



**Auditor of State
Betty Montgomery**

**FINANCIAL CONDITION
HARDIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets – Cash Basis	9
Statement of Activities – Cash Basis	10
Fund Financial Statements:	
Statement of Modified Cash Basis Assets and Fund Balances - Governmental Funds.....	12
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances - Governmental Funds	13
Combined Statement of Fund Net Assets – Cash Basis – Proprietary Funds	14
Combined Statement of Cash Receipts, Disbursements, and Changes in Fund Net Assets – Cash Basis – Proprietary Funds	15
Statement of Fiduciary Net Assets – Cash Basis – Fiduciary Funds	16
Statement of Changes in Fiduciary Net Assets – Cash Basis – Fiduciary Funds	17
Notes to the Basic Financial Statements	19
Required Supplementary Information	45
Notes to the Required Supplementary Information.....	51
Schedule of Federal Awards Expenditures.....	53
Notes to the Schedule of Federal Awards Expenditures	55
Independent Accountants' Report on Internal Control Over Financial Reporting and On Compliance And Other Matters Required By <i>Government Auditing Standards</i>	57
Independent Accountants' Report on Compliance With Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance In Accordance With OMB Circular A-133	59
Schedule of Findings.....	61
Schedule of Prior Audit Findings.....	66

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Hardin County
One Courthouse Square, Suite 250
Kenton, Ohio 43326

To the Board of County Commissioners:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hardin County, (the "County"), as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units, HARCO Industries, Inc. which represents 24 and 29 percent respectively, and Hardin County Housing Development, Inc. which represents 9 percent and 16 percent, respectively, of the assets and revenues of the component unit column. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units, HARCO Industries, Inc. and Hardin County Housing Development, Inc. is based on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. The financial statements of the component unit HARCO Industries, Inc. were audited by the other auditors in accordance with auditing standards generally accepted in the United States of America and not in accordance with *Governmental Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the reports of other auditors provide a reasonable basis for our opinions.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hardin County, as of December 31, 2005, and the respective changes in cash financial position, thereof for the year ended in conformity with the basis of accounting Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2006, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis and the respective budgetary comparisons for the General, Pike Repair, Job and Family Services, Mental Retardation and Developmental Disabilities (MRDD) and Hospital Levy Funds are not a required part of the basic financial statements but are supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Betty Montgomery
Auditor of State

August 14, 2006

**FINANCIAL CONDITION
HARDIN COUNTY**

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

The discussion and analysis of Hardin County's (the County) financial performance provides an overview of the County's financial activities for the year ended December 31, 2005, within the limitations of the County's modified cash basis of accounting. Please read this in conjunction with the County's financial statements that begin on page 9.

Financial Highlights

Key financial highlights for 2005 are as follows:

Overall:

Total net assets decreased \$175,259 with Governmental Activities decreasing by \$443,232 and Business-Type Activities increasing by \$267,973.

Total cash receipts were \$27,816,548 in 2005.

Total cash disbursements were \$27,991,807 in 2005.

Governmental Activities:

Total program cash receipts were \$13,116,253 in 2005, while program cash disbursements were \$24,021,763.

Public Works and Human Services related programs had the largest cash disbursements totaling \$12,338,392 in 2005.

Business-Type Activities:

Program cash receipts were \$4,118,957 for Business Activities, while corresponding cash disbursements were \$3,970,044. Hardin Hills contributed significantly to the increase in Net Assets in the business-type activities.

Using this Basic Financial Report

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

The *Statement of Net Assets-cash basis* and *Statement of Activities-cash basis* provide information about the activities of the whole County, presenting an aggregate view of the County's cash basis finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the County's most significant funds with all other non-major funds presented in total in one column.

Reporting the County as a Whole

The County's Reporting Entity Presentation

This annual report includes all activities for which Hardin County is fiscally responsible. These activities, defined as the County's reporting entity, are operated within separate legal entities that make up the primary government.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the County to provide programs and activities, the view of the County as a whole looks at all cash basis financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include *only net assets* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid. These two statements report the County's *net assets* and changes in those assets. This change in net assets is important because it tells the reader whether, for the County as a whole, the *cash basis financial position* of the County has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the County's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated federal and state programs and other factors.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and 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. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

In the Statement of Net Assets and the Statement of Activities, the County is divided into two distinct kinds of activities:

Governmental Activities - Most of the County's programs and services are reported here including general government, public safety, public works, health, human services, economic development and debt service.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all of the cash disbursements of the goods or services provided. The County's nursing home (Hardin Hills), the Waste Transfer Station, and operation of three sewer districts are all reported as business activities.

Reporting the County's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the County's major funds. The County uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the County's most significant funds. The County's most significant funds that have been presented as major governmental funds are the General Fund, the Pike Repair Fund, the Job and Family Services Fund, the Mental Retardation and Developmental Disabilities (MRDD) Fund and the Hospital Levy Fund.

Governmental Funds - Most of the County's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed *view* of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various County programs.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

The County as a Whole

Recall that the Statement of Net Assets provides the perspective of the County as a whole. Table 1 provides a summary of the County's Net Assets for 2005 compared to the prior year:

**Table 1
Net Cash Assets**

Assets	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Equity in Pooled Cash & Cash Equivalents	\$7,394,417	\$7,875,297	\$841,086	\$573,113	\$8,235,503	\$8,448,410
Cash & Cash Equivalents in Segregated Accounts	26,417	25,930			26,417	25,930
Cash With Fiscal Agent	37,161				37,161	
Total Assets	7,457,995	7,901,227	841,086	573,113	8,299,081	8,474,340
Net Cash Assets						
Restricted	5,519,333	7,186,654			5,519,333	7,186,654
Unrestricted (deficit)	1,938,662	714,573	841,086	573,113	2,779,748	1,287,686
Total Net Assets	\$7,457,995	\$7,901,227	\$841,086	\$573,113	\$8,299,081	\$8,474,340

Total assets decreased by \$175,259.

**Table 2
Changes In Net Cash Assets**

	Governmental Activities	Business-Type Activities	Total
Cash Receipts			
Program Cash Receipts			
Charges For Services, Permits, Fines and Fees	\$ 4,281,051	\$ 4,118,957	\$ 8,400,008
Operating Grants and Contributions	8,409,750		8,409,750
Capital Grants and Contributions	425,452		425,452
Total Program Cash Receipts	13,116,253	4,118,957	17,235,210
General Cash Receipts and Transfers			
Property Taxes			
General Purpose	1,140,928		1,140,928
911- Public Safety	264,467		264,467
Hospital - Health	1,900,099		1,900,099
MRDD - Human Service	2,058,373		2,058,373
Sales Taxes	2,972,093		2,972,093
Grants and Entitlements Not Restricted	1,032,911		1,032,911
Interest Receipts	391,687		391,687
Sale of Assets	68,468	12,927	81,395
Miscellaneous	683,970	54,133	738,103
Transfers/Advances (Net)	(50,718)	52,000	1,282
Total General Cash Receipts, Transfers and Advances	10,462,278	119,060	10,581,338,972
Total Cash Receipts and Transfers	23,578,531	4,238,017	27,816,548

**FINANCIAL CONDITION
HARDIN COUNTY**

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

Cash Disbursements

Program Cash Disbursements			
General Government			
Legislative and Executive	2,050,505		2,050,505
Judicial	1,855,047		1,855,047
Public Safety	2,119,687		2,119,687
Public Works	4,875,724		4,875,724
Health	3,992,075		3,992,075
Human Services	7,462,668		7,462,668
Conservation and Recreation	547,349		547,349
Economic Development	44,637		44,637
Other	128,016		128,016
Debt Service:			
Principal Retirement	859,039		859,039
Interest and Fiscal Charges	87,016		87,016
Proprietary Funds		<u>3,970,044</u>	<u>3,970,044</u>
Total Cash Disbursements	<u>24,021,763</u>	<u>3,970,044</u>	<u>27,991,807</u>
Increase (Decrease) In Net Cash Assets	(443,232)	267,973	(175,259)
Net Cash Assets at Beginning of Year	<u>7,901,227</u>	<u>573,113</u>	<u>8,474,340</u>
Net Cash Assets at End of Year	<u>\$ 7,457,995</u>	<u>\$ 841,086</u>	<u>\$ 8,299,081</u>

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall monies generated by a voted levy do not increase solely as a result of inflation. Thus, the County's dependence upon property taxes is hampered by a lack of tax growth and must return to voters to maintain a constant level of service. Property taxes and sales taxes made up 23 percent and 13 percent, respectively, of cash receipts for governmental activities for Hardin County in fiscal year 2005. Operating grants and contributions made up 36 percent of cash receipts for governmental activities for the County.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax receipts and unrestricted state entitlements. The dependence upon tax receipts and intergovernmental monies for governmental activities is apparent. Seventy percent of human services activities are supported through charges for services and operating grants and contributions. General cash receipts provide approximately 44 percent of the support for the total governmental cash disbursements as shown in Table 2. The taxpayers and the State of Ohio, as a whole, provide the vast majority of resources for Hardin County. Table 3 below shows the total and net cost of services (on a modified cash basis) for the County.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

**Table 3
Total Cost of Program Services
Governmental Activities and Business-Type Activities**

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Cash Disbursements				
Program Cash Disbursements				
General Government				
Legislative and Executive	\$2,050,505	\$2,944,214	(\$827,101)	(\$1,772,396)
Judicial	1,855,047	1,490,471	(1,274,799)	(900,639)
Public Safety	2,119,687	2,465,825	(1,729,726)	(2,008,861)
Public Works	4,875,724	5,334,993	(69,688)	(731,430)
Health	3,992,075	1,009,183	(3,324,831)	(704,952)
Human Services	7,462,668	7,526,578	(2,245,216)	(1,723,032)
Conservation and Recreation	547,349		(315,441)	
Economic Development	44,637	542,963	(44,637)	98,882
Other	128,016	209,876	(128,016)	(209,876)
Debt Service:				
Principal Retirement	859,039	936,694	(859,039)	(936,694)
Interest and Fiscal Charges	87,016	95,562	(87,016)	(95,562)
Total Cash Disbursements-Governmental	<u>24,021,763</u>	<u>22,556,359</u>	<u>(10,905,510)</u>	<u>(8,984,560)</u>
Business-Type Activities				
Proprietary Funds	<u>3,970,044</u>	<u>3,953,546</u>	<u>148,913</u>	<u>(152,260)</u>

Business-type activities are supported by program cash receipts. During 2005, program cash receipts exceeded program cash disbursements, which resulted in the above increase.

The County's Funds

Information about the County's major funds starts on page 12. These funds are accounted for using the cash basis of accounting. All governmental funds had total cash receipts and other financing sources of \$25,784,742 and cash disbursements and other financing uses of \$26,227,974. The net change in fund balance for the year was most significant in the Hospital Levy Fund where the cash balance went from \$2,805,638 in 2004 to \$1,054,007 for 2005. This was due to construction costs of \$3,845,274 on the hospital.

General Fund Budgeting 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 most significant budgeted fund is the General Fund.

For the general fund, final budget basis receipts and other financing sources were \$6,556,846, above original budget estimates of \$5,096,500. Of this \$1,460,346 difference, sales tax receipts were \$1,122,093 above original estimates, investment income \$141,509 above original estimates and various other receipt categories made up the remaining \$980,584.

Total actual disbursements and other financing uses on the budget basis (cash outlays plus encumbrances) were \$6,317,659, which is \$1,048,667 less than cash receipts plus beginning budgetary fund balance.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

Capital Assets and Debt Administration

Capital Assets

The County does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as capital outlay disbursements. The County's largest capital outlay was in the human services program that had capital outlay disbursements of \$3,845,274 for equipment and hospital construction costs during calendar year 2005. The capital outlay represent tax levy money placed on the ballot by the County Commissioners on behalf of the Hardin Memorial Hospital and does not represent a County owned asset.

Debt

Under the cash basis of accounting the County does not report bonds, long-term notes or short-term notes in the accompanying basis financial statements. However, in order to provide information to the readers of this report, we are providing the following detailed information about bonds, long-term notes and short-term notes. At December 31, 2005 the County had \$1,763,184 in bonds and related long-term debt for Governmental Activities. Table 4 summarizes bonds and long-term notes outstanding for Governmental Activities for the past two years:

**Table 4
Outstanding Debt at December 31
Governmental Activities**

	<u>2005</u>	<u>2004</u>
General Obligation/Special Assessment Bonds	\$1,223,498	\$1,435,098
OWDA Landfill Closure	500,550	544,642
OPWC Loans	39,136	50,382
Totals	<u>\$1,763,184</u>	<u>\$2,030,122</u>

Current Financial Related Activities

Hardin County is stable financially at the present time. However, as the preceding information shows, the County heavily depends on its property taxpayers as well as intergovernmental monies. Since the property tax receipts do not grow at the same level as inflation, the County will be faced with significant challenges over the next several years to contain costs and ultimately determine what options are available to the County.

In addition, the County's system of budgeting and internal controls will be watched very closely as revenue becomes limited over the next few years. All of the County's financial abilities will be needed to meet the challenges of the future.

Contacting the County's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the County's cash basis finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information contact Michael T. Bacon, County Auditor at Hardin County, One Courthouse Square, Suite 250, Kenton, Ohio 43326-2389. Or e-mail at hcaudit@co.hardin.oh.us.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

	Primary Government			Component Unit Totals
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$7,394,417	\$841,086	\$8,235,503	
Cash and Cash Equivalents in Segregated Accounts	26,417		26,417	124,666
Cash With Fiscal Agent	37,161		37,161	
	7,457,995	841,086	8,299,081	124,666
Total Assets	7,457,995	841,086	8,299,081	124,666
Net Assets:				
Restricted For:				
Debt Service	14,239		14,239	
Capital Projects	350,907		350,907	
Other Purposes	5,154,187		5,154,187	
Unrestricted	1,938,662	841,086	2,779,748	124,666
	\$7,457,995	\$841,086	\$8,299,081	\$124,666
Total Net Assets	\$7,457,995	\$841,086	\$8,299,081	\$124,666

See Accompanying Notes to the Basic Financial Statements.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

	<u>Program Cash Receipts</u>			
	<u>Cash Disbursements</u>	<u>Charges for Services, Permits Fines & Fees</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities				
General Government				
Legislative and Executive	\$2,050,505	\$1,079,037	\$144,367	
Judicial	1,855,047	309,372	270,876	
Public Safety	2,119,687	193,253	196,708	
Public Works	4,875,724	1,292,210	3,513,826	
Health	3,992,075	394,046	79,654	193,544
Human Services	7,462,668	1,013,133	4,204,319	
Conservation and Recreation	547,349			231,908
Economic Development	44,637			
Other	128,016			
Debt Service:				
Principal Retirement	859,039			
Interest and Fiscal Charges	87,016			
Total Governmental Activities	<u>24,021,763</u>	<u>4,281,051</u>	<u>8,409,750</u>	<u>425,452</u>
Business Type Activities				
Hardin Hills	3,332,187	3,528,743		
Waste Transfer Station	598,320	538,032		
Sewers	39,537	52,182		
Total Business Type Activities	<u>3,970,044</u>	<u>4,118,957</u>	<u>0</u>	<u>0</u>
Total Primary Government	<u>\$27,991,807</u>	<u>\$8,400,008</u>	<u>\$8,409,750</u>	<u>\$425,452</u>
Component Units:				
Airport	184,367	88,113	69,182	
Harco Industries	84,743	79,081		
Hardin Housing	39,347	36,228		10,000
Total Component Units	<u>\$308,457</u>	<u>\$203,422</u>	<u>\$69,182</u>	<u>\$10,000</u>

General Cash Receipts and Transfers

Property Taxes Levied for:

 General Purpose

 911 - Public Safety

 Hospital - Health

 MRDD - Human Services

Sales Taxes

Grants and Entitlements not Restricted for Specific Programs

Interest

Sale of Assets

Miscellaneous

Total General Receipts

Transfers

Advances

Total General Cash Receipts, Transfers and Advances

Changes in Net Cash Assets

Net Cash Assets Beginning of Year

Net Cash Assets End of Year

See Accompanying Notes to the Basic Financial Statements.

**Net (Cash Disbursements) Cash Receipts
and Changes in Net Cash Assets**

Primary Government			Component Units
Governmental Activities	Business Type Activities	Total	
(\$827,101)		(\$827,101)	
(1,274,799)		(1,274,799)	
(1,729,726)		(1,729,726)	
(69,688)		(69,688)	
(3,324,831)		(3,324,831)	
(2,245,216)		(2,245,216)	
(315,441)		(315,441)	
(44,637)		(44,637)	
(128,016)		(128,016)	
(859,039)		(859,039)	
(87,016)		(87,016)	
<u>(10,905,510)</u>		<u>(10,905,510)</u>	
	\$196,556	196,556	
	(60,288)	(60,288)	
	12,645	12,645	
	148,913	148,913	
<u>(\$10,905,510)</u>	<u>148,913</u>	<u>(10,756,597)</u>	
			(\$27,072)
			(5,662)
			6,881
			<u>(25,853)</u>
1,140,928		1,140,928	
264,467		264,467	
1,900,099		1,900,099	
2,058,373		2,058,373	
2,972,093		2,972,093	
1,032,911		1,032,911	
391,687		391,687	1,329
68,468	12,927	81,395	
683,970	54,133	738,103	4,153
10,512,996	67,060	10,580,056	5,482
(48,718)	50,000	1,282	
(2,000)	2,000		
<u>10,462,278</u>	<u>119,060</u>	<u>10,581,338</u>	<u>5,482</u>
(443,232)	267,973	(175,259)	(20,371)
<u>7,901,227</u>	<u>573,113</u>	<u>8,474,340</u>	<u>145,037</u>
<u>\$7,457,995</u>	<u>\$841,086</u>	<u>\$8,299,081</u>	<u>\$124,666</u>

**FINANCIAL CONDITION
HARDIN COUNTY**

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

	<u>General Fund</u>	<u>Pike Repair Fund</u>	<u>Job and Family Services</u>	<u>MRDD Fund</u>	<u>Hospital Levy Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash Assets:							
Equity in Pooled Cash and Cash Equivalents	\$1,133,550	\$531,906	\$22,681	\$919,036	\$1,054,007	\$3,733,237	\$7,394,417
Cash and Cash Equivalents in Segregated Accounts				26,417			26,417
Cash With Fiscal Agent				37,161			37,161
Total Cash Assets	<u>1,133,550</u>	<u>531,906</u>	<u>22,681</u>	<u>982,614</u>	<u>1,054,007</u>	<u>3,733,237</u>	<u>7,457,995</u>
Cash Fund Balances:							
Reserved for Encumbrances	164,198	63,189	94,922	8,578	770,761	351,295	1,452,943
Unreserved, (deficit) Reported in:							
General Fund	969,352						969,352
Special Revenue Funds		468,717	(72,241)	974,036	283,246	2,618,024	4,271,782
Debt Service Funds						24,013	24,013
Capital Projects Funds						739,905	739,905
Total Cash Fund Balances	<u>\$1,133,550</u>	<u>\$531,906</u>	<u>\$22,681</u>	<u>\$982,614</u>	<u>\$1,054,007</u>	<u>\$3,733,237</u>	<u>\$7,457,995</u>

See Accompanying Notes to the Basic Financial Statements.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

	General Fund	Pike Repair Fund	Job and Family Services	MRDD Fund	Hospital Levy Fund	Other Governmental Funds	Total Governmental Funds
Cash Receipts:							
Taxes	\$1,073,232			\$2,058,373	\$1,900,099	\$332,163	\$5,363,867
Intergovernmental Receipts	1,032,911	\$3,478,520	\$2,445,485	1,198,706	193,544	1,746,444	10,095,610
Investment Income	341,509	16,234				33,944	391,687
Licenses and Permits	2,824					107,357	110,181
Fines & Forfeitures	20,120	32,170				110,285	162,575
Special Assessments						858,983	858,983
Charges for Services	948,365	632,776	302,681	18,123		1,019,870	2,921,815
Sales Taxes	2,972,093						2,972,093
Miscellaneous	84,824	36,803	84,013	97,244		381,086	683,970
Total Cash Receipts	6,475,878	4,196,503	2,832,179	3,372,446	2,093,643	4,590,132	23,560,781
Cash Disbursements:							
General Government							
Legislative and Executive	1,599,914					450,591	2,050,505
Judicial	1,425,014					430,033	1,855,047
Public Safety	1,591,076					528,611	2,119,687
Public Works	20,187	3,979,288				876,249	4,875,724
Health	56,955				3,845,274	89,847	3,992,076
Human Services	355,967		2,907,763	2,720,699		1,478,238	7,462,667
Conservation and Recreation	259,160					288,189	547,349
Economic Development and Assistance	22,775					21,862	44,637
Other	128,016						128,016
Capital Outlay							
Debt Service:							
Bond Principal Payment							
Note Principal Payment						859,039	859,039
Interest & Fiscal Charges						87,016	87,016
Total Cash Disbursements	5,459,064	3,979,288	2,907,763	2,720,699	3,845,274	5,109,675	24,021,763
Cash Receipts Over/(Under) Cash Disbursements	1,016,814	217,215	(75,584)	651,747	(1,751,631)	(519,543)	(460,982)
Other Financing Sources (Uses)							
Sale of Capital Assets		68,468					68,468
Advances In	18,000			130,000		701,400	849,400
Advances Out	(520,000)			(130,000)		(201,400)	(851,400)
Operating Transfers In	29,876					1,276,217	1,306,093
Operating Transfers Out	(338,595)	(136,246)				(879,970)	(1,354,811)
Total Other Financing Sources/(Uses)	(810,719)	(67,778)				896,247	17,750
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing Uses	206,095	149,437	(75,584)	651,747	(1,751,631)	376,704	(443,232)
Cash Fund Balances - Beginning of Year	927,455	382,469	98,265	330,867	2,805,638	3,356,533	7,901,227
Cash Fund Balances - End of Year	\$1,133,550	\$531,906	\$22,681	\$982,614	\$1,054,007	\$3,733,237	\$7,457,995

See Accompanying Notes to the Basic Financial Statements.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

	Business-Type Activities		
	Hardin Hills	Other Enterprise Funds	Total Enterprise Funds
Cash Assets:			
Equity in Pooled Cash and Cash Equivalents	\$795,037	\$46,049	\$841,086
Total Cash Assets	<u>795,037</u>	<u>46,049</u>	<u>841,086</u>
Net Assets:			
Unrestricted	<u>\$795,037</u>	<u>\$46,049</u>	<u>\$841,086</u>

See Accompanying Notes to the Basic Financial Statements.

**FINANCIAL CONDITION
HARDIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND NET ASSETS-CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Business-Type Activities</u>		<u>Total Enterprise Funds</u>
	<u>Hardin Hills</u>	<u>Other Enterprise Funds</u>	
Operating Cash Receipts:			
Charges for Services	\$3,528,743	\$590,214	\$4,118,957
Other Operating Receipts	52,350	1,783	54,133
Total Operating Cash Receipts	3,581,093	591,997	4,173,090
Operating Cash Disbursements:			
Personal Services	2,588,892	156,233	2,745,125
Contract Services	143,149	437,512	580,661
Materials and Supplies	364,869	27,431	392,300
Other Operating Expenses	209,392	12,587	221,979
Capital Outlay	25,426		25,426
Total Operating Cash Disbursements	3,331,728	633,763	3,965,491
Operating Income(Loss)	249,365	(41,766)	207,599
Non-Operating Cash Receipts/(Disbursements):			
Proceeds from the sale of Capital Assets	12,927		12,927
Debt Service Principal		(4,000)	(4,000)
Interest Expense & Fiscal Charges		(553)	(553)
Total Non-Operating Cash Revenues/(Disbursements)	12,927	(4,553)	8,374
Cash Receipts Over(Under) Cash Disbursements	262,292	(46,319)	215,973
Advances-In		2,000	2,000
Transfers-In		50,000	50,000
Changes in Net Assets	262,292	5,681	267,973
Net Assets - Beginning of Year	532,745	40,368	573,113
Net Assets - End of Year	<u>\$795,037</u>	<u>\$46,049</u>	<u>\$841,086</u>

See Accompanying Notes to the Basic Financial Statements.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

	Private Purpose Trust	Agency
Cash Assets:		
Equity in Pooled Cash and Cash Equivalents	\$289,088	\$2,246,003
Cash and Cash Equivalents in Segregated Accounts		167,602
	<u>289,088</u>	<u>2,413,605</u>
Total Cash Assets	289,088	2,413,605
Net Assets:		
Unrestricted	102,807	2,413,605
Restricted	186,281	
	<u>186,281</u>	<u>2,413,605</u>
Total Net Assets	\$289,088	\$2,413,605

See Accompanying Notes to the Basic Financial Statements.

FINANCIAL CONDITION
HARDIN COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
CASH BASIS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Private Purpose Trusts</u>
Cash Additions:	
Contributions	\$7,753
Investment Income	<u>16,508</u>
Total Cash Additions	24,261
Cash Deductions:	
Payments in Accordance with Trust Agreements	<u>30,733</u>
Changes in Net Assets	(6,472)
Net Assets - Beginning of Year	<u>295,560</u>
Net Assets - End of Year	<u><u>\$289,088</u></u>

See Accompanying Notes to the Basic Financial Statements.

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**FINANCIAL CONDITION
HARDIN COUNTY**

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

1. DESCRIPTION OF THE REPORTING ENTITY

Hardin County (The "County") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The County operates under the direction of a three member elected board of county commissioners. A county auditor and county treasurer are responsible for fiscal control of the resources of the County which are maintained in the funds described below. Services provided by the County include public protection (sheriff and courts); human services; repair, maintenance and construction of roads; ditches and bridges; disposal transfer services; and mental retardation and developmental disabilities educational services.

The County's reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, effective for financial statements for periods beginning after December 15, 1992. The combined financial statements include all funds, agencies, boards, and commissions for which Hardin County and the County Commissioners are "accountable".

A. Component Units

HARCO Industries, Inc.

HARCO Industries, Inc. (the "Workshop") is a legally separate, nonprofit corporation, served by a self-appointing board of trustees. The Workshop, under a contractual agreement with the Hardin County Board of Mental Retardation and Developmental Disabilities (MRDD), provides sheltered employment for adults with mental retardation or developmental disabilities in Hardin County.

The Hardin County Board of MRDD provides the Workshop 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 Workshop's sole purpose of providing assistance to mentally retarded or developmentally disabled adults of Hardin County, the Workshop is a component unit of the County.

Complete financial statements can be obtained from Kim Harruff, Executive Director of HARCO Industries, Inc., 705 Ida Street, Kenton, Ohio 43326.

HARCO Industries, Inc. has a fiscal year end of June 30, 2005, however, the annualized amounts would not be significantly different from calendar year amounts.

Hardin County Housing Development, Inc.

Hardin County Housing Development, Inc. (HCHD) is a legally separate, nonprofit corporation, served by a self-appointing board of trustees. The HCHD, under a contractual agreement with the Hardin County Board of Retardation and Developmental Disabilities, provides capital facilities for mental hygiene and retardation services for adults with mental retardation or developmental disabilities in Hardin County. The Hardin County Board of MRDD provides the staff salaries, transportation, equipment and other funds as necessary for the operation. Based on the significant services and resources provided by the County to the HCHD and HCHD's sole purpose of providing assistance to mentally retarded or developmentally disabled adults of Hardin County, HCHD is a component unit of the County.

Complete financial statements can be obtained from the administrative offices at 705 Ida Street, Kenton, Ohio.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

1. DESCRIPTION OF THE REPORTING ENTITY (Continued)

Hardin County Airport Authority

The Hardin County Airport Authority provides air transportation and commercial travel for the general population and surrounding businesses of Hardin County. The Airport Board consists of seven members who are appointed by the Hardin County Commissioners. The airport land is owned by Hardin County. Based on the appointments and control and the significant services it provides, the Hardin County Airport Authority is a component unit of Hardin County.

Complete financial statements can be obtained from Brenda Broseke, 1040 West Franklin Street, Kenton, Ohio.

B. Jointly Governed Organizations

West Central Ohio Network

The West Central Ohio Network (West CON) is a regional council of government. West CON is comprised of the boards of Mental Retardation and Developmental Disabilities (MRDD) of several counties, including, Auglaize, Darke, Logan, Mercer, Miami, Shelby, Union, and Hardin. The Board of Directors is made up of the Superintendents from each of these MRDD Boards, and the degree of control exercised by any participating government is limited to its representation on the Board. West CON is the administrator and fiscal agent of Supported Living funds for each of these Boards of Mental Retardation and Developmental Disabilities.

Hardin Regional Planning Commission:

The Hardin Regional Planning Commission (the "Commission") is a joint venture between the County, the Municipalities, and the Townships within the County. The degree of control exercised by any participating government is limited to its representation on the Board. The Board is comprised of twenty seven members, any of which may hold any other public office. The County is represented by three members.

The Commission makes studies, maps, plans, recommendations and reports concerning the physical, environmental, social, economic, and governmental characteristics, functions, and services of the County. Each participating government may be required to contribute an assessment per capita, according to the latest federal census, in any calendar year in which the revenue is needed.

Workforce Investment Act

The Workforce Investment Act (WIA) of 1998 (Pub. L. No. 105-220) abolished the former Job Training and Partnership Act (JTPA) and merged services previously provided by both the Ohio Bureau of Employment Services (OBES) and the Ohio Department of Human Services (ODHS). As a result of this legislation, both State and County Departments of Human Services (DHS) are now the Departments of Job and Family Services (DJFS).

Objectives of the Workforce Investment Act are to increase the employment, retention, and earnings of participants in the program, and as a result improve the quality of the workforce, reduce welfare dependency, and enhance the productivity of the Nation.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

1. DESCRIPTION OF THE REPORTING ENTITY (Continued)

Ohio is organized into seven local workforce investment areas. There are six "traditional" local areas and a seventh area known as the Ohio Option, which includes most of the State. Each traditional area has its own workforce investment board and acts as its own workforce investment system. The Ohio option is subdivided into local Workforce Development Areas (WDA), typically county or multi-county WDAs.

Each Workforce Investment or Policy Board is responsible for developing "one-stop" service delivery systems for the local area. The one-stop system is a network of required partners delivering training/employment services and activities defined in the law.

The federal WIA program is administered through the ODJFS and operates on a state fiscal year from July 1 to June 30. Effective July 1, 2002, Hardin County participated in a multi-county WDA with Auglaize and Mercer Counties, with Mercer County auditor as fiscal agent.

Family and Children First Council

The Family and Children First Council (FCFC) provides services to multi-need youth in Hardin County. Members of the council include the Hardin County Board of Mental Retardation, Mental Health Board, Hardin County Child Support Enforcement Agency, Alcohol, Drug and Mental Health Service Board, Head Start, Kenton-Hardin County Board of Health, Kenton City Schools, Hardin County Human Services, Hardin County Educational Service Center and the Ohio Department of Youth Services. The operation of the council is controlled by an advisory committee which consists of a representative from each agency. Funding comes mainly from the State of Ohio.

Logan County Juvenile Detention Center

The Logan County Juvenile Detention Center (JDC), is a jointly established non-profit corporation whose general-purpose is to allow for the constitutional detention of juvenile persons.

The JDC is governed by a five member board consisting of the Juvenile Judge and a County Commissioner from each participating county (Logan and Hardin). The Logan County Juvenile Judge shall be responsible for selecting the fifth member annually.

Financial information can be obtained from the Logan County Auditor, Mike Yoder, Jail Office Complex, 100 South Madriver Street, Room 103, Bellefontaine, Ohio 43311

C. Joint Ventures:

Mental Health and Recovery Services of Allen, Auglaize, and Hardin Counties

The Mental Health and Recovery Services (MHRS) of Allen, Auglaize, and Hardin Counties, is a tri-county non-profit corporation whose general-purpose is to provide leadership in planning for and supporting community-based alcohol, drug addiction and mental health services in cooperation with public and private resources with emphasis on the development of prevention and early intervention programming while respecting, protecting and advocating for the rights of persons as consumers of alcohol, drug addiction and mental health services.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

1. DESCRIPTION OF THE REPORTING ENTITY (Continued)

The Board of Trustees consists of eighteen members. Four members are appointed by the Director of the Ohio Department of Mental Health, four members are appointed by the Director of the Ohio Department of Alcohol and Drug Addiction Services and the remaining ten members are appointed by the County Commissioners of Allen, Auglaize, and Hardin counties in the same proportion as the County's population bears to the total population of the three counties combined. The degree of control exercised by any participating government is limited to its representation on the Board. The MHRS Board is a joint venture since continued participation by the County is necessary for the continued existence.

Allen County acts as the fiscal agent for the MHRS Board. The Board receives tax revenue from the three Counties and receives federal and state funding through grant monies which are applied for and received by the board of trustees.

The MHRS Board is not accumulating significant financial resources and is not experiencing fiscal distress that may cause an additional financial benefit to or burden on members in the future. The Board has sole budgetary authority and controls surpluses and deficits and the county is not legally or morally obligated for the Board's debt.

In 2005, tax revenues generated by the levy in Hardin County totaled \$138,997 which represents one and six tenths percent of total revenues. Complete financial statements can be obtained from the Allen County Auditor, Ben Diepenbrock, 301 North Main Street, Room 103, P.O. Box 1243, Lima, Ohio 45802-1243.

Marion Hardin Correctional Center

The Marion Hardin Correctional Center, is a jointly established non-profit corporation whose general-purpose is to allow for the humane and constitutional detention of persons who cannot be released to less restrictive alternatives. Institutional programming will provide opportunities for rehabilitation for inmates while meeting all relevant correction standards, including the Minimum Standards for Jails, in Ohio; Full Service Facilities.

The Correctional Center is governed by a Joint County Corrections Commission. The Commission is a board composed of the following representatives: the President of the Board of County Commissioners, the Sheriff, and the Presiding Judge of the Court of Common Pleas from each member county. The Commission shall have an executive committee, construction committee, and operations committee who shall be responsible for the planning, construction, and day to day operating activities of the facility.

The Marion Hardin County Jail Commission is a joint venture between Marion and Hardin Counties. The Commission has no outstanding debt as of December 31, 2004. The Commission has not accumulated significant financial resources, nor is the commission experiencing fiscal stress that may cause additional financial benefit or burden on the County in the future. Financial information can be obtained from the Marion County Auditor, Joe Campbell, 222 West Center Street, Marion, Ohio 43302.

D. Risk Pools

County Risk Sharing Authority, Inc. (CORSA)

CORSA is an Ohio nonprofit corporation established by forty-six counties in Ohio, for the purpose of establishing the CORSA Insurance/Self-Insurance Program.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

1. DESCRIPTION OF THE REPORTING ENTITY (Continued)

Member counties agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverage provided by CORSA. This coverage includes comprehensive general liability, automobile liability, certain property insurance and public officials' errors and omissions liability insurance.

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

County Commissioner Association of Ohio Workers' Compensation Group Rating Plan

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

A group executive committee is responsible for calculating annual rate contributions and rebates, approving the selection of a third party administrator, reviewing and approving proposed third party fees, fees for risk management services, and general management fees, determining ongoing eligibility of each participant and performing any other acts and functions which may be delegated to it by the participating employers.

The group executive committee consists of seven members. Two members are the president and treasurer of CCAOSC; the remaining five members are representatives of the participants. These five members are elected for the ensuing year by the participants at a meeting held in the month of December each year. No participant can have more than one member on the group executive committee in any year, and each elected member shall be a County Commissioner.

County Employee Benefit Consortium of Ohio, Inc.

The County is participating in an insurance group purchasing pool for employee benefit plan costs which was established under the authority granted by Section 9.833 of the Ohio Revised Code. The County Employee Benefit Consortium of Ohio, Inc (CEBCO) was established to assist political subdivisions of the State of Ohio in controlling employee benefit plan costs.

CEBCO is responsible for obtaining and providing to members within 90 days after the last day of the fiscal year, a written report by a member of the American Academy of Actuaries concerning the benefit program.

This report shall certify whether the amounts reserved by CEBCO to cover potential cost of health care benefits for eligible officials, employees, and dependents are sufficient and are computed in accordance with accepted loss reserving standards. Each member political subdivision has a voting representative on the CEBCO Board.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

1. DESCRIPTION OF THE REPORTING ENTITY (Continued)

E. Related Organizations

Mary Lou Johnson Hardin County Public Library

The Library Board is made up of seven members, four are appointed by the Commissioners of Hardin County and three are appointed by the Common Pleas Court Judge of Hardin County. The County is not involved in the budgeting process or operational management of the Library, nor does it subsidize or finance its operations. The County does pass through local government monies from the State of Ohio to the Library.

Hardin County Veterans Memorial Park District

The Park District Board is made up of three members, all of which are appointed by the Probate Judge of Hardin County. The County is not involved in the budgeting process or operational management of the Park District, nor does it subsidize or finance its operations.

F. Potential Component Units

As counties are structured in Ohio, the County Auditor and County Treasurer, respectively, serve as fiscal officer and custodian of funds for various agencies, boards, and commissions. As fiscal officer, the Auditor certifies the availability of cash and appropriations prior to the processing of payments and purchases. As the custodian of all public funds, the Treasurer invests 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 and custodian, but does not exercise primary oversight responsibility; accordingly the following districts and agencies are presented as agency funds within the County's financial statements:

Hardin County General Health District

The six member Board of Health is appointed by the District Advisory Council, which is comprised of Township Trustee Chairmen, Clerks and Mayors of participating municipalities. The Board adopts its own budget and operates autonomously from the County.

Soil and Water Conservation District

The five members of the District are independently elected officials. They adopt their own budget and control their separate operations.

Other Districts

The Regional Planning Commission, Council on Aging, Hardin County Veterans Memorial Park District, and the Family and Children First Council are also not a part of the County reporting entity although they are presented as agency funds within the County's financial statements.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and reporting practices of Hardin County conform to a comprehensive basis of accounting as applicable to governmental entities. The following is a summary of its significant accounting policies:

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-3 to prepare its annual financial report in accordance with generally accepted accounting principles, the County chooses to prepare its financial statements on an other comprehensive basis of accounting (OCBOA) formerly prescribed or permitted by the Auditor of State. This cash basis is similar to cash receipts and cash disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

B. Basis of Presentation

The County's financial statements are prepared using the GASB 34 format but on a cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The County's basic financial statements consist of government-wide statements, including a statement of net cash assets and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

1. Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government (except for fiduciary funds) and the discretely presented component units. The statements distinguish between those activities of the County that are governmental and those that are considered business-type activities.

The statement of net assets presents the cash basis financial condition of governmental activities, business-type activities, and component units of the County at year-end. The statement of activities presents a comparison between direct cash disbursements and program cash receipts for each program or function of the County's governmental activities, business-type activities, and component units. Direct cash disbursements are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program cash receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest received on grant or other fund balances which is required to be used to support a particular program. Cash receipts which are not classified as program cash receipts are presented as general cash receipts of the County. The comparison of direct cash disbursements with program cash receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general cash receipts of the County.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

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

3. Fund Accounting

The County uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific County functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

4. Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Cash receipts are assigned to the various governmental funds according to the purpose for which they may or must be used. Cash disbursements are assigned to the fund from which they are paid. The difference between governmental fund assets and cash disbursements is reported as cash fund balance. The following are the County's major governmental funds:

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

Pike Repair Fund - This fund accounts for monies received from state gasoline tax and motor vehicle registration fees designated for maintenance and repair of roads and bridges.

Job and Family Services Fund - This fund accounts for various federal and state grants that are used to provide public assistance to general relief recipients, pay their providers of medical assistance, and for certain public social services.

Mental Retardation and Developmental Disabilities (MRDD) Fund - This fund accounts for various federal and state grants and a property tax levy used to provide assistance and training to mentally retarded and developmentally disabled individuals.

Hospital Levy Fund – This fund accounts for taxes received from an outside millage levy passed by the voters for renovations for the hospital.

The other governmental funds of the County account for grants and other resources, debt service, and capital projects, whose use is restricted to a particular purpose.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Proprietary Funds

The proprietary funds are used to account for the County's ongoing activities which are similar to those found in the private sector. Proprietary funds are classified as either enterprise or internal service. The County did not have an internal service fund.

Enterprise Funds - Enterprise funds may be used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing services to the general public on a continuing basis be financed or recovered through user charges. Hardin Hills which provides residential care and medical services for the elderly is the County's only major enterprise fund.

6. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: 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 governmental and are therefore not available to support the County's own programs. The County's private-purpose trust funds are amounts held in trust for individuals served by the Mental Retardation and Developmental Disabilities, Hardin Hills, and Veteran's Services. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

7. Component Units

Component units – Component units are either legally separate organizations for which the elected officials of the County are financially accountable, or are legally separate organizations for which the nature and significance of the relationship with the County is such that exclusion would cause the County's financial statements to be misleading or incomplete.

C. Cash, Cash Equivalents, and Investments

To improve cash management, cash received by the County is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund balance integrity is maintained through the County's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the "Statement of Modified Cash Basis Assets and Fund Balances" for the governmental funds and the "Statement of Fund Net Assets" for the proprietary funds.

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

Cash held by the West Central Ohio Network on behalf of the County is recorded as "Cash with Fiscal Agent".

During 2005, investments were limited to Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, STAR Ohio, and Certificates of Deposit. The County records all its investments at cost.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The County has invested funds in the State Treasury Assets Reserve of Ohio (STAR Ohio) during 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2005.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the General Fund during 2005 amounted to \$341,509, which includes \$301,335 assigned from other County funds. For calendar year 2005, total interest receipts amounted to \$391,687 in which \$341,509 was recorded in the General Fund; \$16,234 was recorded in the Pike Repair Fund; and \$33,944 was recorded in the Other Remaining Funds.

The County has segregated bank accounts for monies held separate from the County's central bank accounts. These accounts are presented in the combined balance sheet as "cash and cash equivalents in segregated accounts" since they are not deposited into the County treasury.

For presentation on the financial statements, funds included within the Treasurer's cash management pool and investments with original maturities of three months or less are considered to be cash and cash equivalents.

D. Capital Assets and Depreciation

Capital assets (fixed assets) acquired or constructed for the County are recorded as disbursements at the time of acquisition. However, under the cash basis of accounting, capital assets and the related depreciation are not reported separately on the financial statements.

E. Compensated Absences

Vacation and sick leave benefits are not accrued and reported under the cash basis of accounting as previously described. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees.

F. 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 and 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

G. Health Care

The Comprehensive Omnibus Budget Reconciliation Act (COBRA) of 1986 required the County to offer and provide terminated or retired employees continued participation in the County's employee health care benefits program, provided that the employees pay the rate established by the plan administrator.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Intergovernmental Revenues

Unrestricted intergovernmental revenues received on the basis of entitlement are recorded as revenues when the entitlement is received. Federal and State reimbursement type grants for the acquisition or construction of fixed assets in Proprietary funds are recorded as revenue when the grant is received.

The County's Department of Job and Family Services (JFS) distributes federal food stamps to entitled recipients within Hardin County. The receipt and issuance of these stamps have the characteristics of federal "grants", however, the JFS merely acts in an intermediary capacity. Therefore, the activity and inventory value of the stamps is not reflected in the accompanying financial statements. The County's JFS distributed approximately \$1,893,241 of federal food stamps during 2005.

I. Long-Term Obligations

Bonds, long-term loans, and capital leases are recorded as cash disbursements in the cash basis financial statements when paid.

J. Net Cash Assets

Net cash assets consist of cash receipts and balances reduced by cash disbursements for the current year. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Restricted for Other Purposes is comprised of net assets restricted for grants.

K. Interfund Transactions

In the government-wide financial statements transfers within governmental activities or within business-type activities are eliminated. Transfers between governmental and business-type activities on the government-wide statements are reported in the same. The County reports advances-in and advances-out for interfund loans.

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

L. Fund Balance Reserves

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

**FINANCIAL CONDITION
HARDIN COUNTY**

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

3. CHANGE IN REPORTING ENTITY/RESTATEMENT OF NET ASSETS

The County reclassified the fund that accounts for employee and employer contributions for insurance premiums from an internal service fund to an agency fund. In prior years the County was self insured and the internal service fund was used to account for that activity. Starting in 2004, this Fund was used to account for both the remaining activity from the old self insurance plan and to account for employee and employer contributions to the new commercial insurance plan. Starting in 2005, this fund was used as a clearing account for the employee and employer contributions for insurance premiums.

This reclassification had the following impact on net assets as previously reported:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Internal Service Fund</u>
Net assets – Reported at December 31, 2004	\$8,114,109	\$668,756	\$308,525
Restatement	(212,882)	(95,643)	(308,525)
Net Assets – January 1, 2005	\$7,901,227	\$573,113	\$0

This reclassification had the following impact on the change in net assets as previously reported:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Internal Service Fund</u>
Change in Net Assets – Reported at December 31, 2004	(\$201,032)	(\$75,036)	(\$153,968)
Restatement	(212,882)	(95,643)	(308,525)
Changes in Net Assets – Restated at December 31, 2004	(\$413,914)	(\$170,679)	(\$462,493)

4. DEPOSITS AND INVESTMENTS

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

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

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

**FINANCIAL CONDITION
HARDIN COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

At year end, the County had \$2,500 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the County will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$7,811,864 of the County's bank balance of \$8,377,042 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the County's name.

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

At the year-end, the bank deposits of the County's Component Units were covered by the Federal Deposit Insurance Corporation (FDIC).

**FINANCIAL CONDITION
HARDIN COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

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

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1-2</u>	<u>3-5</u>	<u>More than 5</u>
Federal National Mortgage Association Notes	\$ 972,302	\$ 972,302	\$ 0	\$0	\$0
Federal Home Loan Mortgage Corporation Notes	1,985,723	1,485,723	500,000		
STAR Ohio	393,754	393,754			
Total Investments	\$3,351,779	\$2,851,779	\$500,000	\$0	\$0

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

The security underlying the federal national mortgage association notes and federal home loan corporation notes carry a rating of AAA by Standard & Poor's and Aaa by Moody's. STAR Ohio carries a rating of AAAM by Standard and Poor's. The County has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

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

**FINANCIAL CONDITION
HARDIN COUNTY**

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

5. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the County. Real property taxes and public utility taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35 percent of appraised market value. The County Auditor reappraises all real property every six years with a triennial update. The last update was completed in 2002 for tax year 2003.

The full tax rate for all County operations applied to real property for fiscal year ended December 31, 2005, was \$14.85 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$14.85 per \$1,000 of assessed valuation for all other real property. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$13.75 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$14.36 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the County by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property, for the fiscal year ended December 31, 2005, was 23% of true value.

The assessed value upon which the 2004 taxes were collected was \$426,530,056.

Real Property - 2004 Valuation:	
Residential	\$217,395,180
Agriculture	84,679,370
Commercial	34,293,910
Industrial	17,129,780
Public Utilities	580,550
Tangible Personal Property – 2004 Valuation:	
General	46,778,086
Public Utilities	<u>25,673,180</u>
Total Valuation	<u><u>\$426,530,056</u></u>

Real property taxes for tax year 2004 are payable annually or semi-annually. If paid annually, payment was due February 16, 2005. If paid semi-annually, the first payment was due February 11, 2005 with the remainder payable by July 20, 2005. Under certain circumstances, state statute permits earlier or later payment dates to be established.

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portions of the taxes collected. Tax collections for and remittances to the taxing districts are accounted for in various agency funds of the County.

Tangible personal property taxes for unincorporated and single county businesses are due semi-annually, with the first payment due April 30 and the remainder payable by September 20. Due dates are normally extended an additional 30 days. The due date for the entire tax for inter-county businesses is September 20 or the extended date.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

5. PROPERTY TAXES (Continued)

The first \$10,000 of taxable value is exempt from taxation for each business by state law. The lien date is either December 31 or the end of their fiscal year (for incorporated businesses in operation more than one year). Since each business files a return to the County Auditor, the tangible personal taxes are not known until all the returns are received.

The eventual collection of significantly all real and public utility property taxes (both current and delinquent) is reasonably assured due to the County's ability to force foreclosure of the properties on which the taxes are levied.

6. PERMISSIVE SALES AND USE TAX

The County Commissioners by resolution have imposed a one percent tax on retail sales made in the County effective March, 1990. On January 1, 2005, the tax was increased to one and one half percent. Vendor collections of the tax are paid to the State Treasury 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. Sales and use tax revenue for 2005 amounted to \$2,972,093 and is recorded in the General Fund.

7. SHORT TERM DEBT

All short-term debt was paid off during 2005 and no new debt was issued.

8. LONG TERM DEBT

The County's long-term debt at year end consisted of general obligation bonds, special assessment bonds, and Ohio Water Development Authority (OWDA) and Ohio Public Works Commission (OPWC) Loans which are shown below. At the present time there is no long-term debt in the enterprise funds.

A. The County's long term debt transactions for the year ended December 31, 2005, are summarized below:

	Debt Principal Outstanding 1-Jan-05	Debt Principal Issued in 2005	Debt Principal Retired in 2005	Debt Principal Outstanding 31-Dec-05
General Obligation Bonds	\$1,149,998		\$155,000	\$994,998
Special Assessment Bonds with Government Commitment	285,100		56,600	228,500
OWDA Landfill Closure	544,642		44,092	500,550
OPWC Loans	<u>50,382</u>		<u>11,247</u>	<u>39,136</u>
Total	<u>\$2,030,122</u>	<u>\$0</u>	<u>\$266,938</u>	<u>\$1,763,184</u>

The general obligation bonds were used to construct the Hardin County Courthouse Annex. General Obligation Bonds are secured by the County's ability to levy a voted or unvoted property tax within limitations of Ohio Law. The bonds are being repaid by the Hardin County Department of Job and Family Services (JFS) through a rental agreement whereas both the Child Support Enforcement Agency, and the Children's Services and Public Assistance pay a portion of rent based upon square footage utilized.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

8. LONG TERM DEBT (Continued)

The Special Assessment bonds were used to construct and improve ditches and will be retired through assessments against benefited property owners. Each appropriate bond indenture provides for principal and interest to be paid from assessment collections. If the property owners default on their special assessment obligations, the County is obligated to meet the debt service requirements from County funds.

The total amount borrowed by the County under the OWDA Loan was \$891,616. The loans are for the payment of costs associated with the closure of the County Landfill on County Road 143A when it ceased acceptance of solid waste on March 31, 1990. On March 11, 1991 the Ohio EPA conducted an inspection of the facility and documented that the County had failed to apply adequate final cover. The County is now in the final stage of completing the closure costs which are made in accordance with an EPA approved closure plan.

During 2000, the County completed a bridge project which was financed in part with an OPWC loan to the County for \$73,468. The loan is scheduled for repayment over a ten year period beginning July 2000.

A road and bridge project, which was financed in the amount of \$19,498 with an OPWC loan to the County, was started during 2002 and completed during 2003. The loan is scheduled for repayment over a five-year period beginning January 2004.

The following are descriptions of the bonds and loans that existed during 2005 and were outstanding as of December 31, 2005:

Description	Issue Date	Issue Rate %	Issuance Amount	2005 Paid Amount	Outstanding Amount	Maturity Date
General Obligation Bonds						
County Courthouse Annex Bond	Oct 2002	various	\$1,454,998	\$155,000	\$994,998	Dec 2012
Special Assessment Bonds:						
Kasler Ditch	2002	5.00%	\$64,000	\$13,000	\$24,000	2007
Robinson Ditch	2002	5.00%	5,500	1,100	2,000	2007
Dawson Ditch	2001	4.45%	5,300	1,000	1,000	2006
Beaver Pond Ditch	2001	4.86%	11,000	2,000	2,000	2006
Frisch Ditch	2001	4.45%	7,600	1,500	1,500	2006
Roots Subdivision	2004	4.25%	13,000	4,000	9,000	2007
Pattison Ave. Ditch	2003	3.94%	260,000	34,000	189,000	2011
Total Special Assessment Bonds				<u>\$56,600</u>	<u>\$228,500</u>	
Total Bond Debt				<u>\$211,600</u>	<u>\$1,223,498</u>	
Loans						
OWDA Loan	July 97	4.56%	\$891,616	\$ 44,092	\$500,550	Jan 2014
OPWC Loan	Jan 04	0.00%	\$19,498	3,900	9,749	2008
OPWC Loan	July 99	0.00%	\$73,468	<u>\$7,347</u>	<u>\$29,387</u>	2010
Total Loans				<u>\$55,339</u>	<u>\$539,686</u>	
Total Bonds and Loans				<u>\$266,939</u>	<u>\$1,763,184</u>	

**FINANCIAL CONDITION
HARDIN COUNTY**

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

8. LONG TERM DEBT (Continued)

B. The annual requirements to amortize all long-term bonded debt and loans outstanding as of December 31, 2005, including interest payments of \$397,857 are as follows:

	General Obligation Bonds - Governmental Purposes	Special Assessment Bonds with Government Commitment	OWDA Landfill Closure Loan	OPWC Bridge Loans	Total
2006	\$182,965	\$ 65,338	\$ 68,431	\$11,246	\$ 327,980
2007	184,445	55,448	68,431	11,246	319,570
2008	180,320	35,886	68,431	9,297	293,934
2009	180,700	34,664	68,431	7,347	291,142
2010	180,600	33,443	68,431		282,474
2011-2014	<u>340,000</u>	<u>32,221</u>	<u>273,720</u>		<u>645,941</u>
Total	1,249,030	257,000	615,875	39,136	2,161,041
Less Interest	<u>(254,032)</u>	<u>(28,500)</u>	<u>(115,325)</u>		<u>(397,857)</u>
Principal	<u>\$ 994,998</u>	<u>\$228,500</u>	<u>\$500,550</u>	<u>\$39,136</u>	<u>\$1,763,184</u>

The component unit, Hardin County Housing Development, Inc, had outstanding mortgage debt at December 31, 2005 in the amount of \$108,483.

Net General Obligation Debt - 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 assessed valuation of the County. The Code further provides that the total voted and unvoted net debt of the County, less the same exempt debt, shall never exceed a sum equal to 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 effects of the debt limitations described above at December 31, 2005 are an overall debt margin of \$7,652,580 and an unvoted debt margin of \$4,265,301.

9. PENSION OBLIGATIONS

Ohio Public Employees Retirement System (OPERS)

All County employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

1. The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan.
2. The member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

9. PENSION OBLIGATIONS (Continued)

3. The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional 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 Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. The authority to establish and amend benefits is established by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Tradition Pension Plan. The 2005 member contribution rates were 8.5% for members in classifications other than law enforcement and public safety. Members in the law enforcement classification, which consists generally of sheriffs, deputy sheriffs and township police, contributed at a rate of 10.1%. The 2005 employer contribution rate for local government employer units was 13.55% of covered payroll. For the law enforcement division, the employer contribution rate for 2005 was 16.7%.

The County's contributions to OPERS for all employees for the years ended December 31, 2005, 2004, and 2003, were \$1,301,304, \$1,274,181, and \$1,302,182, respectively; 100 percent has been contributed for 2005, 2004, and 2003.

State Teachers Retirement System (STRS)

Certified teachers, employed by the school for Mental Retardation and Developmental Disabilities, participate in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plan options. In addition to the Defined Benefits (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

9. PENSION OBLIGATIONS (Continued)

DB Plan Benefits - Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years.

The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits - Benefits are established under sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits - Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physician's fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

9. PENSION OBLIGATIONS (Continued)

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For 2005, plan members were required to contribute 10 percent of their annual covered salaries. The County was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The County's contributions to STRS for the years ended December 31, 2005, 2004, and 2003, were \$41,823, \$42,554, and \$43,772, respectively; 100 percent has been contributed for 2005, 2004, and 2003.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by a State Retirement System have an option to choose Social Security or the appropriate state system. As of December 31, 2005, none have elected Social Security.

10. POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System (OPERS)

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and primary survivor recipients of such retirees under the Traditional and Combined Plans. However, members of the Member-Directed Plan do not qualify for post-employment health care coverage. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an "Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Post-employment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care based on authority granted by State statute. The employer contribution rate for 2005 was 13.55 percent of covered payroll for employees not engaged in law enforcement; 4.0 percent was the portion that was used to fund health care. The employer contribution rate for law enforcement employees for 2005 was 16.7 percent; 4.0 percent was used to fund health care.

Benefits are advance-funded using an entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.0 percent, an annual increase in active employee total payroll of 4.0 percent compounded annually (assuming no change in the number of active employees) and additional annual payroll increase over and above the 4.0 percent base increase were assumed to range from 0.50% to 6.3 %. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4.0 percent (the projected wage inflation rate).

**FINANCIAL CONDITION
HARDIN COUNTY**

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

10. POST-EMPLOYMENT BENEFITS (Continued)

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

The number of active contributing participants in the Traditional and Combined Plans was 376,109. The County's contributions for 2005 that were used to fund post-employment benefits were \$375,424. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for OPEBs at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs. Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

State Teachers Retirement System

The State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physician's fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouse and dependents. By Ohio law, health care benefits are not guaranteed and the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the year ended December 31, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the County, this amount equaled \$2,987 for 2005. The balance in the Health Care Stabilization Fund on June 30, 2005, was \$3.3 billion.

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and there were 115,395 eligible benefit recipients.

11. REVOLVING LOANS

Hardin County makes special efforts to attract out-of area companies to the County to increase the number of firms and employees working in the County. Incentives are in the form of low interest revolving loans, deferred loan payments and interest and tax abatements which are offered to attract prospective firms. The following revolving loans are secured by mortgages on the property. Payments made during 2005 and balances outstanding at December 31, 2005 were as follows:

**FINANCIAL CONDITION
HARDIN COUNTY**

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

11. REVOLVING LOANS (Continued)

<u>Business:</u>	<u>Rate</u>	<u>Maturity Year</u>	<u>Principal Paid 2005</u>	<u>Principal Outstanding Dec-31- 2005</u>
Innoplas, Inc.	5.00%	2007	\$11,907	\$32,502
Innoplas, Inc.	4.75%	2013	21,486	198,136
Innoplas, Inc.	4.00%	2009	4,596	19,520
Choice Auto, LLC	5.00%	2012	160	-
<u>Business:</u>	<u>Rate</u>	<u>Maturity Year</u>	<u>Principal Paid 2005</u>	<u>Principal Outstanding Dec-31- 2005</u>
Mt. Victory Meats	5.00%	2006	4,105	-
Laugh and Learn Day Care	5.00%	2024	<u>3,548</u>	<u>85,704</u>
Total Paid and Outstanding			<u>\$45,802</u>	<u>\$335,862</u>

Loans to Choice Auto in the amount of \$24,006, to the Sheldon's Auto Service in the amount of \$22,041, and to Harman Tech Coatings in the amount of \$74,897, were written off during 2005.

12. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters.

The County is a member of County Risk Sharing Authority, Inc. (CORSA) which is a shared risk pool of seventy-one counties in Ohio. CORSA was formed as an Ohio nonprofit corporation for the purpose of establishing the CORSA Insurance/Self-Insurance Program, a group primary and excess insurance/self-insurance and risk management program. Member counties agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by CORSA. These coverages include comprehensive general liability, automobile liability, certain property insurance and public officials' errors and omissions liability insurance. Coverages provided are as follows:

General Liability	\$3,000,000
Law Enforcement Professional Liability	3,000,000
Public Officials Liability	3,000,000
Stop Gap Liability	1,000,000
Automobile Liability	1,000,000
Building and Contents (Include Comprehensive Boiler and Machinery)	50,003,694
Contractor's Equipment	Actual Cash Value
Sewer Lines	500,000
Other Coverages:	
Extra Expense	1,000,000
EDP Media	50,000
Valuable Papers	1,000,000
Flood	100,000,000
Earthquake	100,000,000
Faithful Performance Bond	1,000,000
Money and Securities	1,000,000
Motor Truck Cargo	100,000

**FINANCIAL CONDITION
HARDIN COUNTY**

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

12. RISK MANAGEMENT (Continued)

The County continues to carry commercial insurance for all other risks of loss, including workers' compensation, and health through CEBCO, vision through VSP, and dental through Delta Dental. Life insurance is offered through Fort Dearborn Life. Settled claims resulting from these risks have not exceeded CORSA's and commercial insurance coverage in any of the past three fiscal years.

Employees of the Mental Retardation and Developmental Disabilities (MRDD) Board are covered by the County Boards Association (CBA) Benefit Services.

13. INDIVIDUAL COMPONENT UNIT DISCLOSURE

**Condensed Statement of Cash Receipts, Cash Disbursements and
Changes in Net Cash Assets**

	<u>Airport Authority</u>	<u>Harco Industries</u>	<u>Hardin Housing</u>	<u>Totals</u>
Program Cash Receipts	\$157,295	\$79,081	\$46,228	\$282,604
General Cash Receipts	1,222	4,063	197	5,482
Program Cash Disbursements	184,367	84,743	39,347	308,457
Changes in Net Cash Assets	(25,850)	(1,599)	7,078	(20,371)
Net Cash Assets Beginning of Year	109,264	32,122	3,651	145,037
Net Cash Assets End of Year	<u>\$ 83,414</u>	<u>\$30,523</u>	<u>\$10,729</u>	<u>\$124,666</u>

As indicated in Note 15, the County provided non-cash benefits to Harco Industries.

14. SIGNIFICANT OTHER OBLIGATIONS

During 2000 and 2001, it was determined that the Hardin County Department of Job and Family Services (Public Assistance and Children's Services Funds) had been overpaid by the Ohio Department of Job and Family Services (ODJFS) in the amount of \$346,036. The Department has repaid \$265,000 of the overpayments during the period from January 1, 2002 through December 31, 2005. The outstanding balance of \$81,036 will be repaid in full during the year 2007 as approved by the ODJFS.

15. RELATED PARTY TRANSACTIONS

During 2005, the County provided facilities, certain equipment, transportation and salaries for administration, implementation and supervision of its programs to HARCO Industries, Inc. (workshop). HARCO Industries, Inc, which is one of the discretely presented component units of Hardin County, reported the value of an In-Kind contribution that was determined in accordance with a formula developed by the Ohio Association of Adult Services. The In-Kind contribution from the Hardin County MR/DD Board amounted to \$1,099,293.

During 2005, Hardin Count provided the staff salaries, transportation, equipment and other funds as necessary to the Hardin County Housing Development, Inc. (HCHD). HCHD, which is one of the discretely presented component units of Hardin County, reported \$23,798 for such contributions. HCHD recorded operating revenues and expenses at cost or fair market as applicable, to the extent the contribution is related to the operation of the housing.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

16. CONTINGENT LIABILITIES

A. Grants

The County receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the County at December 31, 2005.

B. Litigation

The County is involved in litigation as a defendant. The litigation is in the fact finding stages and the potential outcome cannot be determined at this time.

C. Landfill

Each year the County engages a consultant to complete a study regarding post closure landfill costs (monitoring and maintenance of the site). This study is subject to review by the Ohio Environmental Protection Agency. This year's study estimates that \$2,312,664 will be incurred over the remaining 20.5 of the 30 year monitoring period. Actual costs may differ due to inflation, changes in technology, or changes in regulations. The County obtained a promissory note for the face amount of the estimated post closure costs in the event fees or tax revenue would not be sufficient to cover the annual post closure costs. Presently a solid waste transfer station is operating and transfer fees and tax revenues are financing the post closure costs.

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**FINANCIAL CONDITION
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$809,480	\$809,480	\$809,480	
Resources (Inflows):				
Taxes	1,070,000	1,070,000	1,106,325	36,325
Intergovernmental	800,500	800,500	905,339	104,839
Investment Income	200,000	200,000	341,509	141,509
Licenses and Permits	2,000	2,000	2,824	824
Fines and Forfeitures	20,000	20,000	20,120	120
Charges for Services	909,000	909,000	948,365	39,365
Payment in Lieu of Taxes	120,000	120,000	127,571	7,571
Sales Taxes	1,850,000	2,150,000	2,972,093	822,093
Miscellaneous	125,000	125,000	86,106	(38,894)
Other Financing Sources				
Transfers In			28,594	28,594
Advances In			18,000	18,000
	<hr/>	<hr/>	<hr/>	<hr/>
Amounts Available for Appropriation:	5,905,980	6,205,980	7,366,326	1,160,346
Charges to Appropriation (Outflows):				
General Government				
Legislative and Executive	2,045,815	1,626,078	1,599,914	26,164
Judicial	1,023,781	1,528,532	1,425,014	103,518
Public Safety	1,713,829	1,759,401	1,591,076	168,325
Public Works	21,150	20,650	20,187	463
Health	57,461	61,911	56,955	4,956
Human Services	387,314	394,315	355,967	38,348
Conservation and Recreation	271,922	279,080	259,160	19,920
Economic Development	22,800	22,800	22,775	25
Other	150,000	165,780	128,016	37,764
Transfers Out	120,000	346,141	338,595	7,546
Advances Out			520,000	(520,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Charges to Appropriations:	5,814,072	6,204,688	6,317,659	(112,971)
Ending Budgetary Balance:	<u>\$91,908</u>	<u>\$1,292</u>	<u>\$1,048,667</u>	<u>\$1,047,375</u>

See Accompanying Notes to Required Supplementary Information.

**FINANCIAL CONDITION
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS
PIKE REPAIR FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$382,469	\$382,469	\$382,469	
Resources (Inflows):				
Intergovernmental	4,057,000	4,057,000	3,478,521	(578,479)
Investment Income	10,000	10,000	16,234	6,234
Fines and Forfeitures	35,000	35,000	32,170	(2,830)
Charges for Services	280,000	280,000	632,775	352,775
Miscellaneous	90,000	90,000	36,803	(53,197)
Other Financing Sources	50,000	50,000	68,468	18,468
Amounts Available for Appropriation:	4,904,469	4,904,469	4,647,440	(257,029)
Charges to Appropriation (Outflows):				
Public Works	4,337,645	4,411,090	3,979,289	431,801
Transfers Out	137,000	137,000	136,246	754
Total Charges to Appropriations:	4,474,645	4,548,090	4,115,535	432,555
Ending Budgetary Balance:	<u>\$429,824</u>	<u>\$356,379</u>	<u>\$531,905</u>	<u>\$175,526</u>

See Accompanying Notes to Required Supplementary Information.

**FINANCIAL CONDITION
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS
JOB AND FAMILY SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$98,265	\$98,265	\$98,265	
Resources (Inflows):				
Intergovernmental	2,584,215	2,584,215	2,445,485	(138,730)
Charges for Services	580,306	580,306	302,681	(277,625)
Miscellaneous	81,909	81,909	84,013	2,104
Other Financing Sources				
Transfers In	<u>175,000</u>	<u>175,000</u>		<u>(175,000)</u>
Amounts Available for Appropriation:	3,519,695	3,519,695	2,930,444	(589,251)
Charges to Appropriation (Outflows):				
Human Services	3,410,430	3,486,956	2,907,763	579,193
Transfers Out	<u>20,000</u>	<u>20,000</u>		<u>20,000</u>
Total Charges to Appropriations:	<u>3,430,430</u>	<u>3,506,956</u>	<u>2,907,763</u>	<u>599,193</u>
Ending Budgetary Balance:	<u><u>\$89,265</u></u>	<u><u>\$12,739</u></u>	<u><u>\$22,681</u></u>	<u><u>\$9,942</u></u>

See Accompanying Notes to Required Supplementary Information.

**FINANCIAL CONDITION
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS
MRDD FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$246,165	\$246,165	\$246,165	
Resources (Inflows):				
Taxes	2,032,500	2,032,500	2,003,823	(28,677)
Intergovernmental	863,064	863,064	971,209	108,145
Charges for Services	16,000	16,000	17,636	1,636
Miscellaneous	109,188	109,188	97,244	(11,944)
Other Financing Sources				
Advance In			130,000	130,000
			<u>130,000</u>	<u>130,000</u>
Amounts Available for Appropriation:	3,266,917	3,266,917	3,466,077	199,160
Charges to Appropriation (Outflows):				
Human Services	2,633,972	2,688,242	2,530,363	157,879
Other Financing Uses:				
Advance Out			130,000	(130,000)
			<u>130,000</u>	<u>(130,000)</u>
Total Charges to Appropriations:	<u>2,633,972</u>	<u>2,688,242</u>	<u>2,660,363</u>	<u>27,879</u>
Ending Budgetary Balance:	<u><u>\$632,945</u></u>	<u><u>\$578,675</u></u>	<u><u>\$805,714</u></u>	<u><u>\$227,039</u></u>

See Accompanying Notes to Required Supplementary Information.

**FINANCIAL CONDITION
HARDIN COUNTY**

**BUDGETARY COMPARISON SCHEDULE - CASH BASIS
HOSPITAL LEVY FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$2,805,638	\$2,805,638	\$2,805,638	
Resources (Inflows):				
Taxes	1,737,922	1,737,922	1,797,115	59,193
Intergovernmental	<u>195,000</u>	<u>195,000</u>	<u>193,544</u>	<u>(1,456)</u>
Amounts Available for Appropriation:	4,738,560	4,738,560	4,796,297	57,737
Charges to Appropriation (Outflows):				
Health	<u>1,960,416</u>	<u>4,630,277</u>	<u>3,845,274</u>	<u>785,003</u>
Total Charges to Appropriations:	<u>1,960,416</u>	<u>4,630,277</u>	<u>3,845,274</u>	<u>785,003</u>
Ending Budgetary Balance:	<u><u>\$2,778,144</u></u>	<u><u>\$108,283</u></u>	<u><u>\$951,023</u></u>	<u><u>\$842,740</u></u>

See Accompanying Notes to Required Supplementary Information.

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**FINANCIAL CONDITION
HARDIN COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2005**

Budgetary presentations are included after the financial statement notes as required supplementary information and report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved).

1. BUDGETARY PROCESS

A. Budget

In accordance with Section 5747.53 of the Ohio Revised Code, the County Budget Commission has provided for the apportionment of undivided local government funds under an alternative method that has been approved by governmental subdivisions within the County. Under this alternative method, the County Budget Commission has waived the requirement for the Taxing Authority of a subdivision to adopt a tax budget.

B. Estimated Resources

The County Budget Commission certifies its actions to the County by September 1. As part of this certification, the County receives the official certificate of estimated resources that states the projected receipts of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the County must revise its budget so that the total contemplated disbursements from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include January 1 unencumbered fund balances. However, those fund balances are available for appropriations.

C. Appropriations

1. Following submission of requests by various offices and departments, the Board of County Commissioners holds budget hearings during the Fall with respective officeholders and department heads.
2. Shortly after the beginning of the fiscal year, the County Commissioners pass an Appropriation Resolution which legally authorizes the expenditure of funds for respective officeholders and department heads.
3. Appropriations are provided in the amounts of approved grants by the Board of County Commissioners.
4. The revised budget figures reflected in the combined financial statements include the prior year appropriations carried over for liquidations against prior year encumbrances, and any amendments to the original Appropriation Resolution.
5. The Commissioners appropriate at the major account level within a division and fund. The appropriation level accounts for the County include personal services, fringe benefits, county share of the Public Employees Retirement System, unemployment compensation, materials and supplies, services and charges, grants, capital outlays, debt service, interfund transfers, and other expenses. For funds which are directly appropriated by the Commissioners, transfers of appropriations at the major account level or between appropriation level require a resolution signed by at least two Commissioners.
6. Supplemental appropriations are made when needed, subject to approval by at least two Commissioners. Supplemental appropriations were made during 2005 and were considered routine.

**FINANCIAL CONDITION
HARDIN COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

1. BUDGETARY PROCESS (Continued)

7. Unencumbered appropriations lapse at year end. Contracts and purchase-type encumbrances outstanding at year-end carry their appropriations with them into the next year. Contracts and purchase-type encumbrances outstanding at year-end are recorded as expenditures on the budget basis of accounting.
8. The budgetary procedures described herein apply to all funds except the trust and agency funds.

D. Encumbrances

The County is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the disbursement of funds are recorded in order to reserve the portion of the applicable appropriation, is employed as an extension of formal budgetary control in the appropriated governmental and proprietary funds. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures on the cash basis of accounting, compared to encumbrances outstanding at year-end reported as expenditures on the budget basis of accounting. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be re-appropriated.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Number	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>(Passed through Ohio Department of Education)</i>				
Nutrition Cluster:				
Food Donation	10.550			\$1,880
National School Lunch Program	10.555	LL-P4-03	843	
Total Nutrition Cluster			<u>843</u>	<u>1,880</u>
Total United States Department of Agriculture			843	1,880
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
<i>(Passed through Ohio Department of Development)</i>				
Community Development Block Grant's / State's Program	14.228		216,881	
Home Investment Partnerships Program	14.239		<u>29,890</u>	
Total U.S. Department of Housing and Urban Development			246,771	
U.S. DEPARTMENT OF JUSTICE				
<i>(Direct Program)</i>				
Drug Court Discretionary Grant Program	16.585		4,760	
<i>(Passed through Ohio Department of Youth Services)</i>				
Juvenile Justice and Delinquency Prevention	16.540	04-JJ-DP2-0080	21,051	
<i>(Passed through Office of Criminal Justice Services)</i>				
Byrne Formula Grant Program	16.579	04-DC-C01-7147	<u>29,290</u>	
Total United States Department of Justice			55,101	
ELECTION ASSISTANCE COMMISSION				
<i>(Passed through Ohio Secretary of State)</i>				
Help America Vote Act	39.011	05-SOS-HAVA-33	8,070	
Help America Vote Act Requirements Payments	90.401	E05-0102-33	<u>261,502</u>	
Total U.S. Election Commission			269,572	
U.S. DEPARTMENT OF EDUCATION				
<i>(Passed through Ohio Department of Education)</i>				
Special Education Cluster:				
Special Education Grants to States	84.027	6B-SF-06 6B-SF-05	7,061 32,831	
Special Education Preschool Grants	84.173	PG-S1-06 PG-S1-05	3,357 12,241	
Total Special Education Cluster			<u>55,490</u>	
State Grants for Innovative Programs	84.298	C2-S1-06 C2-S1-05	24 150	
Total State Grants for Innovative Programs			<u>174</u>	
Total United States Department of Education			55,664	

**FINANCIAL CONDITION
HARDIN COUNTY**

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

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Number	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF HUMAN SERVICES				
<i>(Passed through Ohio Department of Mental Retardation and Development Disabilities)</i>				
Social Services Block Grant	93.667		21,676	
State Children's Insurance Program	93.767	SCHIP	2,913	
Medical Assistance Program	93.778	CAFS TCMT	234,635 13,016	
Total Medical Assistance Programs			247,651	
<i>(Passed through Ohio Department Job and Family Services)</i>				
Child Welfare Services State Grant	93.645	Childrens Services	26,220	
Total Child Welfare Services State Grant			26,220	
Total United States Department of Human Services			298,460	
U.S. DEPARTMENT OF HOMELAND SECURITY				
<i>(Passed through Ohio Emergency Management Agency)</i>				
State Domestic Preparedness Equipment Support Program	97.004	2004-GE-T4-0025	36,497	
Disaster Grants Public Assistance	97.036	DMJ-002 DMJ-003 DMJ-007 HTG-424	42,995 2,731 4,797 18,657	
Total Disaster Grants_Public Assistance			69,180	
Hazard Mitigation Grant	97.039	FEMA-DR-1484.06	11,250	
Emergency Management Performance Grants	97.042	2005-EM-T5-001 2006-EMPG	17,091 3,764	
Total Emergency Management Performance Grants			20,855	
Citizen Corps	97.053	2004-GC-T4-0025	1,864	
State Homeland Security Program	97.073	2005-GE-T5-001	66,183	
Total U.S. Department of Homeland Security			205,829	
TOTAL FEDERAL AWARDS EXPENDITURES			\$1,132,240	\$1,880

**FINANCIAL CONDITION
HARDIN COUNTY**

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures summarizes the activity of all federal award programs of the County. The County reporting entity is defined in Note 1 of the County's general purpose financial statements. All federal awards received directly from federal agencies as well as federal financial assistance passed through other governmental agencies are included in the schedule. The accompanying Schedule of Federal Awards Expenditures has been prepared on a basis of cash receipts and disbursements, consequently, revenues are recognized when received rather than when earned, and expenditures are recognized when paid rather than when the obligation is incurred.

NOTE 2 - COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS (CDBG)

Revolving Loan Program

1. 2005 Activity

Hardin County has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low to moderate income households and to eligible persons. The Federal Department of Housing and Urban Development (HUD) grants moneys for these loans to the County through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement in the year loaned and loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the schedule. These loans are collateralized by mortgages on the properties. The following represents the activity of the revolving loans, the amount of loans outstanding and the cash balance available for loan.

Small Business Revolving Loans	Loan Activity and Balances	Cash Activity and Balances
Beginning Balance January 1, 2005	\$381,505	\$158,163
Loan Principal Repayments / Cash Receipts	(45,643)	68,905
Loan and Grant Disbursements / Disbursements	0	(21,862)
Ending Balances December 31, 2005	335,862	205,206

2. Revolving Loans

In 2005, the following loans from the revolving loan fund were written off as uncollectible by the County.

a. Choice Auto

Choice Auto owners, Tim and Tara Cole, have filed Chapter 7 bankruptcy and listed their revolving loans in that bankruptcy filing. Choice Auto obtained two loans from the County Revolving Loan Fund in April of 2002 in the amounts of \$30,000 for 10 years at 5% interest and \$15,200 for 20 years at 5% interest. When written off as uncollectible, the unpaid balances were \$9,114 and \$14,862 respectively.

b. Harmon Technical Coating

Harmon Technical Coating officer, Ben Harmon, has not paid on the loan for over 4 years. Harmon Technical Coatings obtained a loan from the County Revolving Loan Fund in October of 1997 in the amount of \$100,000 for 7 years at 5% interest. When written off as uncollectible, the unpaid balance was \$74,897.

**FINANCIAL CONDITION
HARDIN COUNTY**

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

NOTE 2 - COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS (CDBG) (Continued)

c. Sheldon's Automotive

Sheldon's Automotive owner, Gerrick Sheldon, has liquidated all business and personal assets. Sheldon's Automotive obtained a loan from the County Revolving Loan Fund in April of 2002 in the amount of \$25,015 at 5% interest. When written off as uncollectible, the unpaid balance was \$22,041.

NOTE 3 - FOOD SERVICES PROGRAMS - SIMON KENTON SCHOOL

The Hardin County Department of Mental Retardation and Development Disabilities (Simon Kenton School) received federal assistance through the National School Lunch and Donated Food Programs. The National School Lunch program is reimbursing in nature and revenues are considered expended when received. The school is allowed a selection from a pool of foods, when available, under the Food Donation Program.

Program regulations do not require the School to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

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

Hardin County
One Courthouse Square, Suite 250
Kenton, Ohio 43326

To the Board of County Commissioners:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hardin County (the "County") as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements and have issued our report thereon dated August 14, 2006, wherein we noted the County uses a comprehensive basis of accounting other than generally accepted accounting principles. We did not audit the financial statements of the component units, HARCO Industries, Inc., which represents 24 percent and 29 percent respectively, and Hardin County Housing Development, Inc., which represents 9 percent and 16 percent respectively, of the assets and revenues of the component unit column. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units, HARCO Industries, Inc. and Hardin County Housing Development, Inc. is based on the reports of other auditors. 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*. Other Auditors audited the financial statements of the component unit HARCO Industries, Inc. in accordance with auditing standards generally accepted in the United States of America and not in accordance with *Governmental Auditing Standards* and accordingly this report does not extend to that component unit.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2005-004 and 2005-005.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses.

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However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the County's management dated August 14, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the County's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-003. In a separate letter to the County's management dated August 14, 2006, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

August 14, 2006



Auditor of State Betty Montgomery

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

Hardin County
One Courthouse Square, Suite 250
Kenton, Ohio 43326

To the Board of County Commissioners:

Compliance

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

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

As described in item 2005-006 in the accompanying schedule of findings, the County did not comply with requirements regarding cash management applying to its Community Development Block Grant. Compliance with that requirement is necessary, in our opinion, for the County to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2005. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying Schedule of Findings as item 2005-007. In a separate letter to the County's management dated August 14, 2006, we reported other matters related to federal noncompliance not requiring inclusion in this report.

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Internal Control Over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Betty Montgomery
Auditor of State

August 14, 2006

**FINANCIAL CONDITION
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 & .505
DECEMBER 31, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2005-001

Noncompliance Citation

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

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

To help provide the users with more meaningful financial statements, the County should prepare their financial statements according to generally accepted accounting principles.

FINDING NUMBER 2005-002

Ohio Rev. Code Section 149.351(A) states that all records are property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under Sections 149.38 to 149.42, of the Revised Code.

The County Treasurer's office did not maintain the pre-pay tax stubs for July 2005 and September 2005, nor did the office maintain pre-pay receipt reports for several of the collection dates during 2005.

The Treasurer should implement control procedures to help assure all records are maintained until approved for disposal by the County's Records Commission.

FINDING NUMBER 2005-003

Ohio Rev. Code Section 5705.14 states, in part, that money may be transferred from the general fund to any other fund of the subdivision by resolution of the taxing authority. This section also provides all of the other exceptions which permit a subdivision to transfer monies from one fund to any other fund. Further, moneys may be transferred from one fund of a subdivision to another only pursuant to Ohio Rev. Code Sections 5705.14 through 5705.16 and in accordance with the procedures set forth therein.

During 2005, the County transferred \$100,000 from an Agency Fund (Y37 Local Government Fund) to the Permanent Improvement Fund (N00). The County was unable to identify the source of the money in this fund which has been on the County's books for several years. This transfer does not meet any of the allowable exceptions provided by this Ohio Rev. Code Section.

Prior to transferring money that is not permitted under the above Ohio Rev. Code Sections, the County should obtain guidance from its Legal Counsel.

FINDING NUMBER 2005-004

Reportable Condition

Treasurer's Office Procedures

To help reduce the risk of fraud; errors; and/or other irregularities; an entity should have controls in place to prevent the manipulation of revenues and financial data. The following weaknesses were identified in the processing of tax receipts in the Treasurer's Office:

1. The County's real estate tax system allowed the users to back date a transaction so that it would be posted to the system on the date it was received rather than the date it was actually processed. This practice was allowed so that tax payments mailed prior to a tax due date but processed after the due date to be entered as of the due date so that the system would not post a penalty to the account. The ability to back date receipts also allowed error corrections.

The ability to back date a transaction hinders management's ability to be able to reconstruct a particular day's actual receipts and bank deposit. It also increases the risk that fraud, errors, or other irregularities could occur and not be detected by management. To reduce risk in this area, the ability to back date accounts should be eliminated as an option within the system. If this option provides any benefit, then such transactions should include an explanation and provide reference to the actual date of receipt and deposit along with approval of the Treasurer.

2. The delinquent account list was generated from the real estate tax system. It was then reviewed by the County Auditor and the County Treasurer. Between the time the list was initially generated and the time it was submitted to the local newspaper for publication, payments may have been received on an account or there was a reason (such as a bankruptcy) as to why the account should not be published. These accounts were to be identified and deleted from the list. There no evidence of approval for adjustments to the delinquent account list.

The lack of approval for all adjustments to the delinquent account list increases the risk that improper adjustments could be made to cover up fraud, errors, or other irregularities. The Treasurer and/or Auditor should provide evidence that all adjustments to the delinquent account list are valid.

3. There was no evidence that a daily reconciliation was performed between the amounts reported on the Daily Statements and what was receipted into the real estate tax system. The failure to perform this procedure could allow for variances between these two items to go undetected. To help provide assurance that all the transactions reported on the Daily Statements are correctly reported, the Treasurer should perform a reconciliation. Any differences should be documented and investigated.
4. The County real estate tax system was not completely automated. The County system required each part of the two part tax bill to be manually stamped paid. The receipt paid with each stub is then manually entered into the system at a later time. At the end of each day, there is a manual count of receipts which are then entered into a daily worksheet prepared by the Treasurer. This manual process increases the risk of fraud, errors, or irregularities since it is possible to manipulate or hold receipts without an automated system that automatically updates the initial receipt throughout the system.

The County should consider installing a system which will eliminate or reduce the amount of manual activity that is necessary to record tax receipts.

FINDING NUMBER 2005-005

Reportable Condition

Obtaining a SAS 70 Audit Report

When an entity utilizes a service organization to process financially significant accounting transactions the service organization should provide a Tier II Statement of Auditing Standards (SAS) 70 audit report. This report provides assurance over the design and operation of the service organization’s internal controls over processing the user entity’s transactions. The service organization’s failure to contract for a SAS 70 audit prevents the user entity from obtaining an independent assessment of the internal control system including any deficiencies which may exist at the service organization.

The County did not obtain a SAS 70 audit report from their service organization that processes medical claims for residents of the County Nursing Home. The Auditor of State performed procedures as part of the financial audit to obtain assurance over the service organization’s internal controls. Out of fifteen transactions tested, it was determined that one (7%) of the transactions processed by the service organization contained an error. In this instance, the diagnostic code documented in the billing prepared by the service organization did not show medical necessity or reasonableness for the services rendered to the patient. The error identified could be an indication that a control deficiency may exist at the service organization.

The County should revise their contract with the service organization to include a requirement for an annual Tier II SAS 70 audit. The County should be provided with a copy of the SAS 70 report and then review the report’s content for any control deficiencies and user control considerations. User control considerations are those concerns which require action by the user entity.

3. FINDINGS FOR FEDERAL AWARDS

FINDING NUMBER	2005-006
CFDA TITLE AND NUMBER	Community Development Block Grant (CDBG) CFDA # 14.228
FEDERAL AWARD NUMBER / YEAR	B-F-03-030-1 B-F-04-030-1
FEDERAL AGENCY	U.S. Department of Housing and Urban Development
PASS – THROUGH AGENCY	Ohio Dept. of Development

Noncompliance / Cash Management

Office of Housing and Community Partnership (OHCP) Management Rules and Regulations Handbook, Section (A)(3)(I), states that the grantee should deposit federal funds received from OHCP in a non-interest bearing account. If the grantee deposits funds in an interest bearing account, the grantee must remit to OHCP, on at least a quarterly basis, any interest earned that totals more than \$100 per year. The check must be made payable to the U.S. Department of Housing and Urban Development (HUD). In addition, the grantee must, on a monthly basis, credit any interest earned to the appropriate grant. The only exception is an escrow account for rehabilitation to private property.

The County established the Community Development Block Grant (CDBG) Fund T000 to account for CDBG grant monies. The monies from the CDBG Fund are pooled with other funds in an interest-bearing account, however interest was not allocated to the CDBG Fund for 2005. Based on the average daily interest rate and the number of days for each balance amount, interest income in the amount of \$752.67 should have been allocated to the CDBG Fund. This allocation of interest income exceeds the allowable limit of \$100 for each program and the excess, \$652.67, was not remitted to OHCP.

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

The County should implement procedures to help assure that interest is credited to all required funds each month. In addition, these procedures should identify grants that require excess interest to be remitted back to the grant agency at least quarterly.

FINDING NUMBER	2005-007
CFDA TITLE AND NUMBER	Home Investment Partnerships Program (HOME) CFDA # 14.239
FEDERAL AWARD NUMBER / YEAR	B-C-04-030-02
FEDERAL AGENCY	U.S. Department of Housing and Urban Development
PASS – THROUGH AGENCY	Ohio Dept. of Development

Noncompliance / Cash Management

Office of Housing and Community Partnership (OHCP) Management Rules and Regulations Handbook, Section (A)(3)(I), states that the grantee should deposit federal funds received from OHCP in a non-interest bearing account. If the grantee deposits funds in an interest bearing account, the grantee must remit to OHCP, on at least a quarterly basis, any interest earned that totals more than \$100 per year. The check must be made payable to the U.S. Department of Housing and Urban Development (HUD). In addition, the grantee must, on a monthly basis, credit any interest earned to the appropriate grant. The only exception is an escrow account for rehabilitation to private property.

The County established the Block Grant Fund T00 to account for HOME grant monies. The monies from the Block Grant Fund are pooled with other funds in an interest-bearing account, however interest was not allocated to the HOME Fund for 2005. Based on the average daily interest rate and the number of days for each balance amount, interest income in the amount of \$431 should have been allocated to the HOME Fund. This allocation of interest income exceeds the allowable limit of \$100 for each program and the excess, \$331, was not remitted the OHCP.

The County should implement procedures to help assure that interest is credited to all required funds each month. In addition, these procedures should identify grants that require excess interest to be remitted back to the grant agency at least quarterly.

OFFICIALS' RESPONSE

We did not receive responses from Officials to these findings.

**FINANCIAL CONDITION
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corre cted?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-001	ORC Sec. 9.38 – County Engineer receipts were not deposited timely.	No	Partially Corrected – Repeated in the Management Letter
2004-002	ORC Sec. 5543.19 (B) - Force Account Procedures – only the bridge and not the entire project was bid prior to proceeding by force account.	Yes	Corrected
2004-003	ORC Sec. 117.38 & OAC Sec. 117-2-03 (B) - Failure to report and file financial statements in accordance with GAAP	No	Repeated as Finding # 2005-001
2004-004	Obtaining a SAS 70 report for the third party administrator at the County Nursing Home	No	Repeated as Finding # 2005-005
2004-005	Office of Housing and Community Partnership (OHCP) Management Rules and Regulations Handbook, Section (A)(3)(f) – Grant balances were not reduced to \$5,000 within 15 days of drawdown for the CDBG Program	No	Partially Corrected – repeated in the Management Letter
2004-006	Office of Housing and Community Partnership (OHCP) Management Rules and Regulations Handbook, Section (A)(3)(l) – Interest earned in excess of \$100 must be returned to OHCP	No	Repeated as finding # 2005-006
2004-007	Office of Housing and Community Partnership (OHCP) Management Rules and Regulations Handbook, Section (A)(3)(f) – Funds limited to a balance of \$5,000 and disbursed within 15 days of drawdown for the HOME Program	No	Partially Corrected – repeated in the Management Letter
2004-008	Office of Housing and Community Partnership (OHCP) Management Rules and Regulations Handbook, Section (A)(3)(l) – Interest earned in excess of \$100 must be returned to the OHCP	No	Repeated as finding # 2005-007



**Auditor of State
Betty Montgomery**

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FINANCIAL CONDITION

HARDIN 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
SEPTEMBER 14, 2006**