

MORGAN COUNTY
ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011

Wolfe, Wilson, & Phillips, Inc.
37 South Seventh Street
Zanesville, Ohio 43701



Dave Yost • Auditor of State

Board of County Commissioners
Morgan County
155 East Main Street
McConnelsville, Ohio 43756

We have reviewed the *Independent Auditors' Report* of Morgan County, prepared by Wolfe, Wilson & Phillips, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

October 15, 2012

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MORGAN COUNTY

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WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701

INDEPENDENT AUDITORS' REPORT

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

To the Board of County Commissioners:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Morgan County, Ohio (the County) as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonable 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Morgan County, Ohio as of December 31, 2011, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund, Developmentally Disabled Fund, Job and Family Services Fund, and Motor Vehicle and Gasoline Tax Fund for the year then ended in conformity with the basis of accounting Note 2 describes.

As described in Note 3, during 2011 Morgan County adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 9, 2012, on our consideration of Morgan County's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal controls over financial reporting or on compliance, that report describes the scope of our testing of internal control 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.

We conducted our audit to opine on Morgan County's financial statements taken as a whole. Management's Discussion and Analysis includes tables of net assets, changes in net assets, governmental activities and long-term debt. The federal awards expenditure schedule (the Schedule) is required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. These tables and the Schedule provide additional information, but are not part of the basic financial statements. However, these tables and the Schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables and the Schedule were 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. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion and Analysis, and we express no opinion or any other assurance on it.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
August 9, 2012

Morgan County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

The discussion and analysis of Morgan County's financial performance provides an overview of the County's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the County's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the County's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- At the end of the current year, the County's governmental funds reported a combined ending fund balance of \$4,329,524, an increase of \$785,728 from the prior year.

Using This Annual Financial Report

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

County-Wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds. Fund financial statements provide detailed information about the County's major funds. Based on the restriction on the use of moneys, the County has established many funds that account for the multitude of services provided to our

Morgan County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

residents. The County's major governmental funds are the General Fund and the Job and Family Services, Motor Vehicle and Gasoline Tax, and Board of Developmental Disabilities Special Revenue Funds.

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

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

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

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

Government-Wide Financial Analysis

Table 1 provides a summary of the County's net assets for 2011 compared to 2010:

Table 1
 Net Assets - Cash Basis

	Governmental Activities		Change
	2011	2010	
Assets			
Equity in Pooled Cash and Cash Equivalents	\$4,021,095	\$3,269,349	\$751,746
Cash and Cash Equivalents with Fiscal Agent	330,468	305,319	25,149
<i>Total Assets</i>	<u>\$4,351,563</u>	<u>\$3,574,668</u>	<u>\$776,895</u>
Net Assets			
Restricted for:			
Capital Projects	\$1,239	\$1,239	\$0
Job and Family Services	107,551	104,801	2,750
Motor Vehicle and Gasoline Tax	816,405	585,868	230,537
Board of Developmental Disabilities	1,191,915	1,098,170	93,745
Senior Citizen Services	70,792	78,584	(7,792)
Child Support Enforcement Agency	100,953	6,123	94,830
Children Services	161,830	91,105	70,725
Other Purposes	1,619,641	1,384,767	234,874
Unclaimed Monies	21,446	15,859	5,587
Unrestricted	259,791	208,152	51,639
<i>Total Net Assets</i>	<u>\$4,351,563</u>	<u>\$3,574,668</u>	<u>\$776,895</u>

Morgan County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

A portion of the County's net assets, \$4,091,772 or 94 percent, represents resources that are subject to restrictions on how they can be used. The remaining balance, unrestricted assets of \$259,791, or 6 percent, is to be used to meet the County's ongoing obligations to citizens and creditors.

Table 2 shows the changes in net assets for 2011 compared to 2010:

Table 2
Changes in Net Assets

	Governmental Activities	
	2011	2010
Receipts:		
Program Receipts		
Charges for Services	\$1,536,729	\$1,439,922
Operating Grants and Contributions	9,976,308	10,666,383
Capital Grants and Contributions	619,125	663,310
<i>Total Program Receipts</i>	<u>12,132,162</u>	<u>12,769,615</u>
General Receipts:		
Property Taxes	2,064,069	1,903,238
Conveyance Fees	61,817	75,711
Permissive Sales Taxes	1,223,955	1,182,648
Intergovernmental	410,090	450,829
Interest	122,071	121,098
Rent	234,267	241,354
Payment in Lieu of Taxes	1,100	4,399
Proceeds from Loan	75,000	226,457
Miscellaneous	77,180	299,224
<i>Total General Receipts</i>	<u>4,269,549</u>	<u>4,504,958</u>
<i>Total Receipts</i>	<u>16,401,711</u>	<u>17,274,573</u>
Program Disbursements		
General Government:		
Legislative and Executive	1,274,913	1,130,947
Judicial	537,287	499,987
Public Safety	2,087,868	2,212,247
Public Works	3,103,126	4,263,249
Health	1,692,458	2,186,046
Human Services	3,738,023	4,219,812
Conservation and Recreation	1,596,090	586,282
Capital Outlay	619,125	663,310
Intergovernmental	2,824	0
Other	542,715	755,566
Debt Service:		
Principal	332,589	168,338
Interest and Fiscal Charges	97,798	89,296
<i>Total Disbursements</i>	<u>15,624,816</u>	<u>16,775,080</u>
<i>Increase (Decrease) in Net Assets</i>	776,895	499,493
<i>Net Assets Beginning of Year</i>	<u>3,574,668</u>	<u>3,075,175</u>
<i>Net Assets End of Year</i>	<u>\$4,351,563</u>	<u>\$3,574,668</u>

Morgan County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
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Operating grants were the largest program revenues, accounting for \$9,976,308 or 60.8 percent of total governmental activities receipts. The major recipients of intergovernmental program receipts were the Job and Family Services, Motor Vehicle and Gasoline Tax, and Board of Developmental Disabilities program disbursements.

Property tax revenues account for \$2,064,069 or 12.6 percent of total governmental revenues. Another major component of governmental receipts is permissive sales taxes, which accounted for \$1,223,955 or 7.5 percent of total receipts.

The County's direct charges to users of governmental services made up \$1,536,729 or 9.4 percent of total governmental receipts. These charges are for fees associated with the collection of property taxes, fines and forfeitures related to judicial activity, and licenses and permits.

Human services programs accounted for \$3,738,023, or 23.9 percent of total disbursements for governmental activities. Other major program disbursements for governmental activities include public works programs, which accounted for \$3,103,126, or 19.9 percent of total disbursements.

Table 3, for governmental activities, indicates the total cost of services and the net cost of services for 2011 and 2010. The statement of activities reflects the cost of program services and the charges for services, and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues.

Table 3
 Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2011	2011	2010	2010
General Government:				
Legislative and Executive	\$1,274,913	\$645,957	\$1,130,947	\$535,809
Judicial	537,287	216,229	499,987	206,845
Public Safety	2,087,868	1,524,066	2,212,247	1,278,892
Public Works	3,103,126	(1,050,639)	4,263,249	(390,355)
Health	1,692,458	627,861	2,186,046	555,109
Human Services	3,738,023	(71,910)	4,219,812	163,102
Conservation and Recreation	1,596,090	8,755	586,282	(20,447)
Capital Outlay	619,125	619,125	663,310	663,310
Intergovernmental	2,824	108	0	0
Other	542,715	542,715	755,566	755,566
Debt Service:				
Principal	332,589	332,589	168,338	168,338
Interest and Fiscal Charges	97,798	97,798	89,296	89,296
Total Expenses	<u>\$15,624,816</u>	<u>\$3,492,654</u>	<u>\$16,775,080</u>	<u>\$4,005,465</u>

Charges for services, operating grants, and capital grants of \$12,132,162, or 74 percent of the total costs of services, are received and used to fund general governmental disbursements of the County. The remaining governmental disbursements are funded by property taxes, permissive sales taxes, intergovernmental revenues, interest, and miscellaneous revenues.

The \$627,861 in net cost of services for Health demonstrates the costs of services that are not supported from State and federal resources. As such, the taxpayers have approved property tax levies for several programs including the Board of Developmental Disabilities, Senior Citizen Services, and Ambulance Services.

Morgan County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

Financial Analysis of County Funds

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

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

As of December 31, 2011, the County's governmental funds reported a combined ending fund balance of \$4,329,524, an increase of \$785,728 in comparison with the prior year. \$68,159 or 1.6 percent of this total constitutes unassigned fund balance. The remainder of the fund balance is restricted, committed, and assigned to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior year or for unclaimed money payouts. While the bulk of the governmental fund balances are restricted in the governmental fund statements, they lead to restricted net assets on the Statement of Net Assets due to expenditure restrictions mandated by the source of the resource, such as the State or federal government.

The General Fund is the primary operating fund of the County. At the end of 2011, unassigned fund balance was \$68,159, while total fund balance was \$253,917. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 2.1 percent to total General Fund disbursements, while total fund balance represents 7.8 percent of that same amount.

During 2011, the fund balance of the County's General Fund increased by \$19,688. The primary causes of the increase include an increase in charges for services revenue and sales taxes being collected.

At the end of 2011, the Job and Family Services Special Revenue Fund had a fund balance of \$107,551, an increase of \$2,750 from 2010.

At the end of 2011, the Motor Vehicle and Gasoline Tax Special Revenue Fund had a fund balance of \$816,405, in comparison to a fund balance of \$585,868 at the end of 2010. This is an increase of \$230,537.

At the end of 2011, the Board of Developmental Disabilities Special Revenue Fund had a fund balance of \$1,191,915. This is an increase of \$115,081 from the fund balance of \$1,076,834 at the end of 2010.

Budgetary Highlights

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

For the General Fund, changes from the original budget to the final budget have been minimal. Fluctuations in growth and diversity have typically not occurred in Morgan County, allowing department managers the ability to consistently predict revenues and expenditures.

Morgan County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

Capital Assets and Debt Administration

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

Long-Term Obligations - As of December 31, 2011, the County had total general obligation bonded debt outstanding of \$1,697,603. All of this debt is expected to be repaid through governmental activities. Other outstanding long-term debt included an OWDA Loan of \$63,144, a First National Bank Loan of \$135,875, and a Tax Increment Financing Loan of \$62,176.

Additional information on the County's long-term obligations can be found in Note 14 of this report.

Economic Factors

The County's \$270.596 million tax base has increased 3.1 percent over the last three years. This increase is attributed to an increase in the County's real estate tax values. Real property values within the County have risen over the past several years and are now at an all time high.

Requests for Information

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

Morgan County, Ohio
Statement of Net Assets - Cash Basis
December 31, 2011

	Primary Government	Component Units	
	Governmental Activities	Morgan County Regional Airport Authority	Mary Hammond Adult Activity Center, Inc.
Assets			
Equity in Pooled Cash and Cash Equivalents	\$4,021,095	\$3,234	\$11,179
Cash and Cash Equivalents with Fiscal Agents	330,468	0	0
<i>Total Assets</i>	<u>\$4,351,563</u>	<u>\$3,234</u>	<u>\$11,179</u>
Net Assets			
Restricted for:			
Capital Projects	\$1,239	\$0	\$0
Job and Family Services	107,551	0	0
Motor Vehicle and Gasoline Tax	816,405	0	0
Board of Developmental Disabilities	1,191,915	0	0
Senior Citizen Services	70,792	0	0
Child Support Enforcement Agency	100,953	0	0
Children Services	161,830	0	0
Unclaimed Monies	21,446	0	0
Other Purposes	1,619,641	0	0
Unrestricted	259,791	3,234	11,179
<i>Total Net Assets</i>	<u>\$4,351,563</u>	<u>\$3,234</u>	<u>\$11,179</u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
Statement of Activities - Cash Basis
For the Year Ended December 31, 2011

Program Receipts

	<u>Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities				
General Government:				
Legislative and Executive	\$1,274,913	\$588,645	\$40,311	\$0
Judicial	537,287	213,974	107,084	0
Public Safety	2,087,868	98,675	465,127	0
Public Works	3,103,126	151,185	3,383,455	619,125
Health	1,692,458	27,275	1,037,322	0
Human Services	3,738,023	216,068	3,593,865	0
Community and Economic Development	1,596,090	240,907	1,346,428	0
Capital Outlay	619,125	0	0	0
Intergovernmental	2,824	0	2,716	0
Other	542,715	0	0	0
Debt Service:				
Principal Retirement	332,589	0	0	0
Interest and Fiscal Charges	97,798	0	0	0
<i>Total Governmental Activities</i>	<u>\$15,624,816</u>	<u>\$1,536,729</u>	<u>\$9,976,308</u>	<u>\$619,125</u>
Component Unit				
Morgan County Regional Airport Authority	\$17,213	\$14,320	\$0	\$0
Mary Hammond Adult Activity Center, Inc.	193,154	176,243	0	0

General Receipts

Property Taxes Levied for:

General Purposes

Board of Developmental Disabilities

Tax Increment Financing

Senior Citizen Services

Ambulance Services

Conveyance Fees

Permissive Sales Taxes Levied for General Purposes

Grants and Entitlements not Restricted to Specific Programs

Interest

Rent

Payment in Lieu of Taxes

Proceeds from Loan

Miscellaneous

Total General Receipts

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts
and Changes in Net Assets
Component Units

Primary Government		
Governmental Regional Activities	Morgan County Airport Authority	Morgan County Regional Airport Authority
(\$645,957)	\$0	\$0
(216,229)	0	0
(1,524,066)	0	0
1,050,639	0	0
(627,861)	0	0
71,910	0	0
(8,755)	0	0
(619,125)	0	0
(108)	0	0
(542,715)	0	0
(332,589)	0	0
(97,798)	0	0
(3,492,654)	0	0
\$0	(2,893)	0
0	0	(16,911)
735,352	0	0
719,219	0	0
6,357	0	0
46,965	0	0
556,176	0	0
61,817	0	0
1,223,955	0	0
410,090	0	0
122,071	29	8
234,267	0	0
1,100	0	0
75,000	0	0
77,180	9	2,737
4,269,549	38	2,745
776,895	(2,855)	(14,166)
3,574,668	6,089	25,345
\$4,351,563	\$3,234	\$11,179

Morgan County, Ohio
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2011

	<u>General</u>	<u>Job and Family Services</u>	<u>Motor Vehicle and Gasoline Tax</u>	<u>Board of Developmental Disabilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Equity in Pooled Cash and Cash Equivalents	\$237,752	\$107,551	\$816,405	\$861,447	\$1,954,455	\$3,977,610
Cash With Fiscal Agent	0	0	0	330,468	0	330,468
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	16,165	0	0	0	5,281	21,446
<i>Total Assets</i>	<u>\$253,917</u>	<u>\$107,551</u>	<u>\$816,405</u>	<u>\$1,191,915</u>	<u>\$1,959,736</u>	<u>\$4,329,524</u>
Fund Balances						
Nonspendable	\$16,165	\$0	\$0	\$0	\$5,281	\$21,446
Restricted	0	107,551	816,405	1,191,915	1,953,216	4,069,087
Committed	0	0	0	0	1,239	1,239
Assigned	169,593	0	0	0	0	169,593
Unassigned	68,159	0	0	0	0	68,159
<i>Total Fund Balances</i>	<u>\$253,917</u>	<u>\$107,551</u>	<u>\$816,405</u>	<u>\$1,191,915</u>	<u>\$1,959,736</u>	<u>\$4,329,524</u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
Statement of Cash Receipts, Disbursements and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	General	Job and Family Services	Motor Vehicle and Gasoline Tax	Board of Developmental Disabilities	Other Governmental Funds	Total Governmental Funds
Receipts						
Property Taxes	\$735,352	\$0	\$0	\$719,219	\$609,498	\$2,064,069
Permissive Sales Taxes	1,223,955	0	0	0	0	1,223,955
Payment in Lieu of Taxes	1,100	0	0	0	0	1,100
Charges for Services	647,758	0	141,444	0	434,294	1,223,496
Licenses and Permits	987	0	0	0	230,511	231,498
Fines and Forfeitures	76,367	0	9,741	0	57,444	143,552
Intergovernmental	472,276	2,790,117	3,218,496	1,033,813	3,474,823	10,989,525
Interest	122,071	0	9,959	3,509	2,530	138,069
Rent	17,376	0	0	0	216,891	234,267
Miscellaneous	22,078	15,721	0	2,202	37,179	77,180
Total Receipts	3,319,320	2,805,838	3,379,640	1,758,743	5,063,170	16,326,711
Disbursements						
Current:						
General Government:						
Legislative and Executive	921,665	0	0	0	353,248	1,274,913
Judicial	450,441	0	0	0	86,846	537,287
Public Safety	1,137,893	0	0	0	949,975	2,087,868
Public Works	0	0	3,098,126	0	5,000	3,103,126
Health	26,607	0	0	1,643,662	22,189	1,692,458
Human Services	148,144	2,849,142	0	0	740,737	3,738,023
Community and Economic Development	0	0	0	0	1,587,257	1,587,257
Capital Outlay	0	0	0	0	619,125	619,125
Intergovernmental	0	0	0	0	2,824	2,824
Other	542,715	0	0	0	0	542,715
Debt Service:						
Principal Retirement	15,146	0	45,291	0	272,152	332,589
Interest and Fiscal Charges	4,895	0	5,686	0	87,217	97,798
Total Disbursements	3,247,506	2,849,142	3,149,103	1,643,662	4,726,570	15,615,983
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>71,814</u>	<u>(43,304)</u>	<u>230,537</u>	<u>115,081</u>	<u>336,600</u>	<u>710,728</u>
Other Financing Sources (Uses)						
Proceeds from Loan	0	0	0	0	75,000	75,000
Advances In	51,096	0	0	0	57,168	108,264
Advances Out	(57,168)	0	0	0	(51,096)	(108,264)
Transfers In	0	46,054	0	0	0	46,054
Transfers Out	(46,054)	0	0	0	0	(46,054)
Total Other Financing Sources (Uses)	(52,126)	46,054	0	0	81,072	75,000
<i>Net Change in Fund Balances</i>	19,688	2,750	230,537	115,081	417,672	785,728
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>234,229</u>	<u>104,801</u>	<u>585,868</u>	<u>1,076,834</u>	<u>1,542,064</u>	<u>3,543,796</u>
<i>Fund Balances End of Year</i>	<u>\$253,917</u>	<u>\$107,551</u>	<u>\$816,405</u>	<u>\$1,191,915</u>	<u>\$1,959,736</u>	<u>\$4,329,524</u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
Statement of Receipts, Disbursements and Changes in
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Year Ended December 31, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Property Taxes	\$747,500	\$747,500	\$740,034	(\$7,466)
Permissive Sales Taxes	1,122,046	1,175,930	1,223,955	48,025
Payment in Lieu of Taxes	4,400	4,400	1,100	(3,300)
Charges for Services	558,565	581,237	647,758	66,521
Licenses and Permits	1,000	1,000	987	(13)
Fines and Forfeitures	59,200	59,200	76,367	17,167
Intergovernmental	388,069	438,069	472,276	34,207
Interest	110,200	110,200	122,071	11,871
Rent	25,000	25,000	17,376	(7,624)
Miscellaneous	114,820	167,316	22,078	(145,238)
<i>Total Receipts</i>	<u>3,130,800</u>	<u>3,309,852</u>	<u>3,324,002</u>	<u>14,150</u>
Disbursements				
Current:				
General Government:				
Legislative and Executive	849,328	931,057	930,313	744
Judicial	443,927	465,017	451,790	13,227
Public Safety	1,059,397	1,159,667	1,157,309	2,358
Health	27,364	27,364	26,607	757
Human Services	163,523	163,523	149,297	14,226
Other	654,721	626,823	542,715	84,108
Debt Service:				
Principal Retirement	15,147	15,147	15,146	1
Interest and Fiscal Charges	4,895	4,895	4,895	0
<i>Total Disbursements</i>	<u>3,218,302</u>	<u>3,393,493</u>	<u>3,278,072</u>	<u>115,421</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(87,502)	(83,641)	45,930	129,571
Other Financing Use				
Transfers Out	(74,326)	(52,312)	(46,054)	6,258
<i>Net Change in Fund Balance</i>	(161,828)	(135,953)	(124)	135,829
<i>Fund Balance Beginning of Year</i>	203,314	203,314	203,314	0
Prior Year Encumbrances Appropriated	24,023	24,023	24,023	0
<i>Fund Balance End of Year</i>	<u>\$65,509</u>	<u>\$91,384</u>	<u>\$227,213</u>	<u>\$135,829</u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
*Statement of Receipts, Disbursements and Changes
in Fund Balance - Budget and Actual (Budget Basis)*
Job and Family Services Fund
For the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Receipts				
Intergovernmental	\$2,958,000	\$2,780,052	\$2,790,117	\$10,065
Miscellaneous	65,000	19,000	15,721	(3,279)
<i>Total Receipts</i>	3,023,000	2,799,052	2,805,838	6,786
Disbursements				
Current:				
Human Services	3,104,174	2,859,145	2,857,149	1,996
<i>Excess of Receipts Under Disbursements</i>	(81,174)	(60,093)	(51,311)	4,790
Other Financing Source				
Transfers In	68,000	46,054	46,054	0
<i>Net Change in Fund Balance</i>	(13,174)	(14,039)	(5,257)	8,782
<i>Fund Balance Beginning of Year</i>	85,627	85,627	85,627	0
Prior Year Encumbrances Appropriated	19,174	19,174	19,174	0
<i>Fund Balance End of Year</i>	<u>\$91,627</u>	<u>\$90,762</u>	<u>\$99,544</u>	<u>\$8,782</u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
*Statement of Receipts, Disbursements and Changes
in Fund Balance - Budget and Actual (Budget Basis)*
Motor Vehicle and Gasoline Tax Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Charges for Services	\$40,500	\$40,500	\$141,444	\$100,944
Fines and Forfeitures	7,800	7,800	9,741	1,941
Intergovernmental	3,205,800	3,205,800	3,218,496	12,696
Interest	6,000	6,000	9,959	3,959
Miscellaneous	23,000	23,000	0	(23,000)
<i>Total Receipts</i>	<u>3,283,100</u>	<u>3,283,100</u>	<u>3,379,640</u>	<u>96,540</u>
Disbursements				
Current:				
Public Works	3,255,648	3,484,115	3,135,179	348,936
Debt Service:				
Principal Retirement	45,291	45,291	45,291	0
Interest and Fiscal Charges	5,686	5,686	5,686	0
<i>Total Disbursements</i>	<u>3,306,625</u>	<u>3,535,092</u>	<u>3,186,156</u>	<u>348,936</u>
<i>Excess of Receipts Over Disbursements</i>	(23,525)	(251,992)	193,484	445,476
<i>Fund Balance Beginning of Year</i>	561,087	561,087	561,087	0
Prior Year Encumbrances Appropriated	24,781	24,781	24,781	0
<i>Fund Balance End of Year</i>	<u>\$562,343</u>	<u>\$333,876</u>	<u>\$779,352</u>	<u>\$445,476</u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
*Statement of Receipts, Disbursements and Changes
in Fund Balance - Budget and Actual (Budget Basis)*
Board of Developmental Disabilities Fund
For the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Receipts				
Property Taxes	\$737,500	\$737,500	\$724,112	(\$13,388)
Intergovernmental	898,057	826,791	1,033,813	207,022
Interest	0	0	3,509	3,509
Miscellaneous	9,100	9,100	2,202	(6,898)
<i>Total Receipts</i>	1,644,657	1,573,391	1,763,636	190,245
Disbursements				
Current:				
Health	1,664,035	1,700,565	1,668,255	32,310
<i>Net Change in Fund Balance</i>	(19,378)	(127,174)	95,381	222,555
<i>Fund Balance Beginning of Year</i>	991,660	991,660	991,660	0
Prior Year Encumbrances Appropriated	28,824	28,824	28,824	0
<i>Fund Balance End of Year</i>	<u>\$1,001,106</u>	<u>\$893,310</u>	<u>\$1,115,865</u>	<u>\$222,555</u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
Statement of Fund Net Assets - Cash Basis
Internal Service Fund
December 31, 2011

	Governmental Activities-Grants Administration Fund
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$22,039</u>
Net Assets	
Unrestricted	<u>\$22,039</u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
*Statement of Cash Receipts, Disbursements
and Change in Fund Net Assets - Cash Basis
Internal Service Fund
For the Year Ended December 31, 2011*

	Governmental Activities-Grants Administration Fund
Operating Receipts	
Charges for Services	\$115,018
Operating Disbursements	
Contractual Services	<u>123,851</u>
<i>Change in Net Assets</i>	(8,833)
<i>Net Assets Beginning of Year</i>	<u>30,872</u>
<i>Net Assets End of Year</i>	<u><u>\$22,039</u></u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
Statement of Fiduciary Net Assets - Cash Basis
Agency Funds
December 31, 2011

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$1,065,862</u></u>
Net Assets	
Total Net Assets	<u><u>\$1,065,862</u></u>

See accompanying notes to the financial statements

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2011

NOTE 1 - REPORTING ENTITY

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

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

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the County. For Morgan County, this includes the Board of 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 program's governing board and (1) the County is able to significantly influence the programs of services performed or provided by the organization; or (2) the County is legally entitled to or can access the organization's resources; the County is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the County is obligated for the debt of the organization. Component units may also include organizations for which the County approves the budget, the levying of taxes, or the issuance of debt. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the County, are accessible to the County and are significant in amount to the County.

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

The Morgan County Regional Airport Authority (the Authority) was created by resolution of the County Commissioners under Ohio Rev. Code Section 308.01. The purpose of the Authority is the acquisition, construction, operation, and maintenance of airports and airport facilities in the County. The Authority operates under the direction of a three-member Board of Trustees, appointed by the County Commissioners. A Secretary-Treasurer is responsible for the fiscal accounting of the resources of the Authority. Services provided by the Authority include the means by which to aid the safe taking off and landing of aircraft, storage and maintenance of aircraft, and the safe and efficient operation and maintenance of the airport. Since the Authority's Board is appointed by the County Commissioners, the Authority is considered to be a component unit of Morgan County and is discretely presented. Additional disclosures can be found in Note 21.

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2011

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

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

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

The County is associated with certain organizations which are defined as jointly governed organizations and insurance purchasing pools. These organizations are presented in Notes 16 and 17 to the Basic Financial Statements. The organizations are:

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2011

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund(s) is eliminated to avoid “doubling up” receipts and disbursements. 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, if any.

The statement of net assets presents the cash balance of the governmental activities of the County at year end. The statement of activities compares disbursements with program receipts for each function or program of the County's governmental 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 government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions 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. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the County's general receipts.

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

B. Fund Accounting

The County uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The County classifies each fund as either governmental, proprietary, or fiduciary.

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

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

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

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

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2011

Board of Developmental Disabilities Fund This fund accounts for the operation of a school and the costs of administering a sheltered workshop for the mentally handicapped and developmentally disabled residents of the County. Revenue sources are federal and state grant monies and a county-wide property tax levy.

Proprietary Fund Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The County's proprietary fund is classified as an internal service fund.

Internal Service Fund Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the County on a cost-reimbursement basis. The County's internal service fund accounts for grant monies received from the Commissioner's Development Office and administers the grants by paying for the payroll, fringe benefits, and related expenditures of the grant.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the County under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the County's own programs. The County's fiduciary funds are all classified as agency funds. The agency funds account for assets held by the County as agent for the Board of Health and other districts and entities and for various taxes, assessments, and state shared resources collected on behalf of and distributed to other local governments.

C. Basis of Accounting

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

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

D. Budgetary Process

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

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

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2011

final amended certificate of estimated resources issued in effect at the time final appropriations were passed by the County Commissioners.

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

E. Cash and Cash Equivalents

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

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the County are considered to be cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

During 2011, the County had investments in non-negotiable certificates of deposit, which are reported at cost.

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

Cash and cash equivalents that are held separately for the County by fiscal agents and not held with the County Treasurer are recorded as "Cash and Cash Equivalents with Fiscal Agents".

Under existing Ohio statutes, the County has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund is entirely assigned from other County funds.

F. Inventory and Prepaid Items

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

G. Capital Assets

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

H. Accumulated Leave

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

I. Employer Contributions to Cost-Sharing Pension Plans

The County recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 11 and 12, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2011

J. Long-term Obligations

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

K. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (County resolutions).

Enabling legislation authorizes the County to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the County can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specific by the legislation.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the County Commissioners. Those committed amounts cannot be used for any other purpose unless the Commission removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by County Commissioners, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the County for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the County Commissioners or a County official delegated that authority by resolution or by State Statute.

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2011

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

L. Restricted Assets

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

M. Net Assets

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

N. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments of 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. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating receipts/disbursements in proprietary funds. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

Morgan County, Ohio
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NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For 2011, the County has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the County's financial statements.

B. Restatement of Prior Year Balances

The implementation of GASB Statement No. 54 had the following effect on fund balances of the major and nonmajor funds as they were previously reported.

	General Fund	Job and Family Services	Motor Vehicle and Gasoline Tax	Board of Developmental Disabilities	Nonmajor Governmental Funds	Total
Fund Balance at December 31, 2010	\$193,139	\$104,801	\$585,868	\$1,098,170	\$1,561,818	\$3,543,796
GASB 54 Change in Fund Structure	41,090	0	0	(21,336)	(19,754)	0
Adjusted Fund Balance at December 31, 2010	<u>\$234,229</u>	<u>\$104,801</u>	<u>\$585,868</u>	<u>\$1,076,834</u>	<u>\$1,542,064</u>	<u>\$3,543,796</u>

NOTE 4 - FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

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Fund Balances	General	Job and Family Services	Motor Vehicle and Gasoline Tax	Board of Developmental Disabilities	Nonmajor Governmental Funds	Total
<u>Nonspendable:</u>						
Unclaimed Monies	\$16,165	\$0	\$0	\$0	\$5,281	\$21,446
<i>Total Nonspendable</i>	16,165	0	0	0	5,281	21,446
<u>Restricted for:</u>						
Job and Family Services Operations	0	107,551	0	0	0	107,551
Public Works	0	0	816,405	0	18,562	834,967
BDD Operations	0	0	0	1,191,915	0	1,191,915
Public Safety	0	0	0	0	642,927	642,927
Court Operations	0	0	0	0	322,378	322,378
Court Improvements	0	0	0	0	220,668	220,668
Community Development	0	0	0	0	215,228	215,228
Children Services Operations	0	0	0	0	161,830	161,830
Real Estate Assessments	0	0	0	0	155,414	155,414
Child Support	0	0	0	0	100,953	100,953
Other Human Services	0	0	0	0	71,339	71,339
Other Health	0	0	0	0	25,826	25,826
Other Governments	0	0	0	0	17,671	17,671
Board of Elections Operations	0	0	0	0	420	420
<i>Total Restricted</i>	0	107,551	816,405	1,191,915	1,953,216	4,069,087
<u>Committed to:</u>						
Capital Projects	0	0	0	0	1,239	1,239
<i>Total Committed</i>	0	0	0	0	1,239	1,239
<u>Assigned to:</u>						
2012 Appropriations	139,027	0	0	0	0	139,027
Other purposes	30,566	0	0	0	0	30,566
<i>Total Assigned</i>	169,593	0	0	0	0	169,593
<u>Unassigned:</u>	68,159	0	0	0	0	68,159
Total Fund Balances	\$253,917	\$107,551	\$816,405	\$1,191,915	\$1,959,736	\$4,329,524

NOTE 5 - COMPLIANCE

Statutory 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.

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The following accounts had expenditures in excess of final appropriations for the year ended December 31, 2011:

	<u>Appropriations</u>	<u>Actual Expenditures</u>	<u>Excess</u>
General Fund:			
Legislative and Executive Commissioners			
Salaries and Wages	\$123,451	\$123,455	(\$4)

The County will more closely monitor budgetary procedures pertaining to violations of this nature in the future.

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
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 describe in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);

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8. Securities lending agreements in which the County lends securities and the eligible institution agrees to simultaneously exchange similar securities or cash, equal value for equal value;
9. Up to twenty-five percent of the County's average portfolio in either of the following:
 - a. commercial paper notes in entities incorporated under the laws of Ohio or any other State that have assets exceeding five hundred million dollars rated at the time of purchase, which are rated in the highest qualification established by two nationally recognized standard rating services, which do not exceed ten 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. Fifteen percent of the County's average portfolio in notes issued by U.S. corporations or by depository institutions that are doing business under authority granted by the U.S. provided that the notes are rated in the second highest or higher category by at least two nationally recognized standard rating services at the time of purchase and the notes mature within two years from the date of purchase;
11. No-load money market mutual funds rated in the highest category at the time of purchase by at least one nationally recognized standard rating service consisting exclusively of obligations guaranteed by the United States, securities issued by a federal government agency or instrumentality, and/or highly rated commercial paper; and,
12. 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 States government.

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. Other than corporate notes, commercial paper, and bankers' acceptances, an investment 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. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the County will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the County's bank balance was \$5,301,220. Of the bank balance \$500,000 was covered by Federal depository insurance and \$4,801,220 was collateralized with securities held by the pledging financial institution's trust department in the County's name. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirement could potentially subject the County to a successful claim by the FDIC.

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

NOTE 7 - BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis for the General Fund and each major special revenue fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is (are) outstanding year end encumbrances and unreported cash. Encumbrances are treated as expenditures (budgetary basis) rather than as a restriction or assignment of fund balance (cash basis). Unreported cash, including cash held in agency funds on behalf of County funds, are reported on the statement of modified receipts, disbursements, and changes in fund balances (cash basis), but not on the budgetary basis.

Adjustments necessary to convert the results of operations at the end of the year on the budget basis to the cash basis are as follows:

Net Change in Fund Balances
 General and Major Special Revenue Funds

	<u>General</u>	<u>Job and Family Services</u>	<u>Motor Vehicle and Gasoline Tax</u>	<u>Board of Developmental Disabilities</u>
Cash Basis	\$19,688	\$2,750	\$230,537	\$115,081
Agency Fund Distribution:				
Beginning of Year	57,988	0	0	56,350
End of Year	(53,306)	0	0	(51,457)
Advances In	(51,096)	0	0	0
Advances Out	57,168	0	0	0
Encumbrances	<u>(30,566)</u>	<u>(8,007)</u>	<u>(37,053)</u>	<u>(24,593)</u>
Budget Basis	<u>(\$124)</u>	<u>(\$5,257)</u>	<u>\$193,484</u>	<u>\$95,381</u>

NOTE 8 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the County. Property tax revenue received during 2011 for real and public utility property taxes represents collections of 2010 taxes.

Morgan County, Ohio
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2011 real property taxes were levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

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. 2011 public utility property taxes which became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

The full tax rate for all County operations for the year ended December 31, 2011, was \$13.15 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2011 property tax receipts were based are as follows:

Real Property	\$209,820,520
Public Utility Tangible Personal Property	<u>62,235,010</u>
Total Assessed Value	<u><u>\$272,055,530</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the County. The County Auditor periodically remits to the taxing districts their portions of the taxes collected. Collections of the taxes and remittance of them to the taxing districts are accounted for in various agency funds of the County.

NOTE 9 - PERMISSIVE SALES AND USE TAX

For the purposes of providing additional receipts, the County has levied a sales tax at the rate of one and one-half percent upon certain retail sales made in the County, except sales of motor vehicles, and on the storage, use, or consumption of tangible personal property in the County, including motor vehicles not subject to the sales tax. Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies to the State Auditor the amount of the tax to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of the month. The State Auditor then has five days in which to draw the warrant payable to the County. Proceeds of the tax are credited to the General Fund.

NOTE 10 - RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; employee injuries; and natural disasters. During 2011, the County contracted with the Buckeye Joint-County Self-Insurance Council, an insurance purchasing pool, (see Note 17), for liability, auto, and crime insurance. Each member pays a premium for their coverage. The agreement provides that the Council will be self-sustaining through member premiums. In the event of losses, the first \$250 to \$2,500 of any valid claim, depending on type of loss, will be paid by the member. The next payment, with a maximum pay out ranging from \$100,000 to \$1,000,000 per occurrence, will come from the insurance purchasing pool based on the member's percentage of contribution. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments. Morgan County does not have any ongoing financial interest or responsibility.

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The agreement between the counties and the Council indicates that a voluntary withdrawal or termination by any county shall constitute a forfeiture of any pro rate share of the Council reserve fund. Current calculation of this potential residual interest is, therefore, not possible. During 2011, Morgan County paid \$139,996 to the Council for insurance coverage. Coverage provided to the County by the program is as follows:

	Coverage	Deductible
General Liability	\$1,000,000/3,000,000	\$0
Medical Expense Limit	10,000/50,000	0
Employer's Liability (Ohio Stop Gap)	1,000,000	0
Employee Benefits Liability	1,000,000/3,000,000	0
Property Damage Liability	20,491,259	1,000
Public Official Liability	1,000,000/3,000,000	5,000
Law Enforcement	1,000,000/3,000,000	5,000
Crime Coverage:		
Theft, Disappearance and Destruction	50,000	0
Public Dishonesty	250,000	0
Forgery or Alteration	5,000	0
Computer Fraud	50,000	100
Inland Marine	1,864,846	1,000
Electronic Equipment/Media Coverage:		
Electronic Equipment	500,000	1,000
Electronic Media	5,000	1,000
Extra Expense	5,000	1,000
Automobile	1,000,000 Per Occurrence	0

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

For 2011, the County participated in the County Commissioners Association of Ohio Workers' Compensation Group Rating Plan (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 worker's compensation experience of the participating Counties is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. In order to allocate the savings derived by formation of the Plan, and to maximize the number of participants in the Plan, the Plan's executive committee annually calculates the total savings which accrued to the Plan through its formation. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants. Participation in the Plan is limited to Counties that can meet the Plan's selection criteria. The firm of CompManagement, 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.

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

The County pays all elected official bonds by State statute.

NOTE 11 - DEFINED BENEFIT PENSION PLAN

Plan Description – The City 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.

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 visiting <https://www.opers.org/investments/cafr.shtml>, 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, 2011, members in state and local divisions contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.0 percent and 11.6 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 2011, member and employer contribution rates were consistent across all three plans.

The County's 2011 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the County's contribution was 18.10 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 4.00 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011. Employer contribution rates are actuarially determined.

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The County's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009, were \$466,082, \$428,932, and \$400,531, respectively. For 2011, 99.51 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009. Contributions to the member-directed plan for 2011 were \$2,298 made by the County and \$1,641 made by the plan members.

NOTE 12 - POST-EMPLOYMENT BENEFITS

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.

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 4.0 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011.

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, 2011, 2010, and 2009, were \$195,287, \$230,154 and \$259,657, respectively. For 2011, 99.51 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

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.

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NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE

In the current and prior years, the County entered into capitalized leases for office equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Principal payments for all capital leases during 2011 totaled \$3,990.

Future minimum lease payments through 2016 are as follows:

Year	Governmental Activities	
	Principal	Interest
2012	\$4,183	\$1,441
2013	4,800	1,138
2014	5,282	656
2015	1,133	125
2016	308	7
Total	\$15,706	\$3,367

NOTE 14 - LONG-TERM OBLIGATIONS

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

	Original Issue Amount	Principal Outstanding 12/31/10	Additions	Deductions	Principal Outstanding 12/31/11	Amounts Due within One Year
Governmental Activities:						
<u>General Obligation Debt:</u>						
2003 Sales Tax Supported						
Building Improvement Limited						
Tax General Obligation						
Bonds - 4.625%						
	\$2,000,000	\$1,741,646	\$0	\$44,043	\$1,697,603	\$46,081
1997 Ohio Water Development						
Authority Loan - 4.12%						
	190,884	74,300	0	11,156	63,144	11,620
2010 First National Bank						
Loan - 3.50%						
	226,457	181,166	0	45,291	135,875	45,291
Total General Obligation Debt						
		1,997,112	0	100,490	1,896,622	102,992
2011 Home Sewer Treatment System						
Loan - 0.00%						
	150,000	0	150,000	150,000	0	0
2001 Tax Increment						
Financing Loan - 4.98%						
	93,266	65,285	0	3,109	62,176	3,109
Capital Lease						
		15,126	4,570	3,990	15,706	4,183
Total Governmental Activities						
		\$2,077,523	\$154,570	\$257,589	\$1,974,504	\$110,284

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

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In 1997, the County entered into contract with the Ohio Water Development Authority. The loan was originally for \$190,884. The proceeds were used to pay for a study to determine the cap, leachate management, explosive gas monitoring, ground water monitoring, and other technical services to close the County's landfill. General Fund monies are being used to repay the debt.

On February 1, 2010, the County entered into a contract with the First National Bank. The loan was in the amount of \$226,457. The proceeds were used to purchase a new Asphalt Zipper and two new dump trucks. The loan has an interest rate of 3.5 percent and will be repaid using gas tax revenues.

The County obtained a Home Sewer Treatment System Loan on November 2, 2011, from the Ohio Water Development Authority. Proceeds from this loan were used to update inadequate wastewater systems in Morgan County. In 2011, the OWDA forgave the County's outstanding balance of \$150,000.

The County obtained a tax increment financing loan in 2001 for \$93,266. Proceeds from this loan will be used to pay for water line chlorination systems and a bulk station to provide potable water for industry. Tax Increment Financing service payments are being used to repay this debt.

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

Year Ended December 31,	Building Improvement General Obligation Bonds		
	Principal	Interest	Total
2012	\$46,081	\$78,514	\$124,595
2013	48,212	76,383	124,595
2014	50,442	74,153	124,595
2015	52,775	71,820	124,595
2016	55,215	69,379	124,594
2017-2021	316,830	306,146	622,976
2022-2026	397,194	225,781	622,975
2027-2031	497,944	125,031	622,975
2032-2033	232,910	16,280	249,190
Total	<u>\$1,697,603</u>	<u>\$1,043,487</u>	<u>\$2,741,090</u>

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

Year Ended December 31,	Ohio Water Development Authority Loan			Tax Increment Financing Loan		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$11,620	\$2,483	\$14,103	\$3,109	\$3,096	\$6,205
2013	12,104	1,999	14,103	3,109	2,942	6,051
2014	12,608	1,495	14,103	3,109	2,787	5,896
2015	13,133	970	14,103	3,109	2,632	5,741
2016	13,679	424	14,103	3,109	2,477	5,586
2017-2021	0	0	0	15,545	10,064	25,609
2022-2026	0	0	0	15,545	6,193	21,738
2027-2031	0	0	0	15,541	2,322	17,863
Total	<u>\$63,144</u>	<u>\$7,371</u>	<u>\$70,515</u>	<u>\$62,176</u>	<u>\$32,513</u>	<u>\$94,689</u>

The County's annual principal and interest requirement to retire the First National Bank Loan is an annual principal payment of \$45,291 plus interest at a fixed rate of 3.50% for a period of 5 years. Interest is based on a 30/360 basis.

In April 2011, the County opened a line of credit with The Citizens National Bank for \$100,000 with an interest rate of 4.75 percent. Each year this line of credit is renewed. There was an outstanding balance of \$75,000 as of December 31, 2011 becoming due in April 2012. During 2011, the County paid off their outstanding 2010 balance of \$75,000 that became due in April 2011.

Debt Margin

The Ohio Revised Code provides that the net general obligation debt of the County, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed one percent of the total valuation of the County. The Code further provides that the total shall never exceed a sum equal to three percent of the first \$100,000,000 of the assessed valuation, plus one and one-half percent of such valuation in excess of \$100,000,000 and not in excess of \$300,000,000, plus two and one-half percent of such valuation in excess of \$300,000,000. The County's unvoted debt margin was \$3,820,086 at December 31, 2011.

Morgan County, Ohio
Notes to the Basic Financial Statements
 December 31, 2011

NOTE 15 - INTERFUND BALANCES AND TRANSFERS

At December 31, 2011, the Other Nonmajor Governmental Funds owed the General Fund \$117,261 due to lags between the dates transactions recorded in the accounting system and payments between funds were made.

Interfund transfers for the year ended December 31, 2011, consisted of the following:

	Transfer From	
Transfer to	General	Total
Major Funds:		
Job and Family Services	\$46,054	\$46,054
Total All Funds	\$46,054	\$46,054

The transfers were to use unrestricted revenues collected in the General Fund to finance the program accounted for in other fund in accordance with budgetary authorizations.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. Buckeye Hills-Hocking Valley Regional Development District

The Buckeye Hills-Hocking Valley Regional Developmental District serves as the Area Agency on Aging for Washington, Athens, Hocking, Meigs, Monroe, Morgan, Noble, and Perry Counties. The District was created to foster a cooperative effort in regional planning, programming, and implementing plans and programs. The District is governed by a fifteen member board of directors. The board is composed of one County Commissioner from each county, one member from the City of Athens, one member from the City of Marietta, four at-large members appointed from the ten government members, and one member from the minority sector. The board has total control over budgeting, personnel, and all other financial matters. The District administers County Community Development Block Grant and Issue II monies. During 2011, the County contributed \$3,495 to the District. The continued existence of the District is not dependent on the County's continued participation and no equity interest exists.

B. Joint Solid Waste District

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

The Joint Solid Waste District is governed and operated through three groups. An eighteen-member board of directors, composed of the three Commissioners from each County, is responsible for the District's financial matters. Financial records were maintained by Muskingum County until May 1993 at which time Noble County assumed the responsibility. The District's sole revenue source is a waste disposal fee for in-district and out-of-district waste. Although the County contributed amounts to the District at the time of its creation, no contributions were received from the County in 2011. No future contributions by the County are anticipated. A thirty-one member policy committee composed of five members from each county and one at-large member appointed by the policy committee, is responsible for preparing the solid waste management plan of the District in conjunction with a Technical Advisory Council whose members are appointed by the Policy Committee. Continued existence of the District is not dependent on the County's continued participation, no equity interest exists, and no debt is outstanding.

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2011

C. Morgan County Family and Children First Council

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

D. Community Action Program Corporation of Washington-Morgan Counties

The Community Action Program Corporation of Washington-Morgan Counties, Ohio, is operated as a non-profit organization formed to provide various programs in Washington and Morgan Counties. Currently, the Corporation administers the Family Service and Outreach Program; the Community Action Bus Line (CABL); the Child Development Program; the Senior Nutrition Program; Women, Infants and Children's Supplemental Nutrition Program; the Home Weatherization Assistance and Energy Program; the Job Training and Partnership Act Program; Housing and Urban Development Section 8 Existing Housing Voucher/Certificate Program; and various other state and federal programs. The Corporation is the direct recipient of the federal and state monies. The Corporation is governed by a fifteen member council. The council is composed of the Mayor of the City of Marietta, the Mayor of the City of Belpre, two commissioners from Washington County, one Commissioner from Morgan County, five lower income representatives, and five private sector representatives from Washington and Morgan Counties selected by outreach workers. Currently, the Corporation, by contract, provides administrative services to these governments in specific programs. During 2011, the Corporation did not receive any administrative fees from the County. These fees were received by the Corporation directly from the granting agencies. The continued existence of the Corporation is not dependent on the County's continued participation and the City does not have an equity interest in the Corporation.

E. Buckeye Hills Resource Conservation and Development Project

The Buckeye Hills Resource Conservation and Development Project was organized to lead local efforts directed toward improving social and economic conditions of the Buckeye Hills RC&D Area through development, conservation, and proper use of all the resources of the area. It serves Athens, Belmont, Hocking, Meigs, Monroe, Morgan, Noble, Perry, and Morgan Counties. The Project is governed by an executive council. The Council is composed of one County Commissioner from each county, one member from the Soil and Water Conservation District of each county, a representative chosen jointly by the county commissioners and Soil and Water Conservation Districts of each county, a member from the Muskingum Watershed Conservancy District, and one member from the Rush Creek Conservancy District. The Council has total control over budgeting, personnel, and all other financial matters. During 2011, the Council did received \$700 any administrative fees from Morgan County. The continued existence of the District is not dependent on the County's continued participation and no equity interest exists.

F. Mental Health and Recovery Services Board of Muskingum County

The Mental Health and Recovery Services Board of Muskingum County (the Board) provides alcohol, drug addiction and mental health services and programs, primarily through contracts with private and public agencies. The Board also provides forensic evaluation services to adult felony courts, and residential services to youth experiencing emotional problems which prevent them from living at home. The Board serves Coshocton, Guernsey, Morgan, Muskingum, Noble, and Perry Counties and operates under the direction of an eighteen-member appointed Board. Each participating county has agreed to levy

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2011

a tax within their county to assist in the operation of the Board. The Board also directly receives state and federal funding for its operations. Although the Muskingum County Auditor and County Treasurer are responsible for fiscal control of the resources of the Board, the Board is responsible for budgeting and accounting for the resources at its disposal. Membership on the Board is based upon Ohio law. The continued existence of the Board is not dependent upon the County's continued participation and no equity interest exists. In 2011, the County contributed \$149,906 to the Board.

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

The Mid Eastern Ohio Regional Council of Governments is a regional council of governments created pursuant to Ohio Revised Code Chapter 167. Participating counties include Belmont, Carroll, Coshocton, Fairfield, Guernsey, Harrison, Hocking, Holmes, Jefferson, Knox, Monroe, Morgan, Muskingum, Noble, Perry, Tuscarawas, and Morgan Counties. MEORC was created to provide the best possible services to the mentally handicapped and disability in their respective counties. Each county has representation on the MEORC board. Member counties have a contract between its county BDD board and the MEORC for MEORC to provide supported living services or housing to eligible persons in the member counties. To obtain financial information, write to the Mid East Ohio Regional Council, Cathy Henthorn, who serves as Director of Financial Operations, 1 Avalon Road, Mt. Vernon, Ohio 43050.

NOTE 17 - INSURANCE PURCHASING POOLS

A. Buckeye Joint-County Self-Insurance Council

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

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

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

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

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

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2011

NOTE 18 - FEDERAL FOOD STAMP PROGRAM

The County's Department of Job and Family Services distributes federal food stamps to entitled recipients within Ohio County. The receipt and issuance of food stamps have the characteristics of federal "grants"; however, the Department of Job and Family Services merely acts in an intermediary capacity. The inventory value of these stamps is not reflected in the accompanying financial statements as the only economic interest related to the stamps rests with the ultimate recipient. The County's Department of Job and Family Services had no inventory of food stamps on hand at December 31, 2011.

NOTE 19 - CONTINGENT LIABILITIES

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

There were no claims and lawsuits pending against the County as of December 31, 2011.

NOTE 20 - LANDFILL

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

As a result of the Directors Final Findings and Orders, the Commissioners contracted for a study to determine the cap, leachate management, explosive gas monitoring, ground water monitoring, and for other technical services relating to closure procedures for the Facility. During 1997, the County paid for the construction phase of capping the Facility. In 2001, the Commissioners contracted with an engineering firm to prepare a corrective measure plan to address the remaining OEPA concerns, including post-closure care. Other alternative plans ranging from approximately \$1.5 million to \$15.9 million have been documented and presented by Advanced Geo Services, who are employees of Gould, Inc., to the OEPA. Advanced GeoServices continues to monitor gas and groundwater pollutant levels for Gould. The Commissioners are also responsible for providing \$33,000 of in-kind contributions for illegal dump cleanup. To date, approximately \$26,423 of these in-kind contributions have been provided.

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

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2011

NOTE 21 - COMPONENT UNIT DISCLOSURES

A. Morgan County Regional Airport Authority

The following are the Morgan County Regional Airport Authority (the Authority) notes to the financial statements for the year ended December 31, 2011:

Summary of Significant Accounting Policies

Basis of Presentation: The Summary of Significant Accounting Policies is presented to assist in understanding the Authority's financial statements. The financial statements and notes are representations of the Authority's management, who are responsible for their integrity and objectivity. These accounting policies conform to the provisions of GASB 34 for financial reporting on a cash basis.

Cash and Cash Equivalents: The Authority considers deposits with maturities of twelve months or less to be cash equivalents. At December 31, 2011, the carrying amount of the Authority's deposits was \$3,234 and the bank balance was \$3,684. The bank balance was covered by federal depository insurance

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

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

Debt: In 2007, the Authority obtained a loan from First National Bank in the amount of \$35,000. As of December 31, 2011, the amount of the loan due was \$30,769. Payment will be made monthly. The first 60 months will be repaid in installments of \$293.46 per month and then \$315.19 over the next 120 months. The calculated nominal interest rate is 6.532%.

B. Mary Hammond Adult Activity Center, Inc.

The following are the Mary Hammond Adult Activity Center, Inc. (the Workshop) notes to the financial statements for the year ended December 31, 2011:

Summary of Significant Accounting Policies

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

Cash and Cash Equivalents: The Workshop considers deposits with maturities of twelve months or less to be cash equivalents. At December 31, 2011, the carrying amount of the Workshop's deposits totaled \$11,179 and the bank balance was \$16,703. The bank balance was covered by federal depository insurance.

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

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2011

Debt: In 2004, the Workshop opened a line of credit with North Valley Bank for \$7,500 with an interest rate of 6.5 percent. Each year this line of credit is renewed. There was no outstanding balance as of December 31, 2011.

Related Party Transactions: During 2011, Morgan County provided facilities, certain equipment, transportation, and salaries for administration, implementation, and supervision of programs to the Workshop. These in-kind contributions were valued at \$263,193. This amount is not reflected in the cash basis financial statements.

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

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

**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

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

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

To the Board of County Commissioners:

We have audited the financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Morgan County, Ohio as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements and have issued our report thereon dated August 9, 2012, wherein, we noted, the County uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Morgan County's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion 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.

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 combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morgan County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that we must report under *Government Auditing Standards.*, which is described in the accompanying Schedule of Findings as items 2011-01. We also noted certain immaterial instances of noncompliance, which we have reported to management of Morgan County in a separate letter dated August 9, 2012.

We did note certain matters not requiring inclusion in this report that we reported to the County's management in a separate letter dated August 9, 2012.

Morgan County's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Morgan County's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the Board of County Commissioners, Auditor of State, federal award agencies, and pass-through entities and others within the Government. We intend it for no one other than these specified parties.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
August 9, 2012

**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

To the Board of County Commissioners:

Compliance

We have audited the compliance of the Morgan 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 the Morgan County's major federal programs for the year ended December 31, 2011. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identifies the County's major federal programs. The Morgan County's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major program. Our responsibility is to opine on the County's compliance based on our audit.

Our compliance audit followed 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 occurred with the compliance requirements referred to above that could directly and materially effect a major federal program. An audit includes examining, on a test basis, evidence about the Morgan County's compliance with these requirements and performing other procedures as 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 Morgan County's compliance with these requirements.

In our opinion, the Morgan 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, 2011. However, the results of our testing disclosed an instance of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as Finding 2011-02.

Internal Control Over Compliance

Morgan County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Morgan County's internal control over compliance with requirements that could directly and materially affect on 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 Morgan County's internal control over compliance.

Internal Control Over Compliance (Continued)

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 detect and timely 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.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of management, the Board of County Commissioners, Auditor of State, federal award agencies, and pass-through entities and others within the Government. We intend it for no one other than these specified parties.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
August 9, 2012

MORGAN COUNTY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION 505
DECEMBER 31, 2011**

1. Summary of Auditor's Results

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	NO
(d)(1)(ii)	Were there any other significant deficiencies In internal control reported at the financial Statement level (GAGAS)?	NO
(d)(1)(iii)	Was there any reported non-compliance at the financial statement level (GAGAS)?	YES
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	NO
(d)(1)(iv)	Were there any other significant deficiencies In internal control reported for major federal programs?	NO
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section. 510?	NO
(d)(1)(vii)	Major Programs:	CDBG; CFDA #14.228 Medical Assistance CFDA #93.778 TANF; CFDA #93.558
(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 2011-01

Noncompliance Citation

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

MORGAN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
OMB CIRCULAR A-133 SECTION 505
DECEMBER 31, 2011

2. **Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued)**

FINDING NUMBER 2011-01 (CONTINUED)

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

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

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

3. **Findings and Questioned Costs for Federal Awards**

FINDING NUMBER 2011-02

Applicable for all federal programs

Federal Reporting Compliance – Material Noncompliance

OMB Circular A-133 Section .300(e) provides that the auditee is responsible for appropriate submission of the audit reports to the appropriate government officials and organizations. OMB A-133 Section .320(a) further provides that the audit report and data collection form must be submitted within the earlier of 30 days after the reports are received from the auditors, or nine months after year end of the audit period, unless a longer period is agreed upon in advance by the cognizant or oversight agency.

The County did not request an extension of time with the cognizant or oversight agency when they noted that the audit would not be completed by the appropriate deadline.

We recommend the County contact the appropriate cognizant or oversight agency if is or will be known that they cannot meet the appropriate deadline for the filing of the audit report and Data Collection form.

Client Response: We did not receive a response from the client.

MORGAN COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2011

Federal Grantor/ Sub-Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
(Pass through Ohio Department of Development)				
Community Development Block Grant	BC-09-053-1	14.228	\$ 200,000	\$ 200,000
	BF-09-053-1		23,800	28,271
	BC-10-053-1		90,414	82,126
	BF-10-053-1		115,600	105,426
	BC-10-053-1 Distress Program Income		98,600	97,920
			53,446	47,506
			<u>581,860</u>	<u>561,249</u>
HOME Partnership Grant	BC-10-053-2	14.239	<u>33,270</u>	<u>33,270</u>
Total U.S. Department of Housing and Urban Development			615,130	594,519
<u>U.S. DEPARTMENT OF JUSTICE:</u>				
Pass through Ohio Attorney General's Office				
Crime Victim Assistance	2011-VA-GENE-336	16.575	31,153	31,032
			<u>31,153</u>	<u>31,032</u>
Pass through Ohio Office of Criminal Justice Services and the Village of McConnelsville				
Violence Against Women Formula Grants	2011-WF-VA2-8423	16.588	35,738	18,039
Violence Against Women Formula Grants-ARRA	n/a	16.588	<u>8,013</u>	<u>861</u>
Total U.S. Department of Justice			74,904	49,932
<u>U.S. DEPARTMENT OF LABOR:</u>				
Pass through Workforce Investment Act Area 15				
Workforce Investment Act Cluster:				
WIA Adult	n/a	17.258	103,245	101,346
WIA Adult-ARRA	n/a	17.258	6,751	-
WIA Youth Activities	n/a	17.259	96,000	96,066
WIA Dislocated Worker	n/a	17.260	76,369	90,828
WIA Dislocated Worker-ARRA	n/a	17.260	4,603	6,858
WIA Rapid Response	n/a	17.261	114,885	110,787
WIA Rapid Response-ARRA	n/a	17.261	24,199	29,649
			<u>426,052</u>	<u>435,534</u>
Total U.S. Department of Labor			426,052	435,534
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Pass through Ohio Department of Transportation				
Highway Planning and Construction	n/a	20.205	276,010	276,010
Formula Grants for Other than Urbanized Areas-ARRA	PID 85776	20.509	63,358	63,358
Formula Grants for Other than Urbanized Areas	RPT0058031112	20.509	150,112	150,112
Formula Grants for Other than Urbanized Areas	RPT4058031111	20.509	274,524	274,524
Formula Grants for Other than Urbanized Areas	RPT4058030101	20.509	2,600	2,600
Formula Grants for Other than Urbanized Areas	RPT0058030102	20.509	15,841	15,841
			<u>506,435</u>	<u>506,435</u>
Total U.S. Department of Transportation			782,445	782,445

See notes to Schedule of Federal Awards Expenditures.

**MORGAN COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor/ Sub-Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>				
Pass through Ohio Department of Aging and the Area Agency on Aging				
Special Programs for the Aging - Title III, Part B	n/a	93.044	87,848	87,848
Pass through Ohio Department of DD				
Social Services Block Grant	n/a	93.667	11,809	11,809
Medical Assistance Program - ARRA	n/a	93.778	37,204	32,945
Medical Assistance Program	n/a	93.778	692,305	692,305
Pass through Ohio Department of JFS				
Temporary Assistance to Needy Families (TANF)	n/a	93.558	833,228	830,872
Medical Assistance Program	n/a	93.778	118,378	366,617
Social Services Block Grant	n/a	93.667	133,293	145,995
Child Care Mandatory and Matching Fund-Child Care	n/a	93.596	19,961	17,815
Child Care Cluster	n/a	93.575	7,395	11,979
Child Support Enforcement Agency	n/a	93.563	230,719	169,057
IV-E Foster Care Maintenance	n/a	93.658	22,121	53,788
IV-E Admin and Training Payment	n/a	93.659	23,650	28,360
Total U.S. Department of Health and Human Services			2,217,911	2,449,390
<u>DEPARTMENT OF HOMELAND SECURITY</u>				
Pass through Ohio EMA				
Public Assistance Grant	FEMA-DR-4002-OH	97.036	52,504	52,504
Total Department of Homeland Security			52,504	52,504
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
(Passed through Ohio Department of JFS)				
Supplemental Nutrition Assistance Program	n/a	10.551	193,629	174,981
Total U.S. Department of Agriculture			193,629	174,981
Total Federal Awards Expenditures			\$ 4,362,575	\$ 4,539,305

See notes to Schedule of Federal Awards Expenditures.

MORGAN COUNTY
NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTES A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - MATCHING REQUIREMENTS

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

NOTE C - SUBRECIPIENTS

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

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

MORGAN COUNTY

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 SECTION 315(b)**

December 31, 2011

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2010-01	OAC 117-2-03B Not filing report in accordance with GAAP	No	Not Corrected. Cited in current report as finding 2011-01
2010-02	ORC 5705.41(B) Expenditures exceeding Appropriations	No	Partially Corrected. Included in Management Letter
2008-04	Cash Management CDBG Program 15 day rule	Yes	Finding No Longer Valid

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Dave Yost • Auditor of State

MORGAN COUNTY FINANCIAL CONDITION

MORGAN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 8, 2012