participants in the Plan, annually the Plan's executive committee calculates the total savings which accrued to the Plan through its formation. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from, or pays rate equalization rebates to the various participants. Participation in the plan is limited to counties that can meet the 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 Ohio Bureau of Workers' Compensation. However, the participant is not relieved of the obligation to pay any amounts owed to the Plan prior to withdrawal, and a participant leaving the Plan allows a representative of the Plan to assess loss experience for three years following the last year of participation.

Note 10 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

Note 10 - Defined Benefit Pension Plans (continued)

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 may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

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

The County's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$1,511,814, \$1,478,893, and \$1,417,843, respectively. The full amount has been contributed for 2005, 2004 and 2003. Contributions to the member-directed plan for 2005 were \$10,100 made by the County and \$6,336 made by plan members.

B. State Teachers Retirement System of Ohio

For certified teachers employed by the school for mental retardation and developmental disabilities, the County participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

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 an allowance based on member contributions and earned interest matched by STRS Ohio 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.

Note 10 - Defined Benefit Pension Plans (continued)

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 balances from the existing DBP into the DCP or CP. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the year ended December 31, 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 the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The County's required contribution for pension obligations for the DBP for the fiscal years ended December 31, 2005, 2004, and 2003 were \$34,305, \$34,834 and \$31,266, respectively. The full amount has been contributed for years 2005, 2004 and 2003. Contributions for the CP for the year ended December 31, 2005, were \$1,537 made by plan members.

Note 11 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit 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 Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to 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.

Note 11 - Postemployment 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 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 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 County contributions for 2005 which were used to fund postemployment benefits were \$446,292. The actual contribution and the actuarial required contribution amounts are the same. The actuarial value of OPERS's net assets available for the payment of benefits at December 31, 2004 (the latest information available), was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

B. State Teachers Retirement System of Ohio

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

All STRS Ohio retirees who participated in the DBP or CP and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended December 31, 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 \$1,750.

Highland County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 11 - Postemployment Benefits (continued)

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

Note 12 - 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
Bond Anticipation Note					
Various Purpose 2004 Series	2.34%	\$1,575,000	\$0	\$1,575,000	\$0
Bond Anticipation Note					
Juvenile Detention Center	3.40%	630,000	650,000	630,000	650,000
Total Short-Term Liability		<u>\$2,205,000</u>	<u>\$650,000</u>	<u>\$2,205,000</u>	<u>\$650,000</u>

Bond Anticipation Note – Various Purpose – 2004 Series

On November 8, 2004, the County issued a \$1,575,000 bond anticipation note for the purpose of acquiring a building within the County, acquiring and installing a geographic information system and paying costs of renovating and making improvement to the County Courthouse. In 2005, \$243,227 was paid from the Community Service Center Debt Retirement Fund, \$443,588 was paid from the G.I.S. Debt Retirement Fund, and \$888,185 was paid from the Jail Renovation Debt Retirement Fund. The note matures in 2006.

Bond Anticipation Note – Juvenile Detention Center

On April 7, 2004, the County issued a \$630,000 bond anticipation note for the purpose of constructing and improving the South Central Ohio Regional Juvenile Detention Center. The note matured in 2005 and was paid from the SCORJDC Debt Retirement Fund. It was renewed in the amount of \$650,000 on April 7, 2005. The note matures in April 2006.

Highland County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 13 - Debt

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
1994 GO Bonds Series B						
Madison Township	4.50%	\$103,100	\$0	\$1,700	\$101,400	\$1,800
1996 GO Bonds Series A						
Tec Center	5.00%	972,200	0	61,100	911,100	64,100
1996 GO Bonds Series B						
Tec Center	5.00%	355,600	0	22,300	333,300	23,500
2002 GO Bonds						
Correctional Facilities	1.5 - 4.8%	4,640,000	0	185,000	4,455,000	190,000
2004 GO Bonds						
County Building Bond MR/DD	5.45%	266,500	0	11,871	254,629	12,527
2005 GO Bonds						
Various Purpose	4.80%	0	1,638,000	0	1,638,000	30,000
Total GO Bonds		6,337,400	1,638,000	281,971	7,693,429	321,927
1996 OPWC Loan Rocky Fork Lake						
Area Wastewater Collection System Loan	0.00%	290,000	0	20,000	270,000	10,000
2003 OPWC Rolling Acres						
WWTP Loan	0.00%	36,869	0	2,107	34,762	1,053
Total OPWC Loans		326,869	0	22,107	304,762	11,053
Bond Anticipation Note						
Geographic Information System	4.21%	0	457,925	0	457,925	14,000
Bond Anticipation Note						
Real Estate Acquisition	4.21%	0	152,000	0	152,000	5,000
Bond Anticipation Note						
Airport Improvement	6.00%	600,000	1,780,000	1,215,000	1,165,000	36,000
Total Long-Term Notes		600,000	2,389,925	1,215,000	1,774,925	55,000
1994 Special Assessment Series A						
Series A Madison Twp.	4.50%	713,400	0	11,700	701,700	12,200
1998 OWDA Rocky Fork						
Water Pollution Control Loan	2.20%	6,476,870	0	354,872	6,121,998	180,369
2000 Salt Barn Loan						
	5.75%	282,637	0	58,305	224,332	50,772
2002 ODOD Leesburg						
Industrial Park Loan	2.10%	655,000	0	0	655,000	0
Total Long-Term Liabilities		\$15,392,176	\$4,027,925	\$1,943,955	\$17,476,146	\$631,321

Note 13 – Debt (continued)

1994 Madison Township General Obligation Bonds Series B

On December 1, 1994, the County issued \$116,638 in general obligation bonds (Series B) for the purpose of retiring bond anticipation notes that were used for making improvements to Sanitary Sewer Subdistrict No. 2 (Madison Township). The bonds mature in 2034 and will be paid from the Madison Township Debt Retirement Fund.

1996 Tec Center GO Bonds Series A

On February 22, 1996, the County issued \$1,367,000 in general obligation bonds for the purpose of acquiring and renovating a building for use as a County office building. The bonds mature in 2016, and will be paid from the Tec-Bond Retirement Fund.

1996 Tec Center GO Bonds Series B

On February 22, 1996, the County issued \$500,000 in general obligation bonds for the purpose of acquiring and renovating a building for use as a County office building. The bonds mature in 2016, and will be paid from the Tec-Bond Retirement Fund.

2002 Correctional Facilities General Obligation Bonds

On July 1, 2002, the County issued \$5,000,000 in general obligation bonds for the purpose of retiring bond anticipation notes that were used to finance the acquisition, construction and installation of a correctional facility in the County. The bonds mature in 2022 and will be paid from the Justice Center Bond Retirement Fund.

2004 County Building Bond MR/DD General Obligation Bonds

On September 22, 2004, the County issued \$266,500 in general obligation bonds for the purpose of refunding outstanding bond anticipation notes that were used to finance the improvements to a building and constructing a garage for use of the MR/DD board. The bonds mature in 2007 and will be paid from the MRDD Construction Debt Retirement Fund.

2005 Various Purpose General Obligation Bonds

On November 7, 2005, the County issued \$1,638,000 in general obligation bonds for the purpose of retiring bond anticipation notes that were used to acquire a building within the County, acquire and install a geographic information system and pay costs of renovating and making improvements to the County Courthouse. The bonds mature in 2025 and will be paid from the G.I.S. Debt Retirement, Jail Renovation Debt Retirement and Community Service Center Debt Retirement Funds.

Note 13 – Debt (continued)

1996 Ohio Public Works Commission Rocky Fork Lake Area Wastewater Collection System Loan

On July 1, 1996, the County entered into a \$400,000 loan agreement with the Ohio Public Works Commission for the Rocky Fork Lake Area Water Works Collection System project. The bonds mature in 2019 and will be paid from the Rocky Fork Lake Debt Retirement Fund.

2003 Ohio Public Works Commission Rolling Acres Wastewater Treatment Plant Loan

In 2003, the County entered into a \$42,136 loan with the Ohio Public Works Commission for the purpose of replacing a wastewater treatment plant in the Rolling Acres subdivision. The final payment on the loan is due in 2022 and payments will be made from the Rocky Fork Lake Debt Retirement Fund.

Bond Anticipation Note – Geographic Information System

On June 30, 2005, the County issued a \$457,925 bond anticipation note for the purpose of financing the purchase and installation of a geographic information system. The note will be paid from the G.I.S. Debt Retirement Fund. The note matures in 2025.

Bond Anticipation Note – Real Estate Acquisition

On June 30, 2005, the County issued a \$152,000 bond anticipation note for the purpose of acquiring real estate for the use of the Highland County Agricultural Society. The note will be paid from the Fairground Debt Retirement Fund. The note matures in 2025.

Bond Anticipation Note – Airport Improvement

On April 1, 2004, the County issued a \$600,000 bond anticipation note for the purpose of making improvements to the airport. The note matured in 2005 and was paid from the Airport Debt Retirement Fund. On June 30, 2005, the County issued \$1,165,000 in bond anticipation notes for the same purpose. The notes will be paid from the Airport Debt Retirement Fund. The note matures in 2025.

1994 Madison Township Series A Special Assessment Bonds

On December 1, 1994, the County issued \$810,162 in special assessment bonds (Series A) for the purpose of retiring bond anticipation notes that were used for making improvements to Sanitary Sewer Subdistrict No. 2 (Madison Township). The bonds mature in 2034 and will be paid from the Madison Township Debt Retirement Fund.

Highland County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 13 – Debt (continued)

1998 Ohio Water Development Authority Rocky Fork Water Pollution Control Loan

On January 29, 1998, the County entered into an \$8,130,000 loan agreement with the Ohio Water Development Authority for the Rocky Fork Lake project. The final payment on the loan is due in 2020 and payments will be made from the Rocky Fork Lake Debt Retirement Fund.

2000 Salt Barn Loan

On October 19, 2000, the County entered into a \$500,000 loan agreement for the purpose of constructing a salt storage building. The loan matures in 2010 and will be paid from the Salt Barn Debt Retirement Fund.

2002 Ohio Department of Development Leesburg Industrial Park Loan

On June 5, 2002, the County entered into a \$655,000 loan agreement with the Ohio Department of Development for the Leesburg Industrial Park project. The final payment on the loan is due in 2017.

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

Year	General Obligation Bonds		OPWC Loans		Long-Term Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$321,927	\$360,666	\$11,053	\$0	\$55,000	\$73,155
2007	360,918	342,596	22,106	0	60,000	70,737
2008	363,449	328,466	22,107	0	63,000	68,151
2009	387,119	313,206	22,107	0	67,000	65,417
2010	401,133	296,678	22,107	0	69,000	62,557
2011-2015	2,283,222	1,191,350	110,534	0	389,000	266,108
2016-2020	2,226,861	641,314	90,534	0	477,000	175,224
2021-2025	1,302,700	137,789	4,214	0	594,925	63,693
2026-2030	23,400	8,361	0	0	0	0
2031-2034	22,700	2,615	0	0	0	0
Total	\$7,693,429	\$3,623,041	\$304,762	\$0	\$1,774,925	\$845,043

Highland County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 13 – Debt (continued)

Year	Special Assessment Bonds		OWDA Loans		Salt Barn Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$12,200	\$31,576	\$180,366	\$67,342	\$50,772	\$15,923
2007	12,800	31,028	366,713	128,710	53,775	12,920
2008	13,300	30,451	374,824	120,598	56,926	9,769
2009	13,900	29,853	383,115	112,306	60,322	6,372
2010	14,600	29,228	391,590	103,832	2,537	2,804
2011-2015	83,300	135,693	2,091,782	385,326	0	0
2016-2020	103,800	115,178	2,333,608	143,499	0	0
2021-2025	129,400	89,618	0	0	0	0
2026-2030	161,300	46,062	0	0	0	0
2031-2034	157,100	18,063	0	0	0	0
Total	\$701,700	\$556,750	\$6,121,998	\$1,061,613	\$224,332	\$47,788

ODOD Loans		
Year	Principal	Interest
2006	\$0	\$0
2007	31,450	14,970
2008	55,650	23,929
2009	57,917	21,662
2010	60,277	19,302
2011-2015	340,282	57,611
2016-2020	109,424	3,312
2021-2025	0	0
2026-2030	0	0
2031-2034	0	0
Total	\$655,000	\$140,786

Highland County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 13 – Debt (continued)

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 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. The County's unvoted debt margin was \$1,233,640 at December 31, 2005.

Note 14 – Leases

In prior years, the County entered into capital leases for police sedans.

In 2005, the County entered into capital leases for two Ford Crown Victoria police sedans and a GMC Sierra for use by the Dog Warden. Total lease payments for 2005 totaled \$47,133.

Future lease payments are as follows:

Year	2003 Police Sedans	2004 Police Sedans	2005 Police Sedans	GMC Sierra
2006	\$16,849	\$16,182	\$10,859	\$3,243
2007	0	16,182	10,859	3,243
2008	0	0	10,859	3,243
2009	0	0	0	3,243
Total	\$16,849	\$32,364	\$32,577	\$12,972

Highland County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 15 - Interfund Activity

A. Interfund Transfers

During 2005 the following transfers were made:

		Transfer From				Total
		General	Repair MVL	Board of MRDD	Other Governmental	
Transfer To	Major Funds:					
	General Fund	\$0	\$0	\$0	\$1,000	\$1,000
	Board of MRDD	0	0	0	58,000	58,000
	Other Governmental	625,605	150,000	123,150	5,150	903,905
	Total All Funds	<u>\$625,605</u>	<u>\$150,000</u>	<u>\$123,150</u>	<u>\$64,150</u>	<u>\$962,905</u>

The transfers to the other governmental funds mainly represent transfers of dollars to meet debt service payments. The transfer from the other governmental fund to the Board of MRDD represents transfers for operational needs.

B. Interfund Advances

Interfund balances at December 31, 2005, consisted of the following individual fund receivables and payables:

		Advances Out			Total
		General	Board of MRDD	Other Governmental	
Advances In	Major Funds:				
	General Fund	\$0	\$0	\$21,751	\$21,751
	Other Governmental	97,502	32,775	5,000	135,277
	Total All Funds	<u>\$97,502</u>	<u>\$32,775</u>	<u>\$26,751</u>	<u>\$157,028</u>

The balances due represent loans made to provide working capital for operations or projects. All of these amounts are expected to be repaid within one year.

Note 16 – Contingent Liabilities

The County is defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially adversely affect the County's financial condition.

Amounts grantor agencies pay to the County are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

Note 17 – Jointly Governed Organization

A. Ross, Pickaway, Highland and Fayette Counties Joint Solid Waste District

The Ross, Pickaway, Highland and Fayette Counties Joint Solid Waste District is a jointly governed organization among Ross, Pickaway, Highland and Fayette Counties. Each of these governments supports the District. The County made no contribution during 2005. The degree of control exercised by any participating County is limited to its representation on the Board. The Board of Directors consists of twelve members, the three County Commissioners of each of the four counties. The District does not have any outstanding debt. The District is self-sufficient, operating entirely on collected fees.

B. Paint Valley Board of Alcohol, Drug Addiction and Mental Health Services

The Paint Valley Board of Alcohol, Drug Addiction and Mental Health Services (ADAMHS) of Pike, Fayette, Highland, Pickaway and Ross Counties is a jointly governed organization that is responsible for developing, coordinating, modernizing, funding, monitoring and evaluating a community-based mental health and substance abuse program. The Board consists of eighteen members. Four members are appointed by the Director of the Ohio Department of Mental Health and four members are appointed by the Director of the Ohio Department of Alcohol and Drug Addiction Services. The remaining members are appointed by the County Commissioner of Pike, Fayette, Highland, Pickaway and Ross Counties in the same proportion as each County's population bears to the total population of the five counties combined. The Board received revenue from the participating counties and received federal and State funding through grant monies which are applied for and received by the Board of Trustees.

Highland County cannot significantly influence operations of the Board, who has sole budgetary authority and controls surpluses and deficits. Highland County has no ongoing financial interest or responsibility. Complete financial statements can be obtained from the Paint Valley ADAMHS Board, June Frey who serves as Finance Director, 1394 Chestnut Street, Chillicothe, Ohio 45601.

Note 17 – Jointly Governed Organization (continued)

C. South Central Regional Juvenile Detention Center

The South Central Regional Juvenile Detention Center is a jointly governed organization. It was created as a holding place for juvenile offenders waiting for disposition by the respective Juvenile Courts of the member counties. The current members include Fayette, Pike, Pickaway, Ross, Jackson, Hocking, Athens, Vinton and Highland Counties. The Center's Board consists of one member from each participating county that is appointed by the Juvenile Court Judge or a County Commissioner from each County. The joint Board selects the superintendent as the Center's administrator.

The Center's revenue is from per diem charges for inmates to the respective counties and a percent of the county tax base to the total base. Ross County is the fiscal officer of the Center. Highland County does not have any financial interest or responsibility.

Note 18 – Public Entity Risk Pool and Insurance Purchasing Pool

A. County Risk Sharing Authority, Inc.

The County Risk Sharing Authority, Inc. (CORSA) is a jointly governed organization among thirty-nine counties in Ohio. CORSA was formed as an Ohio not-for-profit corporation for the purpose of establishing the CORSA Insurance/Self-Insurance Program, a group primary and excess insurance/self-insurance and risk management program. Member counties agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by CORSA.

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

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

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

Note 18 – Public Entity Risk Pool and Insurance Purchasing Pool (continued)

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

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HIGHLAND 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	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through the Ohio Department of Education:</i>				
Nutrition Cluster:				
Food Distribution Program	N/A	10.550		\$3,534
National School Lunch Program	066035-LLP4-2005	10.555	2,976	
National School Lunch Program	066035-LLP4-2006	10.555	432	
Total U.S. Department of Agriculture			3,408	3,534
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
Social Services Block Grant - Title XX	N/A	93.667	27,586	
Medical Assistance Program - Title XIX	N/A	93.778	367,800	
Total U.S. Department of Health and Human Services			395,386	
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
<i>Passed Through the Ohio Department of Development:</i>				
Community Development Block Grants	B-F-04-033-1	14.228	204,359	
Community Development Block Grants	B-F-03-033-1	14.228	66,996	
Community Development Block Grants	B-C-03-033-1	14.228	119,703	
Home Investment Partnership Program	B-C-03-033-1	14.239	144,855	
Total U.S. Department of Housing and Urban Development			535,913	
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through State Department of Education:</i>				
Special Education Grants to States:				
Special Education Cluster:				
Special Education - Grants to States	066035-6BSF-2005	84.027	11,301	
Special Education - Preschool Grants	066035-PGSI-2005	84.173	3,612	
Total Special Education Cluster			14,913	
Innovative Education Program Strategies	066035-C2S1-04	84.298	91	
Total Innovative Education Program Strategies			91	
Total U.S. Department of Education			15,004	
U.S. DEPARTMENT OF JUSTICE				
<i>Passed Through the Ohio Attorney General:</i>				
Crime Victim Assistance	2004-VAGENE-025T	16.575	65,195	
Crime Victim Assistance	2004-VAGENE-567T	16.575	19,096	
			84,291	
<i>Passed Through the Office of the Criminal Justice Service:</i>				
Byrne Formula Grant Program	2003-DG-B01-7028	16.579	12,490	
Assault Team	2003-DG-D02-7229	16.588	1,491	
			13,981	
Total U.S. Department of Justice			98,272	

(Continued)

HIGHLAND 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	Non-Cash Disbursements
FEDERAL AGENCY DEPARTMENT OF HOMELAND SECURITY				
<i>Passed Through the Ohio Emergency Management Agency</i>				
Emergency Management Performance Grants	EMC-2004-GR-7007	97.042	8,512	
State Domestic Preparedness Equipment Support Program	2003-MUP-30015	97.004	15,082	
State Domestic Preparedness Equipment Support Program	2003-TE-TX-0199	97.004	39,000	
State Domestic Preparedness Equipment Support Program	2002-TE-CX-0106	97.004	2,080	
State Domestic Preparedness Equipment Support Program	2004-GE-T4-0025	97.073	90,400	
FEMA- Community Emergency Response Team	N/A	97.054	99,891	
			<u>246,453</u>	
Total Federal Agency Department of Homeland Security			254,965	
U.S. DEPARTMENT OF LABOR				
<i>Passed Through the Ohio Department of Job and Family Services</i>				
Workforce Investment Act Incentive Grant - Adult Program	N/A	17.258	131,821	
Workforce Investment Act Incentive Grant - Youth Activities	N/A	17.259	131,688	
Workforce Investment Act Incentive Grant - Dislocated Workers	N/A	17.260	57,453	
Total U.S. Department of Labor			320,962	
U.S. DEPARTMENT OF TRANSPORTATION				
<i>Passed Through the Federal Aviation Administration</i>				
Direct from Federal Government				
Airport Improvement Program	N/A	20.106	287,100	
<i>Passed Through the Ohio Department of Transportation</i>				
Highway Planning and Construction	N/A	20.205	95,162	
Total U.S. Department of Transportation			382,262	
GENERAL SERVICES ADMINISTRATION				
<i>Passed through the Secretary of State of Ohio</i>				
Election Reform - Voter Registration System	04-SOS-HAVA-36	39.011	6340	
Election Reform - Voter Registration System	05-SOS-HAVA-36	39.011	9,622	
			<u>15,962</u>	
ELECTION ASSISTANCE COMMISSION				
<i>Passed through the Secretary of State of Ohio</i>				
Help America Vote Act	E05-0152-36	90.401	410,400	
Total General Services and Election Assistance			426,362	
TOTAL FEDERAL ASSISTANCE			\$2,432,534	\$3,534

HIGHLAND 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 (the Schedule) summarizes 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.

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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*

Highland County
200 Governor Foraker Place
Hillsboro, Ohio 45133

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 Highland County, Ohio (the County), as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements and have issued our report thereon dated January 31, 2007, wherein we noted the County prepares its financial statements on a basis of accounting other than accounting principles generally accepted in the United States of America and wherein we issued a qualified opinion because the County's financial statements did not include financial data related to the County's legally separate component unit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-002 and 2005-003.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the County's management dated January 31, 2007, we reported other matters involving internal control over financial reporting which 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 and 2005-002. In a separate letter to the County's management dated January 31, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

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

Mary Taylor, CPA
Auditor of State

January 31, 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

Highland County
200 Governor Foraker Place
Hillsboro, Ohio 45133

To the Board of County Commissioners:

Compliance

We have audited the compliance of Highland County, Ohio (the County), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended December 31, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the County's major federal programs. The County's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, the County complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2005. In a separate letter to the County's management dated January 31, 2007, we reported another 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.

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 a matter 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 31, 2007.

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

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

Mary Taylor, CPA
Auditor of State

January 31, 2007

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(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)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Medical Assistance Program CFDA# 93.778 Help America Vote Act CFDA #90.401 Airport Improvement Grant CFDA #20.106 Workforce Improvement Act CFDA #17.258-17.260
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2005-001

Non-Compliance

Ohio Administrative Code, 117-2-03(B), requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. The County prepares its financial statements on a cash basis of accounting, 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, fund equities, and disclosures that, while presumably material, cannot be reasonably determined at this time.

The County can be fined and various other remedies may be taken against the County, as such, we recommend the County take the necessary steps to ensure that the financial report is prepared in accordance with generally accepted accounting principles.

FINDING NUMBER 2005-002

Non-Compliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.41(D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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

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

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

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

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

Forty-two percent (42%) of the purchases tested were initiated without obtaining the prior certification of the County Auditor and were not subsequently approved by the County Commissioners within the aforementioned 30 day time period.

The County should use the encumbrance method of accounting by certifying funds on purchase orders. During our search for unrecorded liabilities, we found that the County had not always obtained purchase orders and encumbered for services provided and none of the exceptions listed above were utilized.

Failure to properly encumber could result in overspending funds and negative cash fund balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the County's funds exceeding budgetary spending limitations, we recommend that the auditor certify that the funds are or will be available prior to the obligation by the County. When prior certification is not possible, “then and now” certification should be used.

We recommend the County certify purchases to which 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The auditor should sign the certification at the time the auditor incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The auditor should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

FINDING NUMBER 2005-003

Reportable Condition

The County's standard established reconciliation process is two-fold. First, the County Treasurer must reconcile the County Treasurer's book balance to the various bank and investment accounts, since she is the custodian of county funds per the Ohio Revised Code. Secondly, the County Treasurer must reconcile to the County Auditor's book balance. As of December 31, 2005, the Treasurer had not reconciled to the bank and investment accounts since April, 2003. However, the Treasurer had reconciled with the County Auditor's Fund Report.

During 2005, the County was under a contract with the Auditor of State's Local Government Services Department to provide training in reconciling the County for both 2003 and 2004. After identifying interest adjustments and various reconciling items, the County was able to reconcile through December 31, 2004 with an immaterial variance of \$8,000. The County's December 31, 2005 reconciliation has an immaterial variance of \$23,474.

Accurate reconciling is the most basic and important internal control. This allows the County management and Board of County Commissioners to make sound financial decisions. It also reduces the probability of County money being misappropriated.

We recommend that timely and accurate reconciliations be performed monthly by the County Treasurer. The process that is being completed in the Treasurer's office to determine the cost basis balance of investments each month should be continued. Reconciling items such as interest and bank charges need to be accounted for properly. Once the Treasurer has reconciled with the bank, then the Treasurer can complete the reconciliation process and balance with the County Auditor. The County should consider evaluating their current investment strategy and the affect this has on the Treasurer's monthly reconciliation process.

County Officials did not respond to the above findings.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

HIGHLAND COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END 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	Failure to prepare annual financial report in accordance with generally accepted accounting principles. Reported on cash basis.	No	Repeated as finding 2005-001
2004-002	Disbursements and outstanding encumbrances exceeded appropriations and prior year encumbrances.	No	Partially corrected. Moved to the Management Letter
2004-003	Failure to prior certify funds before making purchases.	No	Repeated as finding 2005-002.
2004-004	The County Failed to reconcile to the bank and investments accounts.	No	Repeated as finding 2005-003.



Mary Taylor, CPA
Auditor of State

FINANCIAL CONDITION

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 13, 2007**