



Dave Yost • Auditor of State

HIGHLAND COUNTY
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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Highland County
119 Governor Foraker Place
Hillsboro, Ohio 45133

To the Board of County Commissioners:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, discretely presented component units and the aggregate remaining fund information of Highland County, Ohio (the County), as of and for the year ended December 31, 2010, 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 accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

The financial statements do not include financial data for the County's legally separate component unit, Highco Inc. Accounting principles generally accepted in the United States of America require the financial data for component units 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 includes the component units' financial data. The County has not issued reporting entity financial statements. We cannot determine the amounts of assets, liabilities, net assets, revenues and expenses that the accompanying statements should present for the omitted discretely-presented component unit in order to comply with accounting principles generally accepted in the United States of America.

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, in conformity with accounting principles generally accepted in the United States of America, the cash financial position of the aggregate discretely-presented component units of Highland County, Ohio, as of December 31, 2010, and the changes in its financial position for the year then ended.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, and the aggregate remaining fund information of Highland County, Ohio, as of December 31, 2010, and the respective changes in cash financial position thereof and the respective budgetary comparison for the General, Public Assistance, Real Estate Assessment, Repair Motor Vehicle License, and Board of Developmental Disabilities 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 September 26, 2011, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the County's basic financial statements taken as a whole. The federal awards expenditure schedule provides additional information required by the 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. The federal awards expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

September 26, 2011

Highland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

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, 2010, within the limitations of the County's cash basis of 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 2010 are as follows:

Net assets of governmental activities increased \$3,109,604 from the prior year.

Net assets of the County's business-type activity increased \$32,595 from the prior year.

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.

Highland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

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.

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 2010 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 services. Business-type activities are financed by a fee charged to the customers receiving the service.

Highland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

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, Real Estate Assessment, Repair MVL and Board of Developmental Disabilities Funds. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Proprietary Fund - 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 has no major enterprise funds.

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 2010 compared to 2009 on a cash basis:

Highland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2010	2009	2010	2009	2010	2009
Assets						
Cash and Cash Equivalents	\$8,995,519	\$5,885,915	\$335,817	\$303,222	\$9,331,336	\$6,189,137
Net Assets						
Restricted for:						
Capital Projects	\$347,583	\$491,204	\$0	\$0	\$347,583	\$491,204
Debt Service	847,520	465,219	0	0	847,520	465,219
Other Purposes	6,623,763	4,406,629	0	0	6,623,763	4,406,629
Unrestricted	1,176,653	522,863	335,817	303,222	1,512,470	826,085
Total Net Assets	\$8,995,519	\$5,885,915	\$335,817	\$303,222	\$9,331,336	\$6,189,137

As mentioned previously, net assets of governmental activities increased \$3,109,604 during 2010. Net assets restricted for other purposes increased \$2,217,134, due to collections on a new tax levy for the County Board of Developmental Disabilities. Net assets restricted for debt service increased \$382,301 due to increases in transfers in for future debt service payments. Unrestricted net assets increased \$653,790 due to the County's diligence in maintaining spending levels.

The net assets of business-type activities increased \$32,595.

Highland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

Table 2 reflects the changes in net assets in 2010 and 2009.

(Table 2)
Changes in Net Assets

	Governmental		Business-Type		Total	
	Activities		Activity			
	2010	2009	2010	2009	2010	2009
Receipts						
Program Receipts						
Charges for Services and Sales	\$3,127,209	\$3,779,698	\$609,947	\$559,846	\$3,737,156	\$4,339,544
Operating Grants and Contributions	14,698,922	14,954,561	0	0	14,698,922	14,954,561
Capital Grants and Contributions	1,973,711	1,482,705	0	0	1,973,711	1,482,705
Total Program Receipts	19,799,842	20,216,964	609,947	559,846	20,409,789	20,776,810
General Receipts						
Property Taxes	4,807,476	3,310,838	0	0	4,807,476	3,310,838
Sales Taxes Levied for General Purposes	5,176,155	4,826,987	0	0	5,176,155	4,826,987
Payments in Lieu of Taxes	17,100	148,665	0	0	17,100	148,665
Grants and Entitlements Not Restricted to Specific Programs	1,574,713	1,223,927	0	0	1,574,713	1,223,927
Interest	26,781	33,302	0	0	26,781	33,302
Proceeds of Ohio Water						
Development Authority Loan	0	160,883	0	0	0	160,883
Proceeds of Loans	0	180,408	0	0	0	180,408
Proceeds from Sale of Capital Assets	0	28,732	0	0	0	28,732
Miscellaneous	1,090,453	583,412	0	0	1,090,453	583,412
Total General Receipts	12,692,678	10,497,154	0	0	12,692,678	10,497,154
Total Receipts	32,492,520	30,714,118	609,947	559,846	33,102,467	31,273,964
Disbursements						
General Government	3,931,096	3,950,824	0	0	3,931,096	3,950,824
Public Safety	4,362,463	4,320,809	0	0	4,362,463	4,320,809
Public Works	5,601,272	5,274,214	0	0	5,601,272	5,274,214
Health	4,574,925	5,123,745	0	0	4,574,925	5,123,745
Human Services	7,287,302	8,723,554	0	0	7,287,302	8,723,554
Other	0	10,841	0	0	0	10,841
Capital Outlay	1,549,369	1,433,734	0	0	1,549,369	1,433,734
Debt Service	2,076,489	1,743,986	0	0	2,076,489	1,743,986
Sewer	0	0	577,352	538,648	577,352	538,648
Total Disbursements	29,382,916	30,581,707	577,352	538,648	29,960,268	31,120,355
Increase in Net Assets	3,109,604	132,411	32,595	21,198	3,142,199	153,609
Net Assets at Beginning of Year	5,885,915	5,753,504	303,222	282,024	6,189,137	6,035,528
Net Assets at End of Year	\$8,995,519	\$5,885,915	\$335,817	\$303,222	\$9,331,336	\$6,189,137

Program receipts represent 60 percent of total receipts for governmental activities and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money.

Highland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

Charges for services in the governmental activities decreased \$652,489 due to a large decrease in revenues related to a two year grant that was received during 2009. Operating Grants and Contributions in the governmental activities decreased \$255,639 due primarily to State cuts in public assistance, such as Temporary Assistance to Needy Families, Food Stamp Maintenance and Title XX Social Services. These decreases were offset by an increase in grants received for economic development.

Property taxes increased \$1,496,638, due to the passage of a replacement levy for the Board of Developmental Disabilities that combined two existing levies and increased the effective millage rate on agricultural and residential properties by 1.2 mills.

Sales tax increased \$349,168, which was unexpected. A portion of the change can be attributed to sales tax collected on items that were previously not required to be taxed, such as nursing home equipment.

Payments in lieu of taxes decreased \$131,565, due to the expiration of agreements with local businesses. Interest revenue decreased \$6,521 due to declining interest rates and changes in the County's investment portfolio.

Grants and entitlements not restricted to specific programs increased \$350,786, due partly to increases in homestead and rollback receipts related to the new Board of Developmental Disabilities property tax levy.

Governmental activities general receipts represent 41 percent of the County's total receipts, and of this amount, 37 percent are property taxes and 40 percent are sales tax receipts. Grants and entitlements not restricted to specific programs make up 12 percent.

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

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

Highland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

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, Public Works and Health which account for 25, 19 and 16 percent of all governmental disbursements, respectively. Public Safety also represents a significant cost, about 15 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 2010	Total Cost Of Services 2009	Net Cost of Services 2010	Net Cost of Services 2009
General Government	\$3,931,096	\$3,950,824	\$1,706,669	\$2,162,553
Public Safety	4,362,463	4,320,809	3,323,249	3,422,230
Public Works	5,601,272	5,274,214	535,446	675,355
Health	4,574,925	5,123,745	1,289,119	1,481,115
Human Services	7,287,302	8,723,554	1,076,444	1,265,475
Other	0	10,841	0	10,841
Capital Outlay	1,549,369	1,433,734	(424,342)	(133,376)
Debt Service	2,076,489	1,743,986	2,076,489	1,743,986
Total Disbursements	<u>\$29,382,916</u>	<u>\$30,581,707</u>	<u>\$9,583,074</u>	<u>\$10,628,179</u>

The total cost of General Government services decreased \$19,728. This was due primarily to the County continuing cost control measures during 2010 that were implemented in prior years. Public Safety disbursements only increased \$41,654, also due to major cost saving measures in the Sheriff's department. Public works increased \$327,058, due to increases in grants for economic development from the Ohio Department of Development. Human services decreased \$1,436,252, due primarily to reductions in spending as intergovernmental funding for public assistance declined. Capital outlay increased \$115,635 due to grants received for construction, offset by the construction of the new sewer lines and computer upgrades and replacements in 2009 that were not repeated in 2010. Debt Service increased \$332,503, due mainly to an increase in principal and interest payments related to the Madison Township General Obligation Bonds.

Highland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

Business-Type Activity

The County operates one large sewage collection and treatment facility and three smaller residential plants. Charges to the residents within the service areas maintain the infrastructure. The monthly fees cover all costs of operation. The County Prosecutor sent letters to delinquent taxpayers, so when the real estate taxes were paid, more of the special assessments for sewer fees were also paid.

The County's Funds

Total governmental funds had receipts of \$32,492,520 and disbursements of \$29,382,916. The Public Assistance Fund had a slight decrease of \$33,435. The General, Real Estate Assessment, Repair MVL and Board of Developmental Disabilities all saw increases in fund balances for the year. The \$665,414 increase in the General Fund was mainly due to increases in sales tax receipts. The \$33,435 decrease in the Public Assistance Fund was the result of disbursements exceeding receipts for the year. The \$126,051 increase in the Real Estate Assessment Fund and the \$158,717 increase in the Repair MVL fund were due to receipts exceeding disbursements for the year. In addition the County is accumulating resources in the Real Estate Assessment fund to pay for the 2012 tax year reappraisal. The \$1,281,948 increase in the Board of Developmental Disabilities Fund was due to an increase in property tax revenues, as the County began collections on a combined replacement levy for this fund during 2010.

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 2010, the County amended its General Fund budget several times to reflect changing circumstances. Actual receipts were above original and final budgeted receipts due to an increase in sales tax collections and fines and forfeitures, offset by decreases in property taxes.

Final disbursements were budgeted at \$7,871,319 while actual disbursements were \$7,724,229. The County's original appropriations were \$7,432,797. The variance between original and final appropriations was \$438,522, and was due to increases in estimates for overall disbursements. The variance between final appropriations and actual disbursements of \$147,091 was due to decreases in overall monies spent by the County.

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, 2010
(Unaudited)

Debt

At December 31, 2010, the County's outstanding debt included \$6,169,521 in general obligation bonds issued for improvements to buildings and structures, and \$11,487,086 in special assessment bonds, OWDA loans, OPWC loans, long-term notes and ODOD loans for facilities and equipment. For further information regarding the County's debt, refer to Notes 11 and 12 to the basic financial statements.

Current Issues

Due to the reduction in local government funds and local government revenue assistance funds over the past few years, the County Commissioners increased the sales tax by one-half percent in 2005, which makes the County's sales tax 1.5 percent. During the past few years, both residential and commercial development in Highland County have decreased considerably. There continues to be limited commercial development, primarily in the form of small strip malls along Harry Sauner Road. Several of these shops remain unoccupied. Some of the shops have closed. Highland County has been severely affected by the closing of DHL in Wilmington. Johnson Controls, a major employer in the Greenfield area has also closed. Highland County continues to be among the highest in unemployment in the State.

Sales of existing homes have continued to decrease, with several homes being on the market for many months. The only sales that have held even close are vacant agricultural land. Conveyance fees and recording fees have decreased, adversely affecting County General Fund receipts. There have been many Sheriff sales, mostly due to mortgage repossession. There are a few delinquent tax sales. The County Treasurer and Prosecutor continue to be aggressive in collecting delinquent real estate taxes.

The County's interest income has dropped to an almost insignificant amount. Just a few years ago, interest income was over \$500,000 annually.

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, 119 Governor Foraker PL, Hillsboro, Ohio 45133.

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Highland County, Ohio
Statement of Net Assets - Cash Basis
December 31, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activity	Total	Highland County Airport Authority
Assets				
Equity in Pooled Cash and Cash Equivalents	\$8,800,983	\$335,817	\$9,136,800	\$42,328
Cash and Cash Equivalents in Segregated Accounts	1,056	0	1,056	0
Cash and Cash Equivalents with Fiscal Agents	193,480	0	193,480	0
<i>Total Assets</i>	<u>\$8,995,519</u>	<u>\$335,817</u>	<u>\$9,331,336</u>	<u>\$42,328</u>
Net Assets				
Restricted for:				
Capital Projects	\$347,583	\$0	\$347,583	\$0
Debt Service	847,520	0	847,520	0
Other Purposes	6,623,763	0	6,623,763	0
Unrestricted	1,176,653	335,817	1,512,470	42,328
<i>Total Net Assets</i>	<u>\$8,995,519</u>	<u>\$335,817</u>	<u>\$9,331,336</u>	<u>\$42,328</u>

See accompanying notes to the basic financial statements

Highland County, Ohio
Statement of Activities - Cash Basis
For the Year Ended December 31, 2010

	Program Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government:				
Legislative and Executive	\$2,338,929	\$1,633,482	\$3,693	\$0
Judicial	1,592,167	435,517	151,735	0
Public Safety	4,362,463	494,120	545,094	0
Public Works	5,601,272	112,940	4,952,886	0
Health	4,574,925	268,786	3,017,020	0
Human Services	7,287,302	182,364	6,028,494	0
Capital Outlay	1,549,369	0	0	1,973,711
Debt Service:				
Principal Retirement	1,396,493	0	0	0
Interest and Fiscal Charges	679,996	0	0	0
<i>Total Governmental Activities</i>	<u>29,382,916</u>	<u>3,127,209</u>	<u>14,698,922</u>	<u>1,973,711</u>
Business-Type Activity				
Sewer	577,352	609,947	0	0
<i>Total Primary Government</i>	<u>\$29,960,268</u>	<u>\$3,737,156</u>	<u>\$14,698,922</u>	<u>\$1,973,711</u>
Component Unit				
Highland County Airport Authority	<u>\$132,376</u>	<u>\$57,748</u>	<u>\$174</u>	<u>\$24,242</u>

General Receipts

Property Taxes Levied for:

- General Purposes
- Emergency Management
- Road Improvements
- Board of Developmental Disabilities
- Human Services

Sales Taxes Levied for General Purposes

Payments in Lieu of Taxes

Grants and Entitlements not Restricted to Specific Programs

Interest

Miscellaneous

Total General Receipts

Change in Net Assets

Net Assets at Beginning of Year

Net Assets at End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts
and Changes in Net Assets

Governmental Activities	Primary Government		Component Unit
	Business-Type Activity	Total	Highland County Airport Authority
(\$701,754)	\$0	(\$701,754)	\$0
(1,004,915)	0	(1,004,915)	0
(3,323,249)	0	(3,323,249)	0
(535,446)	0	(535,446)	0
(1,289,119)	0	(1,289,119)	0
(1,076,444)	0	(1,076,444)	0
424,342	0	424,342	0
(1,396,493)	0	(1,396,493)	0
(679,996)	0	(679,996)	0
(9,583,074)	0	(9,583,074)	0
0	32,595	32,595	0
(9,583,074)	32,595	(9,550,479)	0
0	0	0	(50,212)
1,623,859	0	1,623,859	0
241	0	241	0
9,494	0	9,494	0
2,649,294	0	2,649,294	0
524,588	0	524,588	0
5,176,155	0	5,176,155	0
17,100	0	17,100	0
1,574,713	0	1,574,713	0
26,781	0	26,781	0
1,090,453	0	1,090,453	0
12,692,678	0	12,692,678	0
3,109,604	32,595	3,142,199	(50,212)
5,885,915	303,222	6,189,137	92,540
<u>\$8,995,519</u>	<u>\$335,817</u>	<u>\$9,331,336</u>	<u>\$42,328</u>

Highland County, Ohio
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2010

	General Fund	Public Assistance Fund	Real Estate Assessment Fund
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,176,653	\$127,258	\$717,946
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	174,463	0	0
Cash and Cash Equivalents in Segregated Accounts	0	0	0
Cash and Cash Equivalents with Fiscal Agents	0	0	0
<i>Total Assets</i>	<u>\$1,351,116</u>	<u>\$127,258</u>	<u>\$717,946</u>
Fund Balances			
Reserved:			
Reserved for Encumbrances	\$108,630	\$37,359	\$0
Reserved for Unclaimed Monies	174,463	0	0
Reserved for Southern Ohio Council of Governments	0	0	0
Unreserved:			
Undesignated, Reported in:			
General Fund	1,068,023	0	0
Special Revenue Funds	0	89,899	717,946
Debt Service Funds	0	0	0
Capital Projects Funds	0	0	0
<i>Total Fund Balances</i>	<u>\$1,351,116</u>	<u>\$127,258</u>	<u>\$717,946</u>

See accompanying notes to the basic financial statements

Repair MVL Fund	Board of Developmental Disabilities Fund	Other Governmental Funds	Total Governmental Funds
\$603,885	\$2,170,321	\$3,830,457	\$8,626,520
0	0	0	174,463
0	0	1,056	1,056
0	193,480	0	193,480
<u>\$603,885</u>	<u>\$2,363,801</u>	<u>\$3,831,513</u>	<u>\$8,995,519</u>
\$25,917	\$12,180	\$105,836	\$289,922
0	0	0	174,463
0	193,480	0	193,480
0	0	0	1,068,023
577,968	2,158,141	2,580,252	6,124,206
0	0	847,520	847,520
0	0	297,905	297,905
<u>\$603,885</u>	<u>\$2,363,801</u>	<u>\$3,831,513</u>	<u>\$8,995,519</u>

Highland County, Ohio
Statement of Cash Receipts, Disbursements
and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2010

	General Fund	Public Assistance Fund	Real Estate Assessment Fund	Repair MVL Fund	Board of Developmental Disabilities Fund
Receipts					
Property Taxes	\$1,623,859	\$0	\$0	\$9,494	\$2,649,294
Sales Taxes	5,176,155	0	0	0	0
Charges for Services	1,059,267	177,019	456,969	49,787	161,798
Licenses and Permits	4,050	0	0	0	0
Fines and Forfeitures	128,047	0	0	848	0
Intergovernmental	1,400,466	3,375,522	0	4,260,351	2,034,807
Payments in Lieu of Taxes	17,100	0	0	0	0
Special Assessments	0	0	0	0	0
Interest	15,166	0	0	1,557	8,682
Rentals	12,662	0	0	0	0
Contributions and Donations	0	0	0	0	0
Miscellaneous	177,204	169,011	0	39,305	11,672
<i>Total Receipts</i>	<u>9,613,976</u>	<u>3,721,552</u>	<u>456,969</u>	<u>4,361,342</u>	<u>4,866,253</u>
Disbursements					
Current:					
General Government:					
Legislative and Executive	1,730,778	0	330,918	0	0
Judicial	1,453,896	0	0	0	0
Public Safety	3,269,796	0	0	0	0
Public Works	569,111	0	0	4,202,625	0
Health	164,420	0	0	0	3,587,787
Human Services	457,598	3,704,390	0	0	0
Capital Outlay	0	0	0	0	0
Debt Service:					
Principal Retirement	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0
<i>Total Disbursements</i>	<u>7,645,599</u>	<u>3,704,390</u>	<u>330,918</u>	<u>4,202,625</u>	<u>3,587,787</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,968,377</u>	<u>17,162</u>	<u>126,051</u>	<u>158,717</u>	<u>1,278,466</u>
Other Financing Sources (Uses)					
Transfers In	3,415	0	0	0	40,000
Transfers Out	(1,306,378)	(50,597)	0	0	(36,518)
Advances In	15,179	10,551	0	0	0
Advances Out	(15,179)	(10,551)	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,302,963)</u>	<u>(50,597)</u>	<u>0</u>	<u>0</u>	<u>3,482</u>
<i>Net Change in Fund Balances</i>	665,414	(33,435)	126,051	158,717	1,281,948
<i>Fund Balances at Beginning of Year</i>	685,702	160,693	591,895	445,168	1,081,853
<i>Fund Balances at End of Year</i>	<u>\$1,351,116</u>	<u>\$127,258</u>	<u>\$717,946</u>	<u>\$603,885</u>	<u>\$2,363,801</u>

See accompanying notes to the basic financial statements

Other Governmental Funds	Total Governmental Funds
\$524,829	\$4,807,476
0	5,176,155
749,701	2,654,541
102,207	106,257
224,854	353,749
6,464,559	17,535,705
0	17,100
568,242	568,242
2,933	28,338
0	12,662
128,057	128,057
707,046	1,104,238
<u>9,472,428</u>	<u>32,492,520</u>
277,233	2,338,929
138,271	1,592,167
1,092,667	4,362,463
829,536	5,601,272
822,718	4,574,925
3,125,314	7,287,302
1,549,369	1,549,369
1,396,493	1,396,493
679,996	679,996
<u>9,911,597</u>	<u>29,382,916</u>
<u>(439,169)</u>	<u>3,109,604</u>
1,476,219	1,519,634
(126,141)	(1,519,634)
69,628	95,358
(69,628)	(95,358)
<u>1,350,078</u>	<u>0</u>
910,909	3,109,604
<u>2,920,604</u>	<u>5,885,915</u>
<u>\$3,831,513</u>	<u>\$8,995,519</u>

Highland County, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property Taxes	\$2,097,315	\$2,097,315	\$1,127,236	(\$970,079)
Sales Taxes	3,703,421	4,019,213	5,176,155	1,156,942
Charges for Services	890,329	966,248	1,244,385	278,137
Licenses and Permits	2,898	3,145	4,050	905
Fines and Forfeitures	91,615	99,427	128,047	28,620
Intergovernmental	849,131	921,537	1,186,804	265,267
Payments in Lieu of Taxes	12,235	13,278	17,100	3,822
Interest	10,851	11,776	15,166	3,390
Rentals	9,059	9,832	12,662	2,830
Miscellaneous	147,208	159,760	205,748	45,988
<i>Total Receipts</i>	<u>7,814,062</u>	<u>8,301,531</u>	<u>9,117,353</u>	<u>815,823</u>
Disbursements				
Current:				
General Government				
Legislative and Executive	1,686,725	1,786,239	1,752,860	33,379
Judicial	1,422,180	1,506,086	1,477,942	28,144
Public Safety	3,146,428	3,332,062	3,269,796	62,266
Public Works	590,020	624,830	613,154	11,676
Health	129,348	136,980	134,420	2,560
Human Services	458,096	485,122	476,057	9,065
<i>Total Disbursements</i>	<u>7,432,797</u>	<u>7,871,319</u>	<u>7,724,229</u>	<u>147,091</u>
<i>Excess of Receipts Over Disbursements</i>	<u>381,266</u>	<u>430,212</u>	<u>1,393,124</u>	<u>962,914</u>
Other Financing Sources (Uses)				
Transfers In	2,443	2,652	3,415	763
Transfers Out	(836,670)	(886,032)	(869,475)	16,557
Advances In	10,860	11,786	15,179	3,393
Advances Out	(14,606)	(15,468)	(15,179)	289
<i>Total Other Financing Sources (Uses)</i>	<u>(837,973)</u>	<u>(887,062)</u>	<u>(866,060)</u>	<u>21,002</u>
<i>Net Change in Fund Balance</i>	(456,707)	(456,850)	527,064	983,916
<i>Fund Balance at Beginning of Year</i>	<u>610,042</u>	<u>610,042</u>	<u>610,042</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$153,335</u>	<u>\$153,192</u>	<u>\$1,137,106</u>	<u>\$983,916</u>

See accompanying notes to the basic financial statements

Highland County, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
Public Assistance Fund
For the Year Ended December 31, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Charges for Services	\$308,956	\$177,514	\$177,019	(\$495)
Intergovernmental	5,891,390	3,384,964	3,375,522	(9,442)
Miscellaneous	294,980	169,484	169,011	(473)
<i>Total Receipts</i>	6,495,326	3,731,962	3,721,552	(10,410)
Disbursements				
Current:				
Human Services	6,390,326	3,787,655	3,741,749	45,906
<i>Excess of Receipts Over (Under) Disbursements</i>	105,000	(55,693)	(20,197)	35,496
Other Financing Sources (Uses)				
Transfers Out	(105,000)	(105,000)	(50,597)	54,403
Advances In	0	0	10,551	10,551
Advances Out	0	0	(10,551)	(10,551)
<i>Total Other Financing Sources (Uses)</i>	(105,000)	(105,000)	(50,597)	54,403
<i>Net Change in Fund Balance</i>	0	(160,693)	(70,794)	89,899
<i>Fund Balance at Beginning of Year</i>	160,693	160,693	160,693	0
<i>Fund Balance at End of Year</i>	\$160,693	\$0	\$89,899	\$89,899

See accompanying notes to the basic financial statements

Highland County, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
Real Estate Assessment Fund
For the Year Ended December 31, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Receipts				
Charges for Services	\$349,677	\$349,677	\$440,123	\$90,446
Disbursements				
Current:				
General Government				
Legislative and Executive	<u>347,177</u>	<u>408,477</u>	<u>330,918</u>	<u>77,559</u>
<i>Net Change in Fund Balance</i>	2,500	(58,800)	109,205	168,005
<i>Fund Balance at Beginning of Year</i>	<u>568,801</u>	<u>568,801</u>	<u>568,801</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u><u>\$571,301</u></u>	<u><u>\$510,001</u></u>	<u><u>\$678,006</u></u>	<u><u>\$168,005</u></u>

See accompanying notes to the basic financial statements

Highland County, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
Repair MVL Fund
For the Year Ended December 31, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Property Taxes	\$9,040	\$8,760	\$8,760	\$0
Charges for Services	51,379	49,787	49,787	0
Fines and Forfeitures	875	848	848	0
Intergovernmental	4,396,538	4,260,351	4,260,351	0
Interest	1,607	1,557	1,557	0
Miscellaneous	40,561	39,305	39,305	0
<i>Total Receipts</i>	4,500,000	4,360,608	4,360,608	0
Disbursements				
Current:				
Public Works	4,306,959	4,330,251	4,228,542	101,709
<i>Net Change in Fund Balance</i>	193,041	30,357	132,066	101,709
<i>Fund Balance at Beginning of Year</i>	384,491	53,425	337,715	(284,290)
Prior Year Encumbrances Appropriated	106,959	106,959	106,959	0
<i>Fund Balance at End of Year</i>	<u>\$684,491</u>	<u>\$190,741</u>	<u>\$576,740</u>	<u>(\$182,582)</u>

See accompanying notes to the basic financial statements

Highland County, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
Board of Developmental Disabilities Fund
For the Year Ended December 31, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Property Taxes	\$2,543,850	\$2,543,850	\$2,465,423	(\$78,427)
Charges for Services	243,801	243,801	369,369	125,568
Intergovernmental	1,206,063	1,206,063	1,827,236	621,173
Other	7,704	7,704	11,672	3,968
<i>Total Receipts</i>	4,001,418	4,001,418	4,673,700	672,282
Disbursements				
Current:				
Health	4,156,115	4,336,534	3,599,967	736,567
<i>Excess of Receipts Over (Under) Disbursements</i>	(154,697)	(335,116)	1,073,733	1,408,849
Other Financing Sources (Uses)				
Transfers In	26,402	26,402	40,000	13,598
Transfers Out	(42,160)	(43,990)	(36,518)	7,472
<i>Total Other Financing Sources (Uses)</i>	(15,758)	(17,588)	3,482	21,070
<i>Net Change in Fund Balance</i>	(170,455)	(352,704)	1,077,215	1,429,919
<i>Fund Balance at Beginning of Year</i>	845,755	845,755	845,755	0
<i>Fund Balance at End of Year</i>	\$675,300	\$493,051	\$1,922,970	\$1,429,919

See accompanying notes to the basic financial statements

Highland County, Ohio
Statement of Fund Net Assets - Cash Basis
Proprietary Fund
December 31, 2010

	<u>Enterprise Fund</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$335,817</u>
Net Assets	
Unrestricted	<u>\$335,817</u>

See accompanying notes to the basic financial statements

Highland County, Ohio
Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Fund
For the Year Ended December 31, 2010

	<u>Enterprise Fund</u>
Operating Receipts	
Charges for Services	\$609,947
Operating Disbursements	
Contractual Services	<u>577,352</u>
<i>Change in Net Assets</i>	32,595
<i>Net Assets at Beginning of Year</i>	<u>303,222</u>
<i>Net Assets at End of Year</i>	<u><u>\$335,817</u></u>

See accompanying notes to the basic financial statements

Highland County, Ohio
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
December 31, 2010

	<u>Agency Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,161,198
Cash and Cash Equivalents in Segregated Accounts	<u>485,651</u>
<i>Total Assets</i>	<u><u>\$2,646,849</u></u>
Net Assets	
Undistributed Monies	<u><u>\$2,646,849</u></u>

See accompanying notes to the basic financial statements

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Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

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 of the County consists of all funds, departments, boards, and agencies that are not legally separate from the County. For Highland County, this includes the Board of Developmental Disabilities 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., a workshop, is a legally separate, not for profit corporation, served by a board of trustees appointed by the Board of Developmental Disabilities. The workshop, under contractual agreement with the Highland County Board of Developmental Disabilities, provides sheltered employment for mentally and/or physically handicapped adults in Highland County.

The Highland County Board of Developmental Disabilities 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.

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 1 - Reporting Entity (continued)

The Highland County Airport Authority (the 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 Authority is a component unit of the County, and it is discretely presented to emphasize that it is legally separate from the County.

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

The County participates in four jointly governed organizations, a public entity risk pool and an insurance purchasing pool. These organizations are presented in Notes 16 and 17 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
Southern Ohio Council of Governments
County Risk Sharing Authority, Inc.
County Commissioners' Association of Ohio Workers' Compensation Group Rating Plan

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the *modified* cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the *modified* cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The County does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the County's accounting policies.

Note 2 - Summary of Significant Accounting Policies (continued)

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 the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the County that are governmental in nature and those that are considered business-type activities. 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.

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.

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 2 - Summary of Significant Accounting Policies (continued)

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.

Real Estate Assessment – This fund accounts for State mandated county-wide real estate reappraisals that are funded by charges to the political subdivisions located in the County.

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 Developmental Disabilities – This fund accounts for the operation of a school for the mentally and developmentally disabled, financed by a County-wide property tax levy and federal and State grants.

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

Proprietary Fund

The County classifies funds financed primarily from user charges for goods or services as proprietary. The proprietary fund is classified as an enterprise fund.

Note 2 - Summary of Significant Accounting Policies (continued)

Enterprise Fund - The enterprise fund may be used to account for any activity for which a fee is charged to external users for goods or services. The County has no major enterprise funds.

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 2010. 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. Any such modifications made by the County are described in the appropriate section in this note.

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

D. Budgetary Process

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

Note 2 - Summary of Significant Accounting Policies (continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the County Commissioners. 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, including all supplemental appropriations.

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" on the financial statements.

Cash and cash equivalents that are held separately within departments of the County are recorded as "Cash and Cash Equivalents in Segregated Accounts".

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 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 2010, the County invested in 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 reported at the amount reported by Fifth Third Securities at December 31, 2010.

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 2010 were \$15,166, which includes \$14,224 assigned from other County funds.

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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 9 and 10, 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.

Note 2 - Summary of Significant Accounting Policies (continued)

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 disabled, 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.

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. Internal Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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

Note 3 - 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.

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 4 - Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The statement of receipts, disbursements and changes in fund balance – budget and actual – budget basis 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 differences between the budgetary basis and the modified cash basis are outstanding year-end encumbrances which are treated as expenditures (budgetary basis) rather than as a reservation of fund balance (modified cash basis). In addition, cash that is held by agency funds on behalf of County funds on a budget basis are allocated and reported on the cash basis in the appropriate County fund. The encumbrances outstanding at year-end and agency fund distributions (budgetary basis) amounted to:

	<u>General</u>	<u>Public Assistance</u>	<u>Real Estate Assessment</u>	<u>Repair MVL</u>	<u>Board of Developmental Disabilities</u>
Cash Basis	\$665,414	(\$33,435)	\$126,051	\$158,717	\$1,273,266
Encumbrances	(108,630)	(37,359)	0	(25,917)	(12,180)
Agency Fund Distribution:					
Beginning of Year	75,660	0	23,094	494	51,300
End of Year	(105,380)	0	(39,940)	(1,228)	(235,171)
Budget Basis	<u>\$527,064</u>	<u>(\$70,794)</u>	<u>\$109,205</u>	<u>\$132,066</u>	<u>\$1,077,215</u>

Note 5 - Deposits and Investments

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

Monies held by the County which are not considered active are classified as inactive. Inactive monies may 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;

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 5 - Deposits and Investments (continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the County;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange similar securities, or cash, equal value for equal value;
9. Up to 25 percent of the County's average portfolio in either of the following:
 - a. commercial paper notes in entities incorporated under the laws of Ohio or any other State that have assets exceeding \$500 million dollars rated at the time of purchase, which are rated in the highest qualification established by two nationally recognized standard rating services, which do not exceed 10 percent of the value of the outstanding commercial paper of the issuing corporation and which mature within 270 days after purchase;
 - b. bankers acceptances eligible for purchase by the federal reserve system and which mature within 180 days after purchase;
10. Up to 15 percent of the County's average portfolio in notes issued by United States corporations or by depository institutions that are doing business under authority granted by the United States provided the notes are rated in the second highest or higher category by at least two nationally recognized standard rating services at the time of purchase and the notes mature within two years from the date of purchase;

Note 5 - Deposits and Investments (continued)

11. No-load money market mutual funds rated in the highest category at the time of purchase by at least one nationally recognized standard rating service consisting exclusively of obligations guaranteed by the United States, securities issued by a federal government agency or instrumentality, and/or highly rated commercial paper; and
12. Up to one percent of the County's average portfolio in debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United State government.

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, 2010, the County's only investment was in the Fifth Third Institutional Money Market Mutual Fund. It had a carrying value of \$5,171,440, and matures in less than one year.

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 Moody'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.

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 6 - Permissive Sales and Use Tax

The County Commissioners, by resolution, imposed a 1.5 percent tax on all retail sales made in the County, except sales of motor vehicles, and on the storage, use, or consumption of tangible personal property in the County, including motor vehicles, not subject to the sales tax. In 2010, the County received a total of \$5,176,155. 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 45 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 7 - Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the County. Property tax revenue received during 2010 for real and public utility property taxes represents collections of 2009 taxes. Property tax payments received during 2010 for tangible personal property (other than public utility property) are for 2010 taxes.

2010 real property taxes are levied after October 1, 2010, on the assessed value as of January 1, 2010, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2010 real property taxes are collected in and intended to finance 2011.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2010 public utility property taxes became a lien December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes.

Tangible personal property tax revenue received during 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Tangible personal property tax from telephone companies will no longer be levied and collected after 2010. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 7 - Property Taxes (continued)

The full tax rate for all County operations for the year ended December 31, 2010, was \$10.15 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

Real Property	
Residential and Agricultural	\$581,389,540
Other	79,573,910
Public Utility Property	
Real	148,140
Personal	28,112,910
General Business Personal	728,420
Total Assessed Value	\$689,952,920

The County Treasurer collects property taxes on behalf of all taxing districts in the County. The County Auditor periodically remits to the taxing districts their portion of the taxes. 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.

Note 8 - Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2010, 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)	62,524,477
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

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 8 - Risk Management (continued)

There has been no significant change in insurance coverage from 2009, and settled claims have not exceeded this coverage in the past five years. The County pays all elected officials' bonds by statute.

For 2010, the County participated in the County Commissioners' Association of Ohio Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (See Note 17). 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 60 days prior to the prescribed application deadline of the Ohio Bureau of Workers' Compensation. However, the participant is not relieved of the obligation to pay any amounts owed to the Plan prior to withdrawal, and 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 9 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

Plan Description – The County participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension 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. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2010, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 10.5 percent and 11.1 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2010, member and employer contribution rates were consistent across all three plans.

The County's 2010 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.87 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010. Employer contribution rates are actuarially determined.

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 9 - Defined Benefit Pension Plans (continued)

The County's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2010, 2009, and 2008 were \$1,453,248, \$1,523,020, and \$1,656,599, respectively; The full amount has been contributed for 2010, 2009 and 2008. Contributions to the Member-Directed Plan for 2010 were \$7,409 made by the County and \$5,292 made by plan members.

B. State Teachers Retirement System of Ohio

Plan Description – Certified teachers employed by the school for developmental disabilities participate in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all 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 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, 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 DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan 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 DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Note 9 - Defined Benefit Pension Plans (continued)

Funding Policy – For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The County was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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.

Note 10 - Post-Employment Benefits

A. Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Note 10 - Post-Employment Benefits (continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 17.87 percent. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The County's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2010, 2009, and 2008 were \$521,663, \$761,510, and \$828,300, respectively; 100 percent has been contributed for 2010, 2009, and 2008.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. Rates for law enforcement and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

B. State Teachers Retirement System of Ohio

Plan Description – Certified teachers employed by the school for developmental disabilities contribute to the cost-sharing, multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 10 - Post-Employment Benefits (continued)\

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The County Board of Developmental Disabilities contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$1,007, \$2,925, and \$2,844, respectively; the full amount has been contributed for all three fiscal years.

Note 11 - Short-Term Debt

A summary of the short-term note transactions for the year-ended December 31, 2010 follows:

	Interest Rate	Balance December 31, 2009	Additions	Reductions	Balance December 31, 2010
<u>Short-Term Liabilities</u>					
2009 Childrens Services Tax Anticipation Note	0.00%	\$180,408	\$0	\$180,408	\$0

2009 Children’s Services Tax Anticipation Note

On August 12, 2009, the County entered into a \$180,408 note agreement with an individual for the purpose of making payments to foster parents. The final payment on the note was made in 2010 from the Childrens Services Special Revenue Fund.

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 12 - Long -Term Debt

The County's long-term debt activity for the year ended December 31, 2010, was as follows:

	Interest Rate	Balance December 31, 2009	Additions	Reductions	Balance December 31, 2010	Due Within One Year
General Obligation Bonds:						
1994 GO Bonds Series B						
Madison Township	4.50%	\$93,900	\$0	\$93,900	\$0	\$0
1996 GO Bonds Series A						
Tec Center	5.00%	634,700	0	77,900	556,800	81,900
1996 GO Bonds Series B						
Tec Center	5.00%	232,200	0	28,600	203,600	29,900
2002 GO Bonds						
Correctional Facilities	1.5 - 4.8%	3,660,000	0	215,000	3,445,000	225,000
2008 GO Bonds Various Purpose						
Refunding and Improvement Bonds Board of Developmental Disabilities	5.05%	443,996	0	14,375	429,621	15,110
2005 GO Bonds						
Various Purpose	4.80%	1,439,000	0	62,000	1,377,000	65,000
2009 GO Bonds Board of Health						
Building Improvement	3.50%	175,000	0	87,500	87,500	17,500
Total GO Bonds		6,678,796	0	579,275	6,099,521	434,410
OPWC Loans:						
1996 OPWC Rocky Fork Lake						
Area Wastewater Collection System Loan	0.00%	190,000	0	10,000	180,000	20,000
2003 OPWC Rolling Acres						
WWTP Loan	0.00%	26,334	0	1,053	25,281	2,107
2009 OPWC Southwest WWTP Loan	0.00%	229,201	0	5,730	223,471	11,460
2009 OPWC Lakeside WWTP Repair Loan	0.00%	70,261	0	1,757	68,504	3,513
Total OPWC Loans		515,796	0	18,540	497,256	37,080
Long-Term Notes:						
Bond Anticipation Note						
Geographic Information System	4.21%	395,925	0	18,000	377,925	18,000
Bond Anticipation Note						
Real Estate Acquisition	4.21%	131,000	0	6,000	125,000	6,000
Bond Anticipation Note						
Airport Improvement	6.00%	1,003,000	0	45,000	958,000	47,000
Bond Anticipation Note						
Juvenile Detention Center	3.40%	570,000	0	25,000	545,000	25,000
Bond Anticipation Note						
Various Purpose	4.07%	646,000	0	140,000	506,000	147,000
Total Long-Term Notes		2,745,925	0	234,000	2,511,925	243,000
OWDA Loans:						
1998 OWDA Rocky Fork						
Water Pollution Control Loan	2.20%	4,622,255	0	395,897	4,226,358	404,655
2004 OWDA Highland-Leesburg						
Sewer Loan	3.98%	725,969	0	15,846	710,123	16,483
2006 OWDA Mowrystown Sewer Loan	3.92%	2,030,901	0	39,730	1,991,171	41,303
2009 OWDA Babington Sewer Loan	4.75%	345,314	0	5,697	339,617	2,951
Total OWDA Loans		7,724,439	0	457,170	7,267,269	465,392
Other Long-Term Obligations:						
1994 Special Assessment Bonds Series A						
Madison Township	4.50%	649,500	0	14,600	634,900	15,200
2002 ODOB Leesburg						
Industrial Park Loan	2.10%	575,736	0	0	575,736	69,967
Total Other Long-Term Obligations		1,225,236	0	14,600	1,210,636	85,167
Total Long-Term Liabilities		\$18,890,192	\$0	\$1,303,585	\$17,586,607	\$1,265,049

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 12 - Long-Term 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 were fully retired in 2010.

1996 Tec Center General Obligation 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 General Obligation 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.

2008 Various Purpose Refunding and Improvement Bonds

On October 29, 2008, the County issued \$460,000 in general obligation bonds for the purpose of refunding outstanding notes issued and for paying the cost of constructing building improvements in the County. The bonds mature in 2028 and will be paid from the Board of Developmental Disabilities 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.

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 12 - Long-Term Debt (continued)

2009 Board of Health Building Improvement General Obligation Bonds

On June 3, 2009, the County issued \$175,000 in general obligation bonds for the purpose of refunding 2008 bond anticipation notes that were used for making improvements to a building for use by the Board of Health. The bonds mature in 2019 and will be paid from the County Board of Health Agency Fund.

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 Wastewater Collection System project. The loan matures 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.

2009 Ohio Public Works Commission Southwest Wastewater Treatment Plant Loan

In 2009, the County entered into a \$392,700 loan with the Ohio Public Works Commission for the purpose of constructing a wastewater treatment plant in the village of Mowrystown. The final debt payment on the loan is due in 2030 and payments will be made from the Mowrystown Sewer Debt Retirement Fund.

2009 Ohio Public Works Commission Lakeside Wastewater Treatment Plant Repair Loan

In 2009, the County entered into a \$325,800 loan with the Ohio Public Works Commission for the purpose of updating the wastewater treatment plant in the Lakeside Subdivision. The final debt payment on the loan is due in 2030 and payments will be made from the Lakeside Sewer 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.

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 12 - Long-Term Debt (continued)

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

Bond Anticipation Note - Juvenile Detention Center

On April 7, 2005, the County issued a \$650,000 bond anticipation note for the purpose of constructing and improving the South Central Ohio Regional Juvenile Detention Center. The note will be paid from the SCORJDC Debt Retirement Fund. The note matures in 2025.

Bond Anticipation Note – Various Purpose

On December 27, 2007, the County issued a \$900,000 bond anticipation note for the purpose of installing computer hardware and software, acquiring a vehicle for emergency services, and acquiring real estate. The note will be paid from the Various Purpose Debt Retirement Fund. The note matures in 2027.

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.

2004 Ohio Water Development Authority Highland - Leesburg Sewer Loan

On May 27, 2004, the County entered into a loan agreement with the Ohio Water Development Authority for running sewer lines to connect the Villages of Highland and Leesburg. The final payment on the loan is due in 2036 and payments will be made from the Highland-Leesburg Sewer Debt Retirement Fund.

2006 Ohio Water Development Authority Mowrystown Sewer Loan

On April 27, 2006, the County entered into a loan agreement with the Ohio Water Development Authority for the construction of a sewer plant in Mowrystown. The final payment on the loan is due in 2036 and payments will be made from the Mowrystown Sewer Debt Retirement Fund.

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 12 - Long-Term Debt (continued)

2009 Ohio Water Development Authority Babington Sewer Loan

On February 26, 2009, the County entered into a loan agreement with the Ohio Water Development Authority for the construction of a wastewater collection system in the Babington mobile home park. The final payment on the loan is due in 2040 and payments will be made from the Babington Sewer Debt Retirement Fund.

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.

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 and will be paid from the Leesburg Industrial Park Debt Retirement Fund.

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

Year	General Obligation Bonds		OPWC	Long-Term Notes	
	Principal	Interest	Loans	Principal	Interest
2011	\$434,410	\$293,812	\$37,080	\$243,000	\$106,460
2012	448,683	274,932	37,080	251,000	95,760
2013	468,495	254,827	37,080	125,000	87,521
2014	489,449	233,806	37,080	130,000	81,807
2015	509,846	211,864	37,080	134,000	75,904
2016-2020	2,296,082	696,444	165,400	722,000	284,925
2021-2025	1,421,794	170,108	79,078	873,000	107,518
2026-2030	100,762	9,090	67,378	33,925	1,097
Total	\$6,169,521	\$2,144,883	\$497,256	\$2,511,925	\$840,992

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 12 - Long-Term Debt (continued)

Year	OWDA Loans		Special Assessment Bonds		ODOD Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$465,392	\$205,082	\$15,200	\$28,570	\$67,250	\$22,364
2012	479,803	202,182	15,900	27,886	69,967	19,647
2013	491,635	190,350	16,600	27,171	72,794	16,820
2014	503,779	178,207	17,400	26,424	75,735	13,879
2015	516,244	165,743	18,200	25,641	78,794	10,819
2016-2020	2,532,339	629,878	103,800	115,178	211,196	27,976
2021-2025	513,344	419,476	129,400	89,617	0	0
2026-2030	626,370	306,448	161,300	57,762	0	0
2031-2035	764,399	168,421	157,100	18,063	0	0
2036-2040	373,964	25,431	0	0	0	0
Total	\$7,267,269	\$2,491,218	\$634,900	\$416,312	\$575,736	\$111,505

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 one 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 three 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 \$2,323,467 at December 31, 2010.

Note 13 - Leases

In prior years, the County entered into capital leases for sheriff's vehicles. Total lease payments for 2010 totaled \$48,229.

Future lease payments are as follows:

Year	Amount
2011	\$24,249

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 14 - Interfund Activity

A. Interfund Transfers

During 2010 the following transfers were made:

		Transfer From				
		General	Public	Board of	Other	
		Fund	Assistance	Developmental	Governmental	Total
		Fund	Assistance	Disabilities	Funds	Total
Transfer To	Major Funds:					
	General	\$0	\$0	\$0	\$3,415	\$3,415
	Board of Developmental					
	Disabilities	0	0	0	40,000	40,000
	Other Governmental	1,306,378	50,597	36,518	82,726	1,476,219
	Total All Funds	<u>\$1,306,378</u>	<u>\$50,597</u>	<u>\$36,518</u>	<u>\$126,141</u>	<u>\$1,519,634</u>

B. Interfund Advances

During 2010 the following advances were made:

		Advances Out			
		General	Public	Other	
		Fund	Assistance	Governmental	Total
		Fund	Assistance	Funds	Total
Advances In	Major Funds:				
	General	\$0	\$10,551	\$4,628	\$15,179
	Public Assistance	10,551	0	0	10,551
	Other Governmental Funds	4,628	0	65,000	69,628
	Total All Funds	<u>\$15,179</u>	<u>\$10,551</u>	<u>\$69,628</u>	<u>\$95,358</u>

The advances are due to lags between the dates when goods and services are provided, transactions recorded in the accounting system, and payments between funds are made.

Note 15 - Contingent Liabilities

The County is a 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 16 - Jointly Governed Organizations

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

The Ross, Pickaway, Highland and Fayette Counties Joint Solid Waste District (the 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 2010. The degree of control exercised by any participating County is limited to its representation on the Board. The Board of Directors consists of 12 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 (the Board) 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 18 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 Commissioners 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, Juni Frey who serves as Finance Director, 1394 Chestnut Street, Chillicothe, Ohio 45601.

C. South Central Regional Juvenile Detention Center

The South Central Regional Juvenile Detention Center (the 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, Ross, Jackson, 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 County contributed \$153,152.57 during 2010 for the operation of the Center.

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 16 - Jointly Governed Organizations (continued)

D. Southern Ohio Council of Governments

The County is a member of the Southern Ohio Council of Governments (the "Council"), which is a jointly governed organization created under Ohio Revised Code Section 167.01. The governing body consists of a 15 member board with each participating County represented by its Director of its Board of Developmental Disabilities. Member counties include: Adams, Athens, Brown, Clinton, Fayette, Gallia, Highland, Jackson, Lawrence, Meigs, Pickaway, Pike, Ross, Scioto and Vinton. Financial statements can be obtained by writing to the Southern Ohio Council of Governments, VA Medical Center, Building 8, 17273 State Route 104, Chillicothe, Ohio, 45601

Note 17 - Public Entity Risk Pool and Insurance Purchasing Pool

A. County Risk Sharing Authority, Inc.

The County Risk Sharing Authority, Inc. (CORSA) is a public entity shared risk pool among 62 counties in Ohio. CORSA was formed as an Ohio non-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. The coverage includes comprehensive general liability, automobile liability, certain property insurance and public officials' errors and omissions liability insurance.

Each member county has one vote on all matters requiring a vote, to be cast by a designated representative. The affairs of 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. CORSA has issued certificates of participation in order to provide adequate cash reserves. The certificates are secured by the member counties' obligations to make coverage payments to CORSA. The participating counties have no responsibility for the payment of the certificates. The County does not have an equity interest in or a financial responsibility for CORSA. Any additional premium or contribution amounts and estimates of losses are not reasonably determinable. The County's payment to CORSA for insurance in 2010 was \$195,683.

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

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

Note 17 - 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.

Note 18 – Highland County Regional Airport Authority

A. Summary of Significant Accounting Policies

The summary of significant accounting policies of the Highland County Regional Airport Authority (the Authority) is presented to assist in understanding the entity's financial statements. The financial statements and notes are representations of the Authority's management who is responsible to their integrity and objectivity.

Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Highland County Regional Airport Authority, Highland County, (the Authority) as a body corporate and politic. The Authority is directed by a seven-member Board, appointed by the Highland County Commissioners. The Authority is responsible for the safe and efficient operation and maintenance of the airport.

The Authority's management believes these financial statements present all activities for which the Authority is financially accountable.

Basis of Accounting

The financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Authority recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

The statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

Cash and Equivalents

The Authority deposits all available funds in interest earning checking accounts at a local commercial bank.

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Note 18 – Highland County Regional Airport Authority (continued)

Property, Plant, and Equipment

The Authority records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

B. Equity in Pooled Cash

The carrying amount of deposits and investments at December 31, 2010 was \$42,328. Deposits are insured by the Federal Depository Insurance Corporation.

C. Risk Management

The Highland County Commissioners carry insurance through private carriers for airport property and liability.

HIGHLAND COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2010

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>				
Board of Developmental Disabilities				
Food Distribution Program	N/A	10.550		\$6,211
National School Lunch Program	066035-LLP4-2010	10.555	5,817	
<i>Passed Through the Ohio Department of Jobs and Family Services:</i>				
Job and Family Services				
DOD Supplemental Nutrition Assistance Program	G-1011-11-5054/G-89-20-1079	10.561	69,817	
Food Assistance	G-1011-11-5054/G-89-20-1079	10.561	210,984	
SNAP Food Assistance Stimulus	G-1011-11-5054/G-89-20-1079	10.561	17,570	
Total CFDA Number 10.561			298,371	
Total U.S. Department of Agriculture			304,188	6,211
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Ohio Department Developmental Disabilities:</i>				
Board of Developmental Disabilities				
Social Services Block Grant - Title XX	N/A	93.667	38,489	
<i>Passed Through the Ohio Department of Jobs and Family Services:</i>				
Job and Family Services				
Social Services Block Grant - Title XX Base	G-1011-11-5054/G-89-20-1079	93.667	94,599	
Social Services Block Grant - Title XX	G-1011-11-5054/G-89-20-1079	93.667	182,427	
Total CFDA Number 93.667			315,515	
<i>Passed Through Ohio Department Developmental Disabilities:</i>				
Board of Developmental Disabilities				
Medical Assistance Program - Title XIX (Level 1 efmap)		93.778	6,409	
Medical Assistance Program - Title XIX (TCM efmap)		93.778	9,853	
Medical Assistance Program - Title XIX (I/O efmap)		93.778	51,230	
<i>Passed Through the Ohio Department of Jobs and Family Services:</i>				
Children's Services Board				
Medical Assistance Program - Child Welfare Related	G-1011-11-5055/G-89-20-1080	93.778	16,276	
Job and Family Services				
Medical Assistance Program - NET	G-1011-11-5054/G-89-20-1079	93.778	325,118	
Medical Assistance Program - PRST	G-1011-11-5054/G-89-20-1079	93.778	8,129	
Medical Assistance Program - Title XIX	G-1011-11-5054/G-89-20-1079	93.778	204,236	
Total CFDA Number 93.778			621,251	
Children's Services Board				
KPIP Admin/Outreach	G-1011-11-5055/G-89-20-1080	93.558	490	
Job and Family Services				
Child Care Services TANF	G-1011-11-5054/G-89-20-1079	93.558	2,282	
TANF Administration	G-1011-11-5054/G-89-20-1079	93.558	358,587	
TANF Earn Collections	G-1011-11-5054/G-89-20-1079	93.558	2,963	
TANF Regular	G-1011-11-5054/G-89-20-1079	93.558	774,036	
Total CFDA Number 93.558			1,138,358	
TANF Summer Youth		93.714	160,577	
Total TANF Cluster			1,298,935	
Job and Family Services				
Quality Child Care	G-1011-11-5054/G-89-20-1079	93.575	5,529	
Total CFDA Number 93.575			5,529	
Child Care Non-Adm.				
Child Care Non-Adm.	G-1011-11-5054/G-89-20-1079	93.596	49,309	
County Child Care Adm.	G-1011-11-5054/G-89-20-1079	93.596	14,745	
Total CFDA Number 93.596			64,054	
Total Child Care Cluster			69,583	

(Continued)

HIGHLAND COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
Job and Family Services				
Child Support	G-1011-11-5054/G-89-20-1079	93.563	183,286	
Child Support Stimulus	G-1011-11-5054/G-89-20-1079	93.563	232,463	
Children's Services Board				
ESAA	G-1011-11-5055/G-89-20-1080	93.563	6,735	
Total CFDA Number 93.563			422,484	
Children's Services Board	G-1011-11-5055/G-89-20-1080			
Child Welfare Services - IV-B		93.645	50,006	
Child Abuse and Neglect	G-1011-11-5055/G-89-20-1080	93.669	2,000	
Chafee Foster Care Independence Program	G-1011-11-5055/G-89-20-1080	93.674	14,549	
Foster Care - Protect Ohio	G-1011-11-5055/G-89-20-1080	93.658	195,942	
Adoption Assistance	G-1011-11-5055/G-89-20-1080	93.659	50,326	
Non-Recurring Adoption	G-1011-11-5055/G-89-20-1080	93.659	6,150	
Total CFDA Number 93.659			56,476	
Promoting Safe and Stable Families		93.556	20,778	
<i>Passed Through Ohio Department of Health:</i>				
Job and Family Services				
Help Me Grow	03610021HG0209	84.181	91,890	
Help Me Grow - Stimulus	03610021HA0211	84.181	47,902	
Total CFDA Number 84.181			139,792	
<i>Passed Through Ohio Secretary of State:</i>				
HHS Grants	N/A	93.617	325	
Total U.S. Department of Health and Human Services			3,207,636	
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
<i>Passed Through the Ohio Department of Development:</i>				
Community Development Block Grants	B-C-09-1-BG-1	14.228	177,043	
Community Development Block Grants	B-F-09-1BG-1	14.228	175,000	
Community Development Block Grants		14.228	86,613	
Total CFDA Number 14.228			438,656	
Home Investment Partnership Program	B-C-09-1BG-2	14.239	46,305	
Total U.S. Department of Housing and Urban Development			484,961	
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Grants to States:				
Special Education Cluster:				
Special Education - Grants to States	066035-6BSF-2010	84.027	15,400	
Special Education - Grants to States - ARRA		84.027	14,736	
Total CFDA Number 84.027			30,136	
Special Education - Preschool Grants	066035-PGS1-2010	84.173	6,155	
Special Education - Preschool Grants - ARRA		84.173	183	
Total CFDA Number 84.173			6,338	
Total Special Education Cluster			36,474	
Total U.S. Department of Education			36,474	
U.S. DEPARTMENT OF JUSTICE				
<i>Passed Through the Ohio Attorney General:</i>				
Crime Victim Assistance	VAGENE	16.575	81,838	
Crime Victim Assistance	SAGENE	16.575	3,417	
Total CFDA Number 16.575			85,255	

HIGHLAND COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
<i>Passed Through the Office of Community Oriented Policing Services:</i>				
Methamphetamine Initiative		16.170	24,832	
Methamphetamine Initiative		16.170	105,317	
Total CFDA Number 16.170			130,149	
<i>Passed Through the Office of Criminal Justice:</i>				
JAG		16.738	15,000	
Total U.S. Department of Justice			230,404	
FEDERAL AGENCY DEPARTMENT OF HOMELAND SECURITY				
<i>Passed Through the Ohio Emergency Management Agency</i>				
Emergency Management Performance Grants	2009-EP-E9-0061	97.042	17,392	
State Homeland Security Program	2008-GE-T7-0030	97.067	33,600	
State Homeland Security Program		97.067	5,663	
Total CFDA Number 97.067			39,263	
Total Federal Agency Department of Homeland Security			56,655	
U.S. DEPARTMENT OF LABOR				
<i>Passed Through the Ohio Department of Job and Family Services</i>				
<i>Workforce Investment Act Cluster:</i>				
Workforce Investment Act - Adult Administration	N/A	17.258	4,163	
Workforce Investment Act - Adult Worker		17.258	106,912	
Workforce Investment Act - Adult Stimulus		17.258	7,635	
Total CFDA Number 17.258			118,710	
Workforce Investment Act - Youth Administration	N/A	17.259	115	
Workforce Investment Act - Youth Program		17.259	106,044	
Workforce Investment Act - Stimulus Youth Program		17.259	15,277	
Total CFDA Number 17.259			121,436	
Workforce Investment Act - Dislocated Workers Program	N/A	17.260	160,549	
Workforce Investment Act - Dislocated Workers ARRA		17.260	14,159	
Workforce Investment Act - National Emergency Grant		17.260	316,608	
Workforce Investment Act - National Emergency Grant		17.260	103,797	
Workforce Investment Act - National Emergency Grant		17.260	74,200	
Workforce Investment Act - Dislocated Workers Admin		17.260	8,862	
Workforce Investment Act - Rapid Response Program		17.260	110,392	
Workforce Investment Act - Rapid Response Stimulus		17.260	287,094	
Workforce Investment Act - Stimulus Hire		17.260	2,500	
Total CFDA Number 17.260			1,078,161	
Total WIA Cluster			1,318,307	
Employment Services: One Stop Resource Sharing		17.207	4,603	
Disabled Veterans Outreach Program		17.801	60	
Local Veterans Employment Program		17.804	1,268	
Total Employment Services Cluster			5,931	
Total U.S. Department of Labor			1,324,238	
U.S. DEPARTMENT OF TRANSPORTATION				
<i>Passed Through the Federal Aviation Administration</i>				
<i>Direct from Federal Government</i>				
FAA Reimbursement of Construction Projects	AIP-3-39-0040-0810	20.106	28,935	
FAA Reimbursement of Construction Projects	3-39-0040-0810		54,528	
Total CFDA Number 20.106			83,463	
<i>Passed through the Ohio Department of Transportation</i>				
Highway Planning and Construction		20.205	5,267	
Appalachian Development Highway System		20.003	94,427	
Total Highway Planning and Construction Cluster			99,694	

HIGHLAND COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2010
(Continued)

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
Capital Assistance Program for Elderly	CRD 0036-002091	20.513	59,294	
Job Access - Reverse Commute	JARC4036 043091	20.516	13,509	
New Freedom Program	NF 4036 031092	20.521	26,910	
Total Transit Services Program Cluster			99,713	
HIGHLAND COUNTY SHERIFF'S OFFICE <i>Passed through the Governor's Highway Safety Office</i> Airborne Traffic Enforcement Grant		20.601	13,121	
Total U.S. Department of Transportation			295,991	
U.S. ELECTION ASSISTANCE COMMISSION <i>Passed Through the Ohio Secretary of State:</i> HAVA Title II -	N/A	90.401	729	
Total U.S. Election Assistance Commission			729	
U.S. Environmental Protection Agency <i>Passed Through the Ohio Environmental Protection Agency</i> Capitalization Grants for Clean Water State Revolving Funds	CS39	66.458	18,750	
TOTAL FEDERAL ASSISTANCE			\$5,960,026	\$6,211

HIGHLAND COUNTY

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - SUBRECIPIENTS

Highland County passes certain federal awards received from Ohio Department of Jobs and Family Services to other governments or not-for-profit agencies (subrecipients). As Note A describes, Highland County reports expenditures of Federal awards to subrecipients when paid in cash.

As a subrecipient, the government has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

NOTE C - CHILD NUTRITION CLUSTER

The County commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the County assumes it expends federal monies first.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the County to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The County has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

NOTE E – CHILD CARE GRANT ADJUSTMENT

The Ohio Department of Job and Family Services (ODJFS) sub-awarded to Highland County, federal funding from the US Department of Health and Human Services. Although these programs were administered at the County level, in July 2010 ODJFS adjusted some of the County's child care expenditures to align them with available funding sources. ODJFS' adjustments were retroactive to the beginning of the grant period (October 1, 2009). Therefore, these July 2010 adjustments affect 2009 calendar-year program expenditures previously reported as follows:

Child Care Cluster	CFDA#	Pass Through #	2009 Federal Expenditures Reported	July 2010 Adjustment	Adjusted 2009 Federal Expenditures Reported
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	G-1001-11-5054/G-89-20-1079	\$279,886	(\$9,444)	\$270,442

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Dave Yost • 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
119 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, discretely presented component units and the aggregate remaining fund information of Highland County, Ohio (the County), as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 26, 2011, wherein, we noted the County uses a comprehensive accounting basis other than generally accepted accounting principles. We also noted the financial statements do not include financial data for the County's legally separate component unit, Highco Inc. 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 as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the County's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and other deficiencies we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-004 through 2010-006 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2010-003 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2010-001 through 2010-006.

We also noted certain matters not requiring inclusion in this report that we reported to the County's management in a separate letter dated September 26, 2011.

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the County's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the audit committee, elected officials, and federal awarding agencies and pass-through entities, and others within the County. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

September 26, 2011



Dave Yost • 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
119 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 could directly and materially affect each of its major federal programs for the year ended December 31, 2010. The summary of auditor's results section of the accompanying schedule of findings and questioned costs 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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.

As described in findings 2010-009 and 2010-010 in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding subrecipient monitoring and the Davis Bacon Act applicable to its Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii major federal program. Compliance with these requirements is necessary, in our opinion, for the County to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, Highland County complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2010.

However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists these instances as Findings 2010-007 and 2010-008.

Internal Control Over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the 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 opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and a deficiency that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-007, 2010-009 and 2010-010 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-008 to be a significant deficiency.

The County's responses to the findings we identified are described in the accompanying schedule of findings and questioned costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

We noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the County's management in a separate letter dated September 26, 2011.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

September 26, 2011

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HIGHLAND COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 OMB CIRCULAR A -133 § .505
 DECEMBER 31, 2010

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Child Support Enforcement, CFDA #93.563; Temporary Assistance for Needy Families CFDA #93.558; TANF Summer Youth CFDA #93.714; Medical Assistance Program, CFDA #93.778; WIA Cluster: CFDA # 17.258/17.259/17.260; Social Services Block Grant, CFDA #93.667; Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, CFDA #14.228
(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 2010-001

Noncompliance Citation

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

Ohio Admin. Code, Section 117-2-03(B), requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. This report is required to be filed with the Auditor of State's office within in 150 days of fiscal year end. The County prepares its financial statements in accordance with the 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.

Additionally the County did not file their annual report by the due date. The first draft of the County's cash basis financial statements was completed on August 18, 2011.

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.

Officials' Response:

Due to the cost of conversion and increased audit costs, the County has no current plans to convert to GAAP.

FINDING NUMBER 2010-002

Noncompliance Citation

Ohio Rev. Code, Section 5705.41(D)(1), 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

**FINDING NUMBER 2010-002
(Continued)**

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.

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.

Thirty percent (30%) 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. Additionally, the County did not track outstanding encumbrances at year end.

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. Additionally, the County should account for outstanding encumbrances at year end.

Officials' Response:

The County has contacted Department Heads and has sent notices including this finding in an effort to reduce the noncompliance. The Auditor of State has offered to have a representative attend a meeting of the Department Heads to emphasize the importance of receiving purchase orders before making the expenditure.

FINDING NUMBER 2010-003

Noncompliance Citation/Significant Deficiency

Ohio Rev. Code, Section 321.09, requires that each business day, the county treasurer shall make a statement to the county auditor for the preceding day, showing the amount of taxes received and credited to the various undivided tax funds, the amount received on auditor's draft, the amount received from all other sources, the total amount deposited in the depository, the total amount paid by check on the depository, the total amount paid out in cash, the balance in the depository, and the balance in the county treasury. The daily statement prepared by the County Treasurer's Office to record the previous day's business contained the following deficiencies.

- The daily statement did not include all the money received in the depository. The County does not recognize amounts directly deposited into the County's bank account as revenue received until the County Department receiving the money completes the paperwork for a pay-in to identify the receipt in the Auditor's Office. Unidentified deposits in the amount of \$669,599 were noted as a reconciling item between the County's accounting system balances and the bank at June 30, 2010.
- The amount recorded as disbursed from the depository is for the checks that cleared the day prior to the date of the daily statement.
- The depository balances recorded do not reflect actual depository accounts. The County included on the reconciliation \$55,227 in the form of an official check from Fifth Third Bank; however the check was held in the County's safe and should have been reported as cash on hand. This check was issued to the County for remaining funds from a checking account that had been closed and the check had inadvertently been kept in the County's vault rather than being deposited and continued to be recorded as part of the depository balance.

Failure to report the actual County's financial activity could cause the County's records to be misstated and result in cumbersome reconciliations with the bank. We recommend that the daily statement include all money when it is received in the depository. The County should consider creating an agency fund to post receipts with unidentified sources, until the source of funding and related fund and revenue account are identified. The County should review www.oaks.ohio.gov/remitlookup to research unidentified deposits. We recommend that the County Treasurer report all activity to the County Auditor for the preceding day as required and show the accurate amount held in the treasury and each depository amount. Subsequently, each depository account should be reconciled monthly. This will ensure that the fund balances maintained by the County Auditor are up to date and accurate.

Officials' Response:

The County will establish a separate fund for Unidentified Deposits.

FINDING NUMBER 2010-004

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 5705.09(F), requires that each subdivision shall establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose.

**FINDING NUMBER 2010-004
(Continued)**

Ohio Rev. Code, Section 5705.42, indicates Federal and State grants or loans are “deemed appropriated for such purpose by the taxing authority” as provided by law and shall be recorded as such by the fiscal officer of the subdivision, and is deemed in process of collection. “Deemed an appropriation” under this section means the Federal or State government has already appropriated and established the purpose(s) for which a government can spend monies received from Federal or State grants and loans. The taxing authority cannot deviate from this purpose; the taxing authority can only resolve to spend the money for a purpose already prescribed in a contract, grant agreement, loan agreement, etc. Therefore, Federal and State grants and loans received under Ohio Rev. Code Section 5705.42 do not require formal appropriation by the legislative body. In other words, Ohio Rev. Code Section 5705.42 effectively eliminates an unnecessary appropriation action by the taxing authority. However, Ohio Rev. Code Section 5705.42 directs the fiscal officer to record the appropriation amount in the accounting system. The fiscal officer should also include the appropriated amounts on the (amended) certificate to properly monitor budget versus actual activity.

Auditor of State Bulletin 2000-08 describes the proper accounting treatment for local government’s participation on behalf-of grants or improvement projects. When a local government enters into an on behalf-of program agreement with another local government, the State, or Federal Government, whereby the local government or its residents are the beneficiaries under the agreement, the cash value benefit of the program received under the agreement should be recorded as memorandum receipts and disbursements in the year on behalf-of disbursements are made.

During 2010, Highland County had projects completed through the State of Ohio that were on behalf-of grants. One was with the Ohio Public Works Commissioner (OPWC) in the amount of \$133,567 and the other was with the Ohio Department of Transportation (ODOT) in the amount of \$200,638.

Contrary to the guidance above, the County failed to record in its accounting records the memorandum entries to account for receipts and disbursements for the above on behalf-of grants resulting in underreported receipts and disbursements. Additionally, the County did not record the appropriations in its accounting system or obtain amended certificates.

The following audit adjustment was made to the accompanying financial statements to properly reflect the on behalf-of programs:

Other Remaining Funds

Capital Outlay	\$334,205	
Intergovernmental Receipts		\$334,205

Failure to record this activity prevents the users of the financial statements from seeing the financial benefit received by the County.

The County should review Chapter one of the Auditor of State’s *2010 Ohio Compliance Supplement* and Auditor of State Bulletin 2000-008 for guidance in the recording of on behalf grant monies. Procedures should be implemented by the County to provide for the recording of this activity in the accounting records and financial statements.

Officials’ Response:

The County will make every effort to see this is corrected.

FINDING NUMBER 2010-005

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 5705.63, requires the total amount of taxes and penalties collected under section 5705.62 of the Revised Code shall be distributed semiannually. The balance of the taxes collected shall be distributed among the taxing districts of the county in which the property in which the taxable interest is held is located and paid in the same ratio as real estate and public utility taxes are distributed for the benefit of the taxing district. The taxes levied and revenues collected under this section shall be in lieu of any general property tax.

Ohio Rev. Code, Section 5705.62(A), As used in this section, "subdivision" means a municipal corporation, township, park district, or county. All money received by a subdivision from the county undivided local government revenue assistance fund shall be paid into the subdivision's general fund and used for current operating expenses.

Ohio Rev. Code, Section 5705.10(A), states all revenue derived from the general levy for current expense within the ten-mill limitation, from any general levy for current expense authorized by vote in excess of the ten-mill limitation, and from sources other than the general property tax, unless its use for a particular purpose is prescribed by law, shall be paid into the general fund.

Ohio Rev. Code, Section 5705.62, On the basis of such apportionment, the county auditor shall compute the percentage share of each such subdivision in the undivided local government revenue assistance fund and shall at the same time certify to the tax commissioner the percentage share of the county as a subdivision. No payment shall be made from the undivided local government revenue assistance fund, except in accordance with such percentage shares. Within ten days after the budget commission has made its apportionment, whether conducted pursuant to this section or section 5747.63 of the Revised Code, the auditor shall publish a list of the subdivisions and the amount each is to receive from the undivided local government revenue assistance fund and the percentage share of each subdivision, in a newspaper or newspapers of countywide circulation, and send a copy of such apportionment to the tax commissioner.

The county auditor shall also send by certified mail, return receipt requested, a copy of such apportionment to the fiscal officer of each subdivision entitled to participate in the allocation of the undivided local government revenue assistance fund of the county. This copy shall constitute the official notice of the commission action referred to in section 5705.37 of the Revised Code.

All money received by a subdivision from the county undivided local government revenue assistance fund shall be paid into the subdivision's general fund and used for current operating expenses.

If any public official fails to maintain the records required by sections 5747.61 to 5747.63 of the Revised Code or by the rules issued by the tax commissioner, the auditor of state, or the treasurer of state pursuant to such sections, or fails to comply with any law relating to the enforcement of such sections, the local government revenue assistance fund money allocated to the county shall be withheld until such time as the public official has complied with such sections or such law or the rules issued pursuant thereto.

The County did not pay the County's 2nd half real estate property tax distribution into the County's General Fund as required by Ohio law. Instead, the County's portion of the real estate settlement in the amount of \$607,954 was transferred into the 1st half real estate property tax distribution agency fund. Additionally, the County transferred \$466,904 of General Fund tax dollars directly from the Undivided Tax Funds to the Debt Service Funds. These monies should have been posted as tax revenues in the General Fund and then transferred to the Debt Service Funds. As a result, 2010 General fund tax receipts were understated in the amount of \$1,074,858.

**FINDING NUMBER 2010-005
 (Continued)**

Property tax receipts are a significant source of funding for the County General fund, failure to properly record tax receipts resulted in materially underreported General Fund receipts and could result in inaccurate information for Commissioners to make sound budget decisions. Additionally expenditures made directly from the 1st half tax distribution agency fund, may not be properly appropriated by County Commissioners resulting in circumventing budgetary law, since the County does not appropriate or budget for this agency fund.

On May 11, 2011, the County included \$607,954 in its settlement payment to the General fund to correct a portion of the 2010 underreported General fund tax receipts.

The County also paid a debt payment in the amount of \$180,408 directly from the Undivided Tax Funds.

This amount should have been receipted into the Children Services Fund as Taxes and the debt payment should have been paid from the Children Services Fund. As a result tax revenue and debt services payments were materially underreported. Audit adjustments were made to the accompanying financial statements to record tax revenue and transfers, and debt payments are summarized below:

Fund	Line Item Description	Amount
A00 General Fund	Tax Revenue	\$1,074,858
Y10 First Half Tax Settlement	Transfer In	(607,954.24)
A00 General Fund	Transfer Out	466,904
S03 Children's Services	Tax Revenue	180,408
S03 Children's Services	Debt Retirement-Principal	180,408

We recommend the County Auditor properly record tax revenues to the proper funds at the time of the tax settlement.

Officials' Response:

At the time of tax settlements, the County will transfer funds to the appropriate department and then have necessary debt payments transferred by voucher.

FINDING NUMBER 2010-006

Noncompliance Citation/Material Weakness

Ohio Administrative Code Section 117-2-02(A) provides that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analysis, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

While compiling the County's trial balances, we noted that the county posted transactions in a manner that makes classifying receipts and disbursements in a financial statement report format very cumbersome and time consuming. We have also noted during our testing many posting errors and reclassifications.

The County did not post the following transactions to the proper fund type or account codes in the County's accounting system.

**FINDING NUMBER 2010-006
 (Continued)**

Item	Amount	Proper Fund/Classification	Fund/Classification Reported
Tax Revenue	\$1,074,858	A00 General Fund/Taxes	Y10 First Half Tax Settlement Agency Fund/Transfer in
Sheriff Fees	95,902	A00 General Fund/Intergovernmental	A00 General Fund/Charges for Services
Grant Revenue	207,571	Board of DD Fund /Intergovernmental	Board of DD Fund/Charges for Services
Grant Revenue	117,760	A00 General Fund/Intergovernmental	A00 General Fund/Charges for Services/Other Revenue

The County did not post the following transactions to the accounting system, as a result receipts and as a result receipts and disbursements were understated by material amounts.

Item	Amount	Proper Classification
Tax Revenue	\$180,408	Children's Service Fund - Taxes
Payment of Children's Services Debt Principal	180,408	Children's Service Fund – Debt/Principal retirement
Ohio Public Works Grant	133,567	Capital Improvement Fund – Intergovernmental Revenue
Ohio Dept of Transportation Grant	200,638	Capital Improvement Fund– Intergovernmental Revenue
Grant Project Expenditures	334,205	Capital Improvement Fund– Capital Outlay

Failure to properly post transactions results in 1) inaccurate financial information, 2) reduces the accountability over County funds, 3) reduces the County's management's ability to monitor financial activity and make informed financial decisions. Audit adjustments have been posted to the accompanying financial statements properly record and classify the transactions above. We recommend the County review their postings to the Accounting system and post transactions accurately in accordance with the County's chart of accounts.

Officials' Response:

The County will work to see that funds are posted properly.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER 2010-007

CFDA Title and Number	93.558 Temporary Assistance for Needy Families 93.563 Child Support Enforcement 93.778 Medical Assistance Program 93.667 Social Services Block Grant 17.258/17.259/17.260 WIA Cluster 14.228 Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii
Federal Award Number / Year	2010
Federal Agency	US Department of Health and Human Services US Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Job and Family Services Ohio Department of Developmental Disabilities Ohio Department of Development

Noncompliance Citation/Material Weakness

Office of Management and Budget (OMB) Circular A-133 Subpart C, Section .310(b) states, in part, that the auditee shall prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements.

Office of Management and Budget (OMB) Circular A-133 Subpart C Section .300 states, in pertinent part, that the auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §.310.

Federal disbursements for the County's audit period are to be reported on its Federal Awards Expenditure Schedule (the Schedule). Each year, the County Commissioner's office sends individual schedules to each department to determine the amounts to be included on the Schedule. Since the department schedules submitted by the various departments are the basis for the County's Schedule, their completeness and accuracy is necessary to complete the County's federal awards expenditure schedule correctly.

While the County prepared a Schedule of Federal Awards Expenditures, this schedule was not complete or accurate. The County submitted two amended schedules, but audit adjustments were still required. Four federal programs reported were understated by a total of \$190,908. In addition, fourteen programs totaling \$658,685 were not included on the presented Federal Schedule. These programs included the following: the Medical Assistance Child Welfare Program; the Special Education Cluster; the Lunch Program; the Food Distribution Program; the Chafe Foster Care Independence Program, The Foster Care Protect Ohio Program; the Adoption Program; the Promoting Safe and Stable Families Program; Homeland Security; the Highway Planning and Construction Program; the Appalachian Development Highway System Grant; the Capital Assistance Program for Elderly; the Job Access Program and the New Freedom Program.

**FINDING NUMBER 2010-007
 (Continued)**

Inaccurate completion of the federal departmental schedules could lead to inaccurate reporting of federal expenditures by the County, and possible loss of federal funding. Adjustments were made to the County's Federal Schedule for the errors noted above.

We recommend the department heads completing the individual department federal schedules complete them with care and careful consideration prior to submission to the County Commissioner's office for inclusion on the County's Schedule. Additionally, the County Commissioners should follow up with departments to ensure that information submitted is complete. Knowledge of each program and its requirements should be understood by the various departments. Reporting requirements on the federal schedule can be accessed in Circular No. A-133 through the Office of Management and Budget.

We also recommend that the various departments monitor receipts and expenditures during the year so that at year end they are able to differentiate between federal and state receipts and expenditures. Additionally, if the Auditor and Treasurer are informed by the departments of the grants that have been awarded, they may be able to assist the departments by segregating the grant funds into separate sub-funds in the accounting system.

Officials' Response:

The County will continue to work with Department Heads to see that all Federal Funds are reported properly.

FINDING NUMBER 2010-008

CFDA Title and Number	14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Federal Award Number / Year	2010
Federal Agency	US Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Noncompliance/Questioned Costs/Significant Deficiency

2 C. F. R. 225 Appendix B, paragraph 8h(4) requires, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

**FINDING NUMBER 2010-008
(Continued)**

- (5) Personnel activity reports or equivalent documentation must meet the following standards
 - (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
 - (b) They must account for the total activity for which each employee is compensated,
 - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
 - (d) They must be signed by the employee.
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
 - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
 - (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Additionally, **2 C. F. R. 225 Appendix A Section (C)(1)(a through j)** provides that “to be allowable under Federal awards, cost must meet the following general criteria: be necessary and reasonable for the performance and administration of the Federal award be allowable under 2CFR 225; be authorized or not prohibited under State or local laws and regulations; conform to any limitations or exclusions set forth in these principles; be consistent with policies, regulations, and procedures for both Federal awards and other activities of the government entity; be accorded consistent treatment be in accordance with generally accepted accounting principles except as provided in 2CFR 225; not be included as a cost or used to meet cost sharing or matching requirements of other Federal awards except as provided by Federal law or regulation’ be net of any applicable credits; be adequately documented.”

2 C. F. R. 225 Appendix A Section (C)(3)(a) provides a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

The County is required to identify all expenditures that are specifically for the performance of Federal Grant services and determine if the expenditure is allowable per 2 C. F. R. 225 Appendix A before expending money from a Federal Grant. Failure to properly identify allowable cost to the grant program may lead to monies having to be paid back to the federal program and/or having monies withheld from the federal program in the future.

The County allocated \$18,418 of the Commissioner’s Clerk’s salary to the CDBG federal program, however, this allocation was not based on personal activity reports. The unsupported amount of \$18,418 was not reasonable and necessary for the performance and administration of the Federal program and no time and effort documentation was maintained to support the amounts of payroll charges allocated. As a result, we are questioning costs of \$18,418 related to the CDBG federal program.

**FINDING NUMBER 2010-008
 (Continued)**

We recommend the County follow 2 C.F.R 225 Appendices A and B to determine which expenditures are considered to be allowable to be used from federal funds. By following 2 C. F. R. 225 Appendix A, the County can ensure federal funds are being expended properly, and this will reduce the possibility of the County having to pay back federal funds and/or having federal funds withheld in future years.

Officials Response:

The County will correct the recordkeeping to see that Federal grant administration monies are properly reported.

FINDING NUMBER 2010-009

CFDA Title and Number	14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Federal Award Number / Year	2010
Federal Agency	US Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Noncompliance Citation/ Material Weakness

Office of Management and Budget (OMB) Circular A-133, Subpart D, §.400(d)(3) states a pass-through entity shall monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements and that performance goals are achieved. A pass-through entity is required to monitor the subrecipient's use of federal funds. A pass-through entity needs to establish an appropriate subrecipient monitoring process to decide what, if any, additional monitoring procedures may be necessary to ensure the subrecipient's compliance.

During 2010, the Board of County Commissioners contracted with the Highland County Community Action Organization (HCCAO) to provide services related to its CDBG State Administered Small Cities Program Federal grant. The Commissioners considered its agreement with HCCAO to be a vendor contract for the CDBG federal program; however the contract identifies a "sub-recipient" relationship between the Commissioners and the HCCAO. The County did not maintain complete records for the CDBG grant and did not properly document any monitoring activities completed at the County level for the federal funds expended. The County relied on the HCCAO to maintain supporting documentation for the program and to review and monitor all federal funds expended. Additionally, a representative from the HCCAO submitted voucher packets to the County Commissioners' office; however, these vouchers were not reviewed or approved by the County. These vouchers were then submitted to the County Auditor for payment. We were able to perform alternative audit procedures at HCCAO to assure that program expenditures were used for the proper program purpose. As a result of the lack of proper monitoring, the County could not ensure its subrecipient was using CDBG funds for authorized purposes in compliance with the provisions of the grant. Additionally the Commissioners did not receive evidence that HCCAO received an A-133 audit.

We recommend the County establish and maintain their own internal control procedures over compliance to grant requirements. We recommend the Board of County Commissioners develop and implement a subrecipient monitoring policy, including, but not limited to, provision for assessment of its subrecipients' susceptibility to the OMB Circular A-133 audit requirement and, where appropriate, review of the resulting reports. The policy should include provisions for appropriate follow-up to such audits. Monitoring should be performed throughout the life of the grant.

**FINDING NUMBER 2010-009
 (Continued)**

Commissioners should also monitor federal expenditures to ensure that they are made for the purpose intended under the grant agreement. County Commissioners should review OMB circular A-133, Subpart D, §.400(d), which lists its responsibilities as a pass through entity.

Officials' Response:

The County Commissioner who sits on the Board of Highland County Community Action Organization (HCCAO) will be reviewing 25% of payments being made by HCCAO from these grant funds.

FINDING NUMBER 2010-010

CFDA Title and Number	14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Federal Award Number / Year	2008 2009
Federal Agency	US Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Noncompliance Citation/Material Weakness

29 C. F. R. 5.5 (a) (1) (ii) requires contractors to submit weekly for each week in which any contract work is performed a copy of all payrolls to the County. The payrolls submitted shall set out accurately and completely all of the information required to be maintained under 29 CFR 5.5(a)(3)(i),

29 C. F. R. 5.5(B) requires each payroll submitted shall be accompanied by a "Statement of Compliance," signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract and shall certify the following:

- 1) That the payroll for the payroll period contains the information required to be provided under §5.5 (a)(3)(ii) of Regulations, 29 CFR part 5, the appropriate information is being maintained under §5.5 (a)(3)(i) of Regulations, 29 CFR part 5, and that such information is correct and complete;
- 2) That each laborer or mechanic (including each helper, apprentice, and trainee) employed on the contract during the payroll period has been paid the full weekly wages earned, without rebate, either directly or indirectly, and that no deductions have been made either directly or indirectly from the full wages earned, other than permissible deductions as set forth in Regulations, 29 CFR part 3;
- 3) That each laborer or mechanic has been paid not less than the applicable wage rates and fringe benefits or cash equivalents for the classification of work performed, as specified in the applicable wage determination incorporated into the contract.

During our testing of the Community Development Block Grant, we found three project files that did not contain copies of certified payrolls and we did not find evidence that the County received copies of these payroll certifications to ensure that employees on the project were paid the correct wage rates. These three projects reported expenditures in the amount of \$102,779 and accounted for 29% of the total program expenditures. Failure to comply with Davis Bacon Act contract requirements could result in unallowed expenditures and questioned costs.

FINDING NUMBER 2010-010
(Continued)

We recommend the County maintain the prior payroll certifications in the project files to demonstrate monitoring of wage rates to comply with the Davis Bacon Act.

Officials' Response:

The County has taken steps to correct this.

HIGHLAND COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
 OMB CIRCULAR A -133 § .315 (b)
 DECEMBER 31, 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2009-001	Failure to prepare annual financial report in accordance with generally accepted principles. Reported on cash basis.	No.	Repeated as finding 2010-001.
2009-002	Failure to properly certify funds before making purchases.	No.	Repeated as finding 2010-002.
2009-003	Original appropriations exceeded original estimated resources in General fund.	Yes	
2009-004	Finding for Recovery Repaid Under Audit	Yes	

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Dave Yost • Auditor of State

HIGHLAND COUNTY 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
OCTOBER 11, 2011