



Mary Taylor, CPA
Auditor of State

HIGHLAND 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 as of December 31, 2006	11
Statement of Activities- Cash Basis - For the Year Ended December 31, 2006	12
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances- Governmental Funds	14
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances – Governmental Funds.....	16
Statement of Receipts, Disbursements and Changes in Fund Balances – Budget And Actual - Budget Basis - General Fund	18
Statement of Receipts, Disbursements and Changes in Fund Balance – Budget And Actual – Budget Basis – Public Assistance Fund	19
Statement of Receipts, Disbursements and Changes in Fund Balance – Budget And Actual – Budget Basis – Repair MVL Fund	20
Statement of Receipts, Disbursements and Changes in Fund Balance - Budget And Actual - Budget Basis - Board of MRDD Fund	21
Statement of Fund Net Assets –Cash Basis – Proprietary Funds	22
Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets Modified Cash Basis – Proprietary Funds	23
Statement of Fiduciary Net Assets –Cash Basis – Fiduciary Fund	24
Notes to the Basic Financial Statements	25
Schedule of Federal Awards Expenditures.....	53
Notes to 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

HIGHLAND COUNTY

TABLE OF CONTENTS
(Continued)

TITLE	PAGE
Schedule of Findings.....	61
Schedule of Prior Audit Findings.....	67



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Highland County
114 Governor Foraker Place
Hillsboro, Ohio 45133

To the Board of County Commissioners:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Highland County, Ohio (the County), as of and for the year ended December 31, 2006, which collectively comprise the basic financial statements of Highland County's primary government, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the accompanying financial statements do not present fairly the financial position, results of operations, where applicable, of the County as of and for the year ended December 31, 2006 in accordance with accounting principles generally accepted in the United States of America.

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

In our opinion, because of the omission of the discretely-presented component unit, as discussed above, the financial statements referred to above do not present fairly, the cash basis financial position of the discretely presented component unit of the County as of December 31, 2006 and the changes in its cash basis financial position, for the year ended in conformity with the basis of accounting described in Note 2.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects the respective cash basis financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Highland County, Ohio, as of December 31, 2006, and the respective changes in modified cash basis financial position thereof and the respective budgetary comparison for the General, Public Assistance, Repair MVL, and Board of Mental Retardation and Developmental Disabilities for the year then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2007, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Mary Taylor, CPA
Auditor of State

November 28, 2007

Highland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(unaudited)

This discussion and analysis of Highland County's financial performance provides an overall review of the County's financial activities for the year ended December 31, 2006, within the limitations of the County's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the County's financial performance.

Highlights

Key highlights for 2006 are as follows:

Net assets of governmental activities decreased \$253,935 from the prior year.

Net assets of the County's business-type activities decreased by \$97,673 from the prior year.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

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

Highland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(unaudited)

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

Reporting the County as a Whole

The statement of net assets – cash basis and the statement of activities – cash basis reflect how the County did financially during 2006, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the County at year-end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the County's general receipts.

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

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

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

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

Highland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(unaudited)

Reporting the County's Most Significant Funds

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

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

Proprietary Fund – When the County charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The County has no major enterprise funds.

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

The County as a Whole

Table 1 provides a summary of the County's net assets for 2006 compared to 2005 on a cash basis:

Highland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(unaudited)

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Cash and Cash Equivalents	\$6,474,956	\$6,710,433	\$289,840	\$387,513	\$6,764,796	\$7,097,946
Total Assets	<u>\$6,474,956</u>	<u>\$6,710,433</u>	<u>\$289,840</u>	<u>\$387,513</u>	<u>\$6,764,796</u>	<u>\$7,097,946</u>
Net Assets						
Restricted for:						
Capital Projects	\$180,944	\$171,946	\$0	\$0	\$180,944	\$171,946
Debt Service	615,769	1,064,324	0	0	615,769	1,064,324
Other Purposes	4,770,660	4,669,066	0	0	4,770,660	4,669,066
Unrestricted	907,583	805,097	289,840	387,513	1,197,423	1,192,610
Total Net Assets	<u>\$6,474,956</u>	<u>\$6,710,433</u>	<u>\$289,840</u>	<u>\$387,513</u>	<u>\$6,764,796</u>	<u>\$7,097,946</u>

As mentioned previously, net assets of governmental activities decreased by \$253,935 during 2006. This was primarily due to a decrease in net assets restricted for debt service. The County received over \$4,000,000 in bond and note proceeds during 2005, which were offset by debt service payments. In 2006, there were no bond and note proceeds to offset the debt service payments, thereby reducing restricted net assets.

The net assets of the business-type activities decreased by \$97,673. The main reason for the decrease was that sewer fee collections were insufficient to offset contractual services paid to provide sewer upkeep. The County is monitoring the costs to see if an increase in charges is necessary.

Highland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(unaudited)

Table 2 reflects the changes in net assets in 2006 and 2005.

(Table 2)
Changes in Net Assets

	Governmental		Business Type		Total	
	2006	2005	2006	2005	2006	2005
Receipts:						
Program Receipts:						
Charges for Services and Sales	\$3,331,092	\$3,500,328	\$419,073	\$470,856	\$3,750,165	\$3,971,184
Operating Grants and Contributions	12,452,751	12,036,187	0	0	12,452,751	12,036,187
Capital Grants and Contributions	830,265	821,821	0	0	830,265	821,821
Total Program Receipts	16,614,108	16,358,336	419,073	470,856	17,033,181	16,829,192
General Receipts:						
Property Taxes	3,692,395	3,651,319	0	0	3,692,395	3,651,319
Sales Tax Levied for General Purposes	5,108,166	4,561,831	0	0	5,108,166	4,561,831
Conveyance Fees	404,175	409,301	0	0	404,175	409,301
Payments in Lieu of Taxes	18,789	19,130	0	0	18,789	19,130
Grants and Entitlements Not Restricted to Specific Programs	2,948,206	2,318,582	0	0	2,948,206	2,318,582
Gifts and Donations	575	23,554	0	0	575	23,554
Interest	390,865	207,681	0	0	390,865	207,681
Proceeds of Ohio Water Development Authority Loan	1,558,498	0	0	0	1,558,498	0
Bonds Issued	0	1,638,000	0	0	0	1,638,000
Notes Issued	0	3,039,925	0	0	0	3,039,925
Miscellaneous	574,496	1,505,705	0	0	574,496	1,505,705
Total General Receipts	14,696,165	17,375,028	0	0	14,696,165	17,375,028
Total Receipts	31,310,273	33,733,364	419,073	470,856	31,729,346	34,204,220
Disbursements:						
General Government	4,618,935	4,084,782	0	0	4,618,935	4,084,782
Public Safety	4,948,651	4,596,135	0	0	4,948,651	4,596,135
Public Works	5,614,155	5,187,859	0	0	5,614,155	5,187,859
Health	4,549,823	4,658,520	0	0	4,549,823	4,658,520
Human Services	7,940,491	7,981,286	0	0	7,940,491	7,981,286
Other	0	70,000	0	0	0	70,000
Capital Outlay	2,292,126	1,155,058	0	0	2,292,126	1,155,058
Debt Service	1,600,027	4,772,499	0	0	1,600,027	4,772,499
Sewer	0	0	516,746	520,852	516,746	520,852
Total Disbursements	31,564,208	32,506,139	516,746	520,852	32,080,954	33,026,991
Increase (Decrease) in Net Assets	(253,935)	1,227,225	(97,673)	(49,996)	(351,608)	1,177,229
Net Assets Beginning of Year	6,728,891	5,483,208	387,513	437,509	7,116,404	5,920,717
Net Assets End of Year	\$6,474,956	\$6,710,433	\$289,840	\$387,513	\$6,764,796	\$7,097,946

Program receipts represent 53 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money.

General receipts represent 47 percent of the County's total receipts, and of this amount, 25 percent are property taxes and 35 percent are sales tax receipts. State and federal grants and entitlements make up 20 percent. As a result of a reduction in required matching funds related to capital projects throughout the County, general miscellaneous receipts decreased 62 percent in 2006 as compared to 2005. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Highland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(unaudited)

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

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

Governmental Activities

If you look at the statement of activities – cash basis, you will see that the first column lists the major services provided by the County. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for Human Services and Public Works, which account for 26 and 18 percent of all governmental disbursements, respectively. Public Safety also represents a significant cost, about 16 percent. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the County that must be used to provide a specific service. The Net (Disbursements) Receipts column compares the program receipts to the cost of the service. This “net cost” amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

Governmental Activities

	Total Cost Of Services 2006	Total Cost Of Services 2005	Net Cost of Services 2006	Net Cost of Services 2005
General Government	\$4,618,935	\$4,084,782	(\$2,669,082)	(\$2,100,436)
Public Safety	4,948,651	4,596,135	(3,481,150)	(3,542,199)
Public Works	5,614,155	5,187,859	(2,962,149)	(2,522,524)
Health	4,549,823	4,658,520	(1,064,670)	(1,676,402)
Human Services	7,940,491	7,981,286	(1,843,604)	(1,289,903)
Other	0	70,000	0	(70,000)
Capital Outlay	2,292,126	1,155,058	(1,329,418)	(173,840)
Debt Service	1,600,027	4,772,499	(1,600,027)	(4,772,499)
Total Disbursements	\$31,564,208	\$32,506,139	(\$14,950,100)	(\$16,147,803)

Highland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(unaudited)

The total cost of General Government services increased by \$941,531. This was due primarily to increased disbursements by the County Board of Elections during the fall election season, combined with an increase in disbursements for visiting judges by the County Commissioners. Public Safety increased by \$352,516 due to an increase in personnel in the Sheriff's office, combined with increased amounts of overtime paid to officers during the year. Public works increased by \$426,296 due to culvert replacement projects and chip and seal work performed by the County Engineer. Capital outlay increased by \$1,137,068 due to monies spent on the Mowrystown sewer replacement project, which was funded by grants and loans received by the County.

Business-Type Activity

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

The County's Funds

Total governmental funds had receipts of \$29,751,775 and disbursements of \$31,564,208. The General, Public Assistance, and Board of MRDD Funds all saw increases in fund balances for the year while the Repair MVL Fund and the Rocky Fork Lake Debt Service Fund both saw decreases in fund balance. The increase in the General Fund was the result of receipts exceeding disbursements. The Board of MRDD fund saw the biggest increase in fund balance which is due to an increase in intergovernmental revenues due to an increase in reimbursements from Medicaid for the actual cost of services provided. The decrease in the Repair MVL Fund was the result of increased expenditures for culvert and chip and seal projects during the year, and the decrease in the Rocky Fork Lake Debt Service Fund was the result of debt service payments exceeding actual assessments collected.

General Fund Budgeting Highlights

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

During 2006, the County amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were above original budgeted receipts due to an increase in the sales tax rate, that resulted in larger sales tax collections. This accounted for the majority of the difference between final budgeted receipts and actual receipts, as well.

Highland County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(unaudited)

Final disbursements were budgeted at \$9,368,605 while actual disbursements were \$9,337,310. The County's original appropriations were \$9,247,423. The variance between original and final appropriations was \$121,182, and was due to slight increases in overall spending throughout the year.

Capital Assets and Debt Administration

Capital Assets

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

Debt

At December 31, 2006, the County's outstanding debt included \$7,370,196 in general obligation bonds issued for improvements to buildings and structures, and \$11,826,109 in special assessment bonds, OWDA loans, OPWC loans, long-term notes and ODOD loans for facilities and equipment. For further information regarding the County's debt, refer to Note 11 to the basic financial statements.

Current Issues

The State has frozen the amount of local government funds and local government revenue assistance funds the County receives. As a result of the previous reduction and then the freezing of these funds, the County Commissioners increased the sales tax by one-half percent that takes the county to one and one-half percent. The only major area of commercial development in the County continues to be along Harry Sauner Road at the northern edge of Hillsboro. In the past few years Kroger, Wal-Mart and Lowe's have been constructed, and have attracted several smaller retail stores and restaurants. The sales tax receipts in the County have increased only slightly from previous years.

The balance of Highland County has seen low to moderate growth in residential housing. One major concern to the County is the continued high number of sales due to mortgage foreclosures. There have also been a small number of delinquent real estate tax sales. However, the real estate tax delinquencies have seen a small reduction due to more aggressive collections procedures by the County Treasurer and County Prosecutor.

Contacting the County's Financial Management

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

Highland County, Ohio
Statement of Net Assets - Cash Basis
December 31, 2006

	Primary Government		Total
	Governmental Activities	Business - Type Activity	
Assets			
Equity in Pooled Cash and Cash Equivalents	\$6,457,136	\$289,840	\$6,746,976
Cash and Cash Equivalents in Segregated Accounts	17,820	0	17,820
<i>Total Assets</i>	<u>\$6,474,956</u>	<u>\$289,840</u>	<u>\$6,764,796</u>
Net Assets			
Restricted for:			
Capital Projects	\$180,944	\$0	\$180,944
Debt Service	615,769	0	615,769
Health	1,744,333	0	1,744,333
Legislative and Executive Services	419,933	0	419,933
Public Works	781,547	0	781,547
Other Purposes	1,824,847	0	1,824,847
Unrestricted	907,583	289,840	1,197,423
<i>Total Net Assets</i>	<u>\$6,474,956</u>	<u>\$289,840</u>	<u>\$6,764,796</u>

See accompanying notes to the basic financial statements

Highland County, Ohio
Statement of Activities - Cash Basis
For the Year Ended December 31, 2006

	Program Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government:				
Legislative and Executive	\$3,090,540	\$1,436,367	\$439	\$0
Judicial	1,528,395	425,478	87,569	0
Public Safety	4,948,651	735,924	731,577	0
Public Works	5,614,155	165,255	2,486,751	0
Health	4,549,823	187,486	3,297,667	0
Human Services	7,940,491	248,139	5,848,748	0
Capital Outlay	2,292,126	132,443	0	830,265
Debt Service:				
Principal Retirement	935,401	0	0	0
Interest and Fiscal Charges	664,626	0	0	0
<i>Total Governmental Activities</i>	31,564,208	3,331,092	12,452,751	830,265
Business-Type Activities				
Sewer	516,746	419,073	0	0
<i>Total Primary Government</i>	\$32,080,954	\$3,750,165	\$12,452,751	\$830,265

General Receipts

Property Taxes Levied for:
General Purposes
Emergency Management
Road Improvements
Mental Retardation and Developmental Disabilities
Sales Taxes Levied for General Purposes
Conveyance Fees
Payments in Lieu of Taxes
Grants and Entitlements not Restricted to Specific Programs
Gifts and Donations
Interest
Proceeds of Ohio Water Development Authority Loan
Miscellaneous

Total General Receipts

Change in Net Assets

Net Assets at Beginning of Year

Net Assets at End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activity	Total
(\$1,653,734)	\$0	(\$1,653,734)
(1,015,348)	0	(1,015,348)
(3,481,150)	0	(3,481,150)
(2,962,149)	0	(2,962,149)
(1,064,670)	0	(1,064,670)
(1,843,604)	0	(1,843,604)
(1,329,418)	0	(1,329,418)
(935,401)	0	(935,401)
(664,626)	0	(664,626)
(14,950,100)	0	(14,950,100)
0	(97,673)	(97,673)
(14,950,100)	(97,673)	(15,047,773)
1,660,400	0	1,660,400
8,099	0	8,099
6,527	0	6,527
2,017,369	0	2,017,369
5,108,166	0	5,108,166
404,175	0	404,175
18,789	0	18,789
2,948,206	0	2,948,206
575	0	575
390,865	0	390,865
1,558,498	0	1,558,498
574,496	0	574,496
14,696,165	0	14,696,165
(253,935)	(97,673)	(351,608)
6,728,891	387,513	7,116,404
\$6,474,956	\$289,840	\$6,764,796

Highland County, Ohio
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2006

	General Fund	Public Assistance Fund	Repair MVL Fund	Board of MRDD Fund	Rocky Fork Lake Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets							
Equity in Pooled Cash and Cash Equivalents	\$907,583	\$266,719	\$730,707	\$1,196,410	\$580,109	\$2,673,371	\$6,354,899
Restricted Assets:							
Equity in Pooled Cash and Cash Equivalents	102,237	0	0	0	0	0	102,237
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0	0	17,820	17,820
<i>Total Assets</i>	<u>\$1,009,820</u>	<u>\$266,719</u>	<u>\$730,707</u>	<u>\$1,196,410</u>	<u>\$580,109</u>	<u>\$2,691,191</u>	<u>\$6,474,956</u>
Fund Balances							
Reserved:							
Reserved for Encumbrances	\$57,795	\$69,980	\$115,681	\$64,330	\$0	\$137,779	\$445,565
Reserved for Unclaimed Monies	102,237	0	0	0	0	0	102,237
Unreserved:							
Undesignated, Reported in:							
General Fund	849,788	0	0	0	0	0	849,788
Special Revenue Funds	0	196,739	615,026	1,132,080	0	2,336,808	4,280,653
Debt Service Funds	0	0	0	0	580,109	35,660	615,769
Capital Projects Funds	0	0	0	0	0	180,944	180,944
<i>Total Fund Balances</i>	<u>\$1,009,820</u>	<u>\$266,719</u>	<u>\$730,707</u>	<u>\$1,196,410</u>	<u>\$580,109</u>	<u>\$2,691,191</u>	<u>\$6,474,956</u>

See accompanying notes to the basic financial statements

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Highland County, Ohio
*Statement of Cash Receipts, Disbursements
and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2006*

	General Fund	Public Assistance Fund	Repair MVL Fund	Board of MRDD Fund	Rocky Fork Lake Debt Service Fund
Receipts					
Property Taxes	\$1,660,400	\$0	\$6,527	\$2,017,369	\$0
Sales Taxes	5,108,166	0	0	0	0
Charges for Services	1,543,342	156,530	95,564	78,805	0
Licenses and Permits	3,585	0	0	0	0
Fines and Forfeitures	111,425	0	1,128	0	0
Intergovernmental	1,069,195	4,378,642	4,322,054	1,924,529	0
Payments in Lieu of Taxes	18,789	0	0	0	0
Special Assessments	0	0	0	0	466,258
Interest	360,301	0	84,686	0	0
Rentals	163,102	0	0	0	0
Contributions and Donations	0	25	0	0	0
Other	194,449	0	6,802	0	0
<i>Total Receipts</i>	<u>10,232,754</u>	<u>4,535,197</u>	<u>4,516,761</u>	<u>4,020,703</u>	<u>466,258</u>
Disbursements					
Current:					
General Government:					
Legislative and Executive	2,333,663	0	0	0	0
Judicial	1,491,085	0	0	0	0
Public Safety	3,896,090	0	0	0	0
Public Works	755,801	0	4,587,995	0	0
Health	308,589	0	0	3,601,193	0
Human Services	494,289	4,737,977	0	0	0
Capital Outlay	0	0	0	0	0
Debt Service:					
Principal Retirement	0	0	0	0	382,722
Interest and Fiscal Charges	0	0	0	0	132,700
<i>Total Disbursements</i>	<u>9,279,517</u>	<u>4,737,977</u>	<u>4,587,995</u>	<u>3,601,193</u>	<u>515,422</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>953,237</u>	<u>(202,780)</u>	<u>(71,234)</u>	<u>419,510</u>	<u>(49,164)</u>
Other Financing Sources (Uses)					
Proceeds of OWDA Loans	0	0	0	0	0
Transfers In	134,460	204,466	0	60,000	0
Transfers Out	(986,996)	0	(75,000)	(160,000)	0
Advances In	11,147	0	0	0	0
Advances Out	(10,000)	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(851,389)</u>	<u>204,466</u>	<u>(75,000)</u>	<u>(100,000)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	101,848	1,686	(146,234)	319,510	(49,164)
<i>Fund Balances at Beginning of Year</i>	<u>907,972</u>	<u>265,033</u>	<u>876,941</u>	<u>876,900</u>	<u>629,273</u>
<i>Fund Balances at End of Year</i>	<u>\$1,009,820</u>	<u>\$266,719</u>	<u>\$730,707</u>	<u>\$1,196,410</u>	<u>\$580,109</u>

See accompanying notes to the basic financial statements

Other Governmental Funds	Total Governmental Funds
\$8,099	\$3,692,395
0	5,108,166
1,404,991	3,279,232
42,615	46,200
403,588	516,141
3,576,273	15,270,693
0	18,789
48,992	515,250
12,184	457,171
0	163,102
110,115	110,140
373,245	574,496
<u>5,980,102</u>	<u>29,751,775</u>
756,877	3,090,540
37,310	1,528,395
1,052,561	4,948,651
270,359	5,614,155
640,041	4,549,823
2,708,225	7,940,491
2,292,126	2,292,126
552,679	935,401
531,926	664,626
<u>8,842,104</u>	<u>31,564,208</u>
<u>(2,862,002)</u>	<u>(1,812,433)</u>
1,558,498	1,558,498
1,279,100	1,678,026
(456,030)	(1,678,026)
15,000	26,147
(16,147)	(26,147)
<u>2,380,421</u>	<u>1,558,498</u>
(481,581)	(253,935)
<u>3,172,772</u>	<u>6,728,891</u>
<u>\$2,691,191</u>	<u>\$6,474,956</u>

Highland County, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Receipts				
Property Taxes	\$1,973,850	\$1,973,850	\$1,679,316	(\$294,534)
Sales Taxes	4,085,145	4,534,558	5,108,166	573,608
Charges for Services	1,234,254	1,370,036	1,543,342	173,306
Licenses and Permits	2,867	3,182	3,585	403
Fines and Forfeitures	89,110	98,913	111,425	12,512
Intergovernmental	855,065	949,132	1,069,195	120,063
Payments in Lieu of Taxes	15,026	16,679	18,789	2,110
Interest	288,143	319,842	360,301	40,459
Rentals	130,437	144,787	163,102	18,315
Other	155,505	172,614	194,449	21,835
<i>Total Receipts</i>	<u>8,829,404</u>	<u>9,583,593</u>	<u>10,251,670</u>	<u>668,076</u>
Disbursements				
Current:				
General Government				
Legislative and Executive	2,368,434	2,399,471	2,391,456	8,015
Judicial	1,476,731	1,496,082	1,491,085	4,997
Public Safety	3,858,584	3,909,148	3,896,090	13,058
Public Works	748,525	758,334	755,801	2,533
Health	305,618	309,623	308,589	1,034
Human Services	489,531	495,946	494,289	1,657
<i>Total Disbursements</i>	<u>9,247,423</u>	<u>9,368,605</u>	<u>9,337,310</u>	<u>31,295</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(418,019)</u>	<u>214,989</u>	<u>914,360</u>	<u>699,371</u>
Other Financing Sources (Uses)				
Transfers In	107,531	119,361	134,460	15,099
Transfers Out	(977,495)	(990,304)	(986,996)	3,308
Advances In	8,915	9,895	11,147	1,252
Advances Out	(9,904)	(10,034)	(10,000)	34
<i>Total Other Financing Sources (Uses)</i>	<u>(870,952)</u>	<u>(871,081)</u>	<u>(851,389)</u>	<u>19,692</u>
<i>Net Change in Fund Balance</i>	(1,288,971)	(656,092)	62,971	719,063
<i>Fund Balance at Beginning of Year</i>	907,972	907,972	907,972	0
Prior Year Encumbrances Appropriated	75,405	75,405	75,405	0
<i>Fund Balance at End of Year</i>	<u>(\$305,594)</u>	<u>\$327,285</u>	<u>\$1,046,348</u>	<u>\$719,063</u>

See accompanying notes to the basic financial statements

Highland County, Ohio
*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
Public Assistance Fund
For the Year Ended December 31, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Charges for Services	\$203,173	\$156,493	\$156,530	\$37
Intergovernmental	5,683,399	4,377,580	4,378,642	1,062
Contributions and Donations	32	25	25	0
<i>Total Receipts</i>	5,886,605	4,534,098	4,535,197	1,099
Disbursements				
Current:				
Human Services	6,011,603	5,003,547	4,807,957	195,590
<i>Total Disbursements</i>	6,011,603	5,003,547	4,807,957	195,590
<i>Excess of Receipts Over (Under) Disbursements</i>	(124,998)	(469,449)	(272,760)	196,689
Other Financing Sources				
Transfers In	352,292	315,119	204,466	(110,653)
<i>Net Change in Fund Balance</i>	227,293	(154,331)	(68,294)	86,037
<i>Fund Balance at Beginning of Year</i>	215,564	215,564	215,564	0
Prior Year Encumbrances Appropriated	49,469	49,469	49,469	0
<i>Fund Balance at End of Year</i>	\$492,326	\$110,703	\$196,739	\$86,037

See accompanying notes to the basic financial statements

Highland County, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
Repair MVL Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property Taxes	\$6,535	\$6,532	\$6,559	\$27
Charges for Services	95,209	95,175	95,564	389
Fines and Forfeitures	1,124	1,123	1,128	5
Intergovernmental	4,305,985	4,304,466	4,322,054	17,588
Interest	84,371	84,341	84,686	345
Other	6,777	6,774	6,802	28
<i>Total Receipts</i>	4,500,000	4,498,413	4,516,793	18,380
Disbursements				
Current:				
Public Works	4,429,374	4,877,788	4,703,676	174,112
<i>Excess of Receipts Over (Under) Disbursements</i>	70,626	(379,375)	(186,883)	192,492
Other Financing Uses				
Transfers Out	(70,626)	(70,626)	(75,000)	(4,374)
<i>Net Change in Fund Balance</i>	0	(450,001)	(261,883)	188,118
<i>Fund Balance at Beginning of Year</i>	774,718	774,718	774,718	0
Prior Year Encumbrances Appropriated	98,099	98,099	98,099	0
<i>Fund Balance at End of Year</i>	<u>\$872,817</u>	<u>\$422,816</u>	<u>\$610,934</u>	<u>\$188,118</u>

See accompanying notes to the basic financial statements

Highland County, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
Board of MRDD Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property Taxes	\$1,998,610	\$1,998,610	\$2,036,469	\$37,859
Charges for Services	92,929	80,251	78,805	(1,446)
Intergovernmental	2,269,448	1,959,841	1,924,529	(35,312)
<i>Total Receipts</i>	4,360,987	4,038,702	4,039,803	1,101
Disbursements				
Current:				
Health	3,710,677	3,707,740	3,665,523	42,217
<i>Excess of Receipts Over Disbursements</i>	650,309	330,962	374,280	43,318
Other Financing Sources (Uses)				
Transfers In	70,753	61,101	60,000	(1,101)
Transfers Out	(152,973)	(155,900)	(160,000)	(4,100)
<i>Total Other Financing Sources (Uses)</i>	(82,219)	(94,799)	(100,000)	(5,201)
<i>Net Change in Fund Balance</i>	568,090	236,163	274,280	38,117
<i>Fund Balance at Beginning of Year</i>	775,769	775,769	775,769	0
Prior Year Encumbrances Appropriated	6,169	6,169	6,169	0
<i>Fund Balance at End of Year</i>	<u>\$1,350,028</u>	<u>\$1,018,101</u>	<u>\$1,056,218</u>	<u>\$38,117</u>

See accompanying notes to the basic financial statements

Highland County, Ohio
Statement of Fund Net Assets - Cash Basis
Proprietary Fund
December 31, 2006

	<u>Enterprise Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$289,840</u>
Net Assets	
Unrestricted	<u>\$289,840</u>

See accompanying notes to the basic financial statements

Highland County, Ohio
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Fund
For the Year Ended December 31, 2006*

	<u>Enterprise Funds</u>
Operating Receipts	
Charges for Services	\$419,073
Operating Disbursements	
Contractual Services	516,746
<i>Change in Net Assets</i>	(97,673)
<i>Net Assets at Beginning of Year</i>	387,513
<i>Net Assets at End of Year</i>	\$289,840

See accompanying notes to the basic financial statements

Highland County, Ohio
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
December 31, 2006

	<u>Agency Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,295,156
Cash and Cash Equivalents in Segregated Accounts	<u>339,912</u>
<i>Total Assets</i>	<u><u>1,635,068</u></u>
Net Assets	
Undistributed Monies	<u><u>\$1,635,068</u></u>

See accompanying notes to the basic financial statements

Note 1 - Reporting Entity

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

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

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

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

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

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

Note 1 - Reporting Entity (continued)

The Highland Regional Airport Authority (the Authority) is a legally separate body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Authority is directed by a five member Board, appointed by the Highland County Commissioners. The Authority is responsible for the safety and efficient operation and maintenance of the airport. The Highland County Commissioners administer and account for bond anticipation notes for airport improvements. The Authority is a component unit of the County; however, it is not presented as a component unit in these financial statements. Separately issued financial statements can be obtained from the Highland Regional Airport Authority at 1939 Crampton Road, Lynchburg, Ohio 45142.

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

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

The County participates in three jointly governed organizations, a public entity risk pool and an insurance purchasing pool. These organizations are presented in Notes 15 and 16 to the basic financial statements. These organizations are:

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

Note 2 - Summary of Significant Accounting Policies

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

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

The cash basis statement of net assets and the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the County that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets – cash basis presents the cash balance of the governmental and business-type activities of the County at year-end. The statement of activities – cash basis compares disbursements and program receipts for each program or function of the County's governmental activities and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the County is responsible. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program.

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

Fund Financial Statements

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

B. Fund Accounting

The County uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the County are presented in three categories: governmental, proprietary, and fiduciary.

Governmental Funds

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

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

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

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

Board of MRDD - This fund accounts for the operation of a school for the mentally retarded and developmentally disabled, financed by a county-wide property tax levy and federal and State grants.

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

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

Proprietary Fund

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the County under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the County's own programs. The County did not have any trust funds in 2006. Agency funds are purely custodial in nature and are used to account for assets held by the County for political subdivisions for which the County acts as fiscal agent and for taxes, State-levied shared revenues, and fines and forfeitures collected and distributed to other political subdivisions.

C. Basis of Accounting

The County's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the County's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

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

D. Budgetary Process

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

E. Cash and Investments

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

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

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

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

During 2006, the County invested in federal agency securities, a repurchase agreement and a money market mutual fund. Investments are reported at cost, except for the money market mutual fund. The County’s money market mutual fund investment is recorded at the amount reported by Fifth Third Securities, Inc. at December 31, 2006.

Interest earnings are allocated to County funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2006 were \$360,301 which includes \$237,552 assigned from other County funds.

F. Restricted Assets

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

Note 2 - Summary of Significant Accounting Policies (continued)

G. Capital Assets

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

H. Interfund Receivables/Payables

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

I. Accumulated Leave

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

J. Employer Contributions to Cost-Sharing Pension Plans

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

K. Long-Term Obligations

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

L. Net Assets

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

The government-wide statement of net assets – cash basis reports \$5,567,373 of restricted net assets, none of which are restricted by enabling legislation.

Note 2 - Summary of Significant Accounting Policies (continued)

M. Fund Balance Reserves

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

N. Internal Activity

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

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

Note 3 - Compliance

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

The County did not properly encumber all funds as required by Ohio Revised Code, section 5705.41 (D).

The General Fund had original appropriations in excess of estimated resources and available fund balance of \$305,594. The County will monitor budgetary controls more closely in the future to alleviate such compliance issues.

Note 4 - Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The statement of receipts, disbursements and changes in fund balance – budget and actual – budgetary basis presented for the General Fund and each major special revenue fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is (are) outstanding year-end encumbrances are treated as expenditures (budgetary basis) rather than as a reservation of fund balance (cash basis), and

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 4 - Budgetary Basis of Accounting (continued)

outstanding year-end advances are treated as another financing source or use (budgetary basis) rather than as an interfund receivable or payable (cash basis). In addition, cash that is held by agency funds on behalf County funds on a budget basis are allocated and reported on the cash basis in the appropriate County fund. The encumbrances outstanding at year-end and agency fund distributions (budgetary basis) amounted to:

	<u>General</u>	<u>Public Assistance</u>	<u>Repair MVL</u>	<u>Board of MRDD</u>
Cash Basis	\$101,848	\$1,686	(\$146,234)	\$319,510
Encumbrances	(57,793)	(69,980)	(115,681)	(64,330)
Agency Fund Distribution:				
Beginning of Year	95,000	0	271	94,962
End of Year	<u>(76,084)</u>	<u>0</u>	<u>(239)</u>	<u>(75,862)</u>
Budget Basis	<u>\$62,971</u>	<u>(\$68,294)</u>	<u>(\$261,883)</u>	<u>\$274,280</u>

Note 5 - Deposits and Investments

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

Monies held by the County which are not considered active are classified as inactive. Inactive monies 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;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds;

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 5 - Deposits and Investments (continued)

7. The State Treasurer's investment pool (STAROhio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to simultaneously exchange either securities or cash, equal value for equal value;
9. Commercial paper notes, corporate notes and bankers' acceptances; and
10. Debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government. All interest and principal shall be denominated and payable in United States funds.

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

Investments

As of December 31, 2006, the County had the following investments:

	Carrying Value	% of Total	Investment Maturities (In Years)		
			Less than 1	1 - 2	3 - 4
Fifth Third Institutional Money Market Mutual Fund	\$6,878	0.1%	\$6,878	\$0	\$0
Repurchase Agreement	2,171,075	24.7%	2,171,075	0	0
Federal Home Loan Bank Bonds	1,581,913	18.1%	613,053	968,860	0
Federal Home Loan Bank Notes	648,111	7.4%	496,958	0	151,153
Federal Home Loan Bank Step Up Coupon Bonds	2,726,151	31.1%	551,719	1,278,205	896,227
Federal Home Loan Mortgage Corporation Medium Term Notes	250,000	2.9%	250,000	0	0
Federal Home Loan Mortgage Corporation Global Medium Term Notes	218,910	2.5%	0	0	218,910
Federal Home Loan Mortgage Corporation Step Up Medium Term Notes	729,125	8.3%	0	729,125	0
Federal National Mortgage Association Medium Term Notes	425,518	4.9%	300,000	0	125,518
Total Investments	\$8,757,682	100.0%	\$4,389,683	\$2,976,190	\$1,391,808

Note 5 - Deposits and Investments (continued)

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

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

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, and the Federal Home Loan Bank Bonds and 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."

Note 6 - Permissive Sales and Use Tax

The County Commissioners, by resolution, imposed a 1.5 percent tax on all retail sales made in the County, except sales of motor vehicles, and on the storage, use, or consumption of tangible personal property in the County, including motor vehicles, not subject to the sales tax. In 2006, the County received a total of \$5,918,027. The allocation of the sales tax is 100 percent to the County's General Fund. Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies the amount of the tax to be returned to the County to the State Auditor. The Tax Commissioner's certification must be made within forty-five days after the end of each month. The State Auditor then has five days in which to draw the warrant payable to the County.

Note 7 - Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the County. Real property tax receipts received in 2006 represent the collection of 2005 taxes. Real property taxes received in 2006 were levied after October 1, 2006, on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2006 represent the collection of 2005 taxes. Public utility real and tangible personal property taxes received in 2006 became a lien on December 31, 2005, were levied after October 1, 2006, and are collected in 2007 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. In prior years, tangible personal property assessments were 25 percent of true value for capital assets and 23 percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

The full tax rate for all County operations for the year ended December 31, 2006, was \$9.25 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2006 property tax receipts were based are as follows:

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 7 - Property Taxes (continued)

Real Property	
Residential and Agricultural	\$519,573,670
Other	87,817,670
Public Utility Property	
Real	153,960
Personal	27,488,750
Tangible Personal Property	47,255,124
Total Assessed Value	\$682,289,174

Note 8 - Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2006, the County contracted with County Risk Sharing Authority, Inc. (CORSA) for insurance coverage. The CORSA program has a \$2,500 deductible. Coverage provided by CORSA is as follows:

	Liability
General Liability	\$1,000,000
Law Enforcement Liability	1,000,000
Automobile Liability	1,000,000
Uninsured/Underinsured Motorists	250,000
Errors and Omissions Liability (\$1,000,000 annual aggregate)	1,000,000
Excess Liability (sublimit \$5,000,000 for sexual harassment)	9,000,000
Property (total covered value)	49,553,063
Equipment Breakdown	100,000,000
Crime Insurance	1,000,000
Stop Gap Liability	1,000,000
Medical Professional Liability (sublimit \$6,000,000 for sexual harassment)	10,000,000
Foster Parents (sublimit \$6,000,000 for sexual harassment)	10,000,000

There has been no significant change in insurance coverage from 2005, and settled claims have not exceeded this coverage in the past four years. The County pays all elected officials' bonds by statute.

For 2006, the County participated in the County Commissioners' Association of Ohio Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (See Note 16). The plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The workers' compensation experience of the participating counties is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than the individual rate.

Note 8 - Risk Management (continued)

In order to allocate the savings derived by formation of the Plan, and to maximize the number of participants in the Plan, annually the Plan's executive committee calculates the total savings which accrued to the Plan through its formation. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from, or pays rate equalization rebates to the various participants. Participation in the plan is limited to counties that can meet the Plan's selection criteria.

The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the Plan. Each year, the County pays an enrollment fee to the Plan to cover the costs of administering the program.

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

Note 9 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

Note 9 – Defined Benefit Pension Plans (continued)

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The County's contribution rate for pension benefits for 2006 was 13.7 percent, except for those plan members in law enforcement or public safety. For those classifications, the County's pension contributions were 16.93 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The County's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$1,567,836, \$1,511,814 and \$1,478,893 respectively. The full amount has been contributed for 2006, 2005, and 2004. Contributions to the member-directed plan for 2006 were \$11,550 made by the County and \$7,587 made by the plan members.

B. State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. 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. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Note 9 – Defined Benefit Pension Plans (continued)

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The County was required to contribute 14 percent for 2006, 13 percent being the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The County's required contributions for pension obligations for the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$35,916, \$34,305, and \$34,834, respectively. The full amount has been contributed for 2006, 2005, and 2004. There were no contributions to the DC and Combined Plans for fiscal year 2006 made by the plan members.

Note 10 – Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest individual actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

Note 10 – Postemployment Benefits (continued)

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual County contributions for 2006 which were used to fund postemployment benefits were \$3,759,373. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarially accrued liability were \$31.3 billion and \$20.2 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. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

B. State Teachers Retirement System of Ohio

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the County, this amount equaled \$2,565 for 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 11 - Debt

The County's long-term debt activity for the year ended December 31, 2006, was as follows:

	Interest Rate	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006	Due Within One Year
<u>General Obligation Bonds:</u>						
1994 GO Bonds Series B						
Madison Township	4.50%	\$101,400	\$0	\$1,800	\$99,600	\$1,800
1996 GO Bonds Series A						
Tec Center	5.00%	911,100	0	64,100	847,000	67,300
1996 GO Bonds Series B						
Tec Center	5.00%	333,300	0	23,500	309,800	24,600
2002 GO Bonds						
Correctional Facilities	1.5 - 4.8%	4,455,000	0	190,000	4,265,000	200,000
2004 GO Bonds						
County Building Bond MRDD	5.45%	254,629	0	13,833	240,796	13,219
2005 GO Bonds						
Various Purpose	4.80%	1,638,000	0	30,000	1,608,000	54,000
Total GO Bonds		<u>7,693,429</u>	<u>0</u>	<u>323,233</u>	<u>7,370,196</u>	<u>360,919</u>
<u>OPWC Loans:</u>						
1996 OPWC Rocky Fork Lake						
Area Wastewater Collection System Loan	0.00%	270,000	0	20,000	250,000	20,000
2003 OPWC Rolling Acres						
WWTP Loan	0.00%	34,762	0	2,107	32,655	2,107
Total OPWC Loans		<u>304,762</u>	<u>0</u>	<u>22,107</u>	<u>282,655</u>	<u>22,107</u>
<u>Long-Term Notes:</u>						
Bond Anticipation Note						
Geographic Information System	4.21%	457,925	0	14,000	443,925	15,000
Bond Anticipation Note						
Real Estate Acquisition	4.21%	152,000	0	5,000	147,000	5,000
Bond Anticipation Note						
Airport Improvement	6.00%	1,165,000	0	36,000	1,129,000	40,000
Bond Anticipation Note						
Juvenile Detention Center	3.40%	650,000	0	20,000	630,000	20,000
Total Long-Term Notes		<u>2,424,925</u>	<u>0</u>	<u>75,000</u>	<u>2,349,925</u>	<u>80,000</u>
<u>OWDA Loans:</u>						
1998 OWDA Rocky Fork						
Water Pollution Control Loan	2.20%	6,121,998	0	362,722	5,759,276	184,359
2006 OWDA Highland-Leesburg						
Sewer Loan	3.98%	447,062	0	6,834	440,228	0
2006 OWDA Mowrystown Sewer Loan						
Sewer Loan	3.92%	0	1,558,498	0	1,558,498	0
Total OWDA Loans		<u>6,569,060</u>	<u>1,558,498</u>	<u>369,556</u>	<u>7,758,002</u>	<u>184,359</u>
<u>Other Long-Term Obligations:</u>						
1994 Special Assessment Bonds Series A						
Madison Twp.	4.50%	701,700	0	12,200	689,500	12,800
2000 Salt Barn Loan						
Industrial Park Loan	5.75%	224,332	0	133,305	91,027	53,775
2002 ODOB Leesburg						
Industrial Park Loan	2.10%	655,000	0	0	655,000	31,451
2003 Board of Health						
Building Improvement Loan	3.50%	249,779	0	16,241	233,538	16,814
Total Other Long-Term Obligations		<u>1,830,811</u>	<u>0</u>	<u>161,746</u>	<u>1,669,065</u>	<u>114,840</u>
Total Long-Term Liabilities		<u>\$18,822,987</u>	<u>\$1,558,498</u>	<u>\$951,642</u>	<u>\$19,429,843</u>	<u>\$762,225</u>

Note 11 – Debt (continued)

1994 Madison Township General Obligation Bonds Series B

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

1996 Tec Center General Obligation Bonds Series A

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

1996 Tec Center General Obligation Bonds Series B

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

2002 Correctional Facilities General Obligation Bonds

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

2004 County Building Bond MRDD General Obligation Bonds

On September 22, 2004, the County issued \$266,500 in general obligation bonds for the purpose of refunding outstanding bond anticipation notes that were used to finance the improvements to a building and constructing a garage for use by the MRDD board. The bonds mature in 2019 and will be paid from the MRDD Construction Debt Retirement Fund.

2005 Various Purpose General Obligation Bonds

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

Note 11 – Debt (continued)

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

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

2003 Ohio Public Works Commission Rolling Acres Wastewater Treatment Plant Loan

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

Bond Anticipation Note - Geographic Information System

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

Bond Anticipation Note - Real Estate Acquisition

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

Bond Anticipation Note - Airport Improvement

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

Bond Anticipation Note - Juvenile Detention Center

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

1998 Ohio Water Development Authority Rocky Fork Water Pollution Control Loan

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

Note 11 – Debt (continued)

2004 Ohio Water Development Authority Highland - Leesburg Sewer Loan

On May 27, 2004, the County entered into a loan agreement with the Ohio Water Development Authority for running sewer lines to connect the Villages of Highland and Leesburg. The work has not been fully completed, therefore, the loan amount has not been issued in full and a final payment schedule is not available. A liability was included for \$440,228, which represents the amount of the loan used as of year-end.

2006 Ohio Water Development Authority Mowrystown Sewer Loan

On April 27, 2006, the County entered into a loan agreement with the Ohio Water Development Authority for the construction of a sewer plant in Mowrystown. The work has not been fully completed, therefore, the loan amount has not been issued in full and a final payment schedule is not available. A liability was included for \$1,558,498, which represents the amount of the loan used as of year-end.

1994 Madison Township Series A Special Assessment Bonds

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

2000 Salt Barn Loan

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

2002 Ohio Department of Development Leesburg Industrial Park Loan

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

2003 Board of Health Building Improvement Loan

On June 18, 2003, the County entered into a \$288,000 loan agreement with Fifth Third Bank for making improvements to a building for use by the Board of Health. The final payment on the loan is due in 2008 and will be paid from the County Board of Health Agency Fund.

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 11 – Debt (continued)

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

Year	General Obligation Bonds		OPWC Loans	Long-Term Notes	
	Principal	Interest	Principal	Principal	Interest
2007	\$360,918	\$342,596	\$11,052	\$80,000	\$104,031
2008	363,449	328,466	22,107	83,000	100,371
2009	387,119	313,206	22,107	87,000	96,563
2010	401,133	296,678	22,107	94,000	92,495
2011	420,391	279,193	22,107	96,000	88,209
2012-2016	2,386,678	1,096,736	110,534	551,000	370,079
2017-2021	2,158,108	529,616	70,534	682,000	231,400
2022-2026	850,600	77,181	2,107	676,925	62,220
2027-2031	24,400	7,308	0	0	0
2032-2036	17,400	1,593	0	0	0
Total	\$7,370,196	\$3,272,573	\$282,655	\$2,349,925	\$1,145,368

Year	OWDA Loans		Special Assessment Bonds		Salt Barn Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$184,358	\$63,352	\$12,800	\$31,028	\$53,775	\$12,920
2008	374,823	120,598	13,300	30,451	37,252	9,769
2009	383,115	112,306	13,900	29,853	0	6,372
2010	391,590	103,832	14,600	29,228	0	2,804
2011	400,252	75,169	15,200	28,570	0	0
2012-2016	2,138,054	339,054	87,100	131,945	0	0
2017-2021	1,887,084	94,603	108,500	110,506	0	0
2022-2026	0	0	135,200	83,795	0	0
2027-2031	0	0	168,500	50,503	0	0
2032-2036	0	0	120,400	10,994	0	0
Total	\$5,759,276	\$908,914	\$689,500	\$536,873	\$91,027	\$31,865

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 11 – Debt (continued)

Year	ODOD Loans		Board of Health Loan	
	Principal	Interest	Principal	Interest
2007	\$31,450	\$14,970	\$16,814	\$8,028
2008	55,650	23,929	216,724	3,793
2009	57,917	21,662	0	0
2010	60,277	19,302	0	0
2011	62,732	16,846	0	0
2012-2016	354,145	43,747	0	0
2017-2021	32,829	329	0	0
2021-2026	0	0	0	0
2027-2031	0	0	0	0
2032-2036	0		0	0
Total	\$655,000	\$140,785	\$233,538	\$11,821

The Ohio Revised Code provides that net general obligation debt of the County, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 1 percent of the total assessed valuation of the County. The Revised Code further provides that total voted and unvoted net debt of the County less the same exempt debt shall never exceed a sum equal to 3 percent of the first \$100,000,000 of assessed valuation, plus 1.5 percent of such valuation in excess of \$100,000,000 and not in excess of \$300,000,000, plus 2.5 percent of such valuation in excess of \$300,000,000. The County's unvoted debt margin was \$2,001,427 at December 31, 2006.

Note 12 – Leases

In prior years, the County entered into capital leases for police sedans and a GMC Sierra for use by the Dog Warden. Total lease payments for 2006 totaled \$58,086.

Future lease payments are as follows:

Year	2004 Police Sedans	2005 Police Sedans	GMC Sierra	2006 Police Sedan/Explorer
2007	\$16,182	\$10,859	\$3,243	\$10,953
2008	0	10,859	3,243	10,953
2009	0	0	3,243	10,952
Total	\$16,182	\$21,718	\$9,729	\$32,858

Highland County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 13 - Interfund Activity

A. Interfund Transfers

During 2006 the following transfers were made:

		Transfer From				
		General	Repair MVL	Board of MRDD	Other Governmental	Total
Transfer To	Major Funds:					
	General	\$0	\$0	\$0	\$134,460	\$134,460
	Public Assistance	0	0	0	204,466	204,466
	Board of MRDD	0	0	0	60,000	60,000
	Other Governmental	986,996	75,000	160,000	57,104	1,279,100
Total All Funds		\$986,996	\$75,000	\$160,000	\$456,030	\$1,678,026

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

B. Interfund Advances

Interfund balances at December 31, 2006, consisted of the following individual fund receivables and payables:

		Advances Out		
		General	Other Governmental	Total
Advances In	Major Funds:			
	General	\$0	\$11,147	\$11,147
	Other Governmental	10,000	5,000	15,000
Total All Funds		\$10,000	\$16,147	\$26,147

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

Note 14 – Contingent Liabilities

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

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

Note 15 – Jointly Governed Organizations

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

The Ross, Pickaway, Highland and Fayette Counties Joint Solid Waste District (the District) is a jointly governed organization among Ross, Pickaway, Highland and Fayette Counties. Each of these governments supports the District. The County made no contribution during 2006. The degree of control exercised by any participating County is limited to its representation on the Board. The Board of Directors consists of twelve members, the three County Commissioners of each of the four counties. The District does not have any outstanding debt. The District is self-sufficient, operating entirely on collected fees.

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

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

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

Note 15 – Jointly Governed Organizations (continued)

C. South Central Regional Juvenile Detention Center

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

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

Note 16 – Public Entity Risk Pool and Insurance Purchasing Pool

A. County Risk Sharing Authority, Inc.

The County Risk Sharing Authority, Inc. (CORSA) is a public entity shared risk pool among fifty-five counties in Ohio. CORSA was formed as an Ohio not-for-profit corporation for the purpose of establishing the CORSA Insurance/Self-Insurance Program, a group primary and excess insurance/self-insurance and risk management program. Member counties agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by CORSA. The coverage includes comprehensive general liability, automobile liability, certain property insurance and public officials' errors and omissions liability insurance.

Each member county has one vote on all matters requiring a vote, to be cast by a designated representative. The affairs of CORSA are managed by an elected board of not more than nine trustees. Only county commissioners of member counties are eligible to serve on the Board of Trustees. No county may have more than one representative on the Board of Trustees at any time. Each member county's control over the budgeting and financing of CORSA is limited to its voting authority and any representation it may have on the Board of Trustees. CORSA has issued certificates of participation in order to provide adequate cash reserves. The certificates are secured by the member counties' obligations to make coverage payments to CORSA. The participating counties have no responsibility for the payment of the certificates. The County does not have an equity interest in or a financial responsibility for CORSA. Any additional premium or contribution amounts and estimates of losses are not reasonable determinable. The County's payment to CORSA for insurance in 2006 was \$202,506.

Note 16 – Public Entity Risk Pool and Insurance Purchasing Pool (continued)

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

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

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

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**HIGHLAND COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006**

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through the Ohio Department of Education:</i>				
Food Distribution Program	N/A	10.550		\$7,250
National School Lunch Program	066035-LLP4-2006	10.56	<u>\$3,412</u>	
Total U.S. Department of Agriculture			3,412	7,250
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>				
State Children's Health Insurance Program (SCHIP)	N/A	93.77	366	
Social Services Block Grant - Title XX	N/A	93.67	40,194	
Medical Assistance Program - Title XIX	N/A	93.78	<u>377,352</u>	
Total U.S. Department of Health and Human Services			417,912	
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
<i>Passed Through the Ohio Department of Development:</i>				
Community Development Block Grants	B-F-04-033-1	14.23	5,641	
Community Development Block Grants	B-F-05-033-1	14.23	95,821	
Community Development Block Grants	B-C-05-033-1	14.23	<u>35,870</u>	
			137,332	
Home Investment Partnership Program	B-C-05-033-1	14.24	<u>37,180</u>	
Total U.S. Department of Housing and Urban Development			174,512	
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Grants to States:				
Special Education Cluster:				
Special Education - Preschool Grants	066035-PGSI-2005	84.17	<u>28,687</u>	
Total U.S. Department of Education			28,687	
U.S. DEPARTMENT OF JUSTICE				
<i>Passed Through the Ohio Attorney General:</i>				
Crime Victim Assistance	2006-VAGENE-025T	16.58	80,012	
Crime Victim Assistance	2006-VAGENE-567T	16.58	<u>8,570</u>	
			88,582	
<i>Passed Through the Ohio Office of the Criminal Justice Service:</i>				
Byrne Formula Grant Program	2005-JG-C01-6297	16.58	23,983	
Bulletproof Vest Partnership Program	N/A	16.61	<u>515</u>	
			24,498	
Total U.S. Department of Justice			113,080	
FEDERAL AGENCY DEPARTMENT OF HOMELAND SECURITY				
<i>Passed Through the Ohio Emergency Management Agency</i>				
Emergency Management Performance Grants	EMC-2004-GR-7007	97.04	2,988	
State Homeland Security Program	2004-GE-T4-0025	97.07	47,946	
State Homeland Security Program	2005-GE-T4-0025	97.07	<u>32,359</u>	
			80,305	
Total Federal Agency Department of Homeland Security			83,293	
U.S. DEPARTMENT OF LABOR				
<i>Passed Through the Ohio Department of Job and Family Services</i>				
Workforce Investment Act Incentive Grant - Adult Program	N/A	17.26	40,434	
Workforce Investment Act Incentive Grant - Youth Activities	N/A	17.26	88,842	
Workforce Investment Act Incentive Grant - Dislocated Workers	N/A	17.260	<u>89,097</u>	
Total U.S. Department of Labor			218,373	

(Continued)

**HIGHLAND COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	<u>Disbursements</u>	<u>Non-Cash Disbursements</u>
U.S. DEPARTMENT OF TRANSPORTATION				
<i>Passed Through the Federal Aviation Administration</i>				
Direct from Federal Government				
Airport Improvement Program				
FAA Reimbursement of Construction Projects	AIP-3-39-0040-0101	20.11	2,140	
FAA Reimbursement of Construction Projects	AIP-3-39-0040-0303	20.11	533	
FAA Reimbursement of Construction Projects	AIP-3-39-0040-0404	20.11	7,629	
FAA Reimbursement of Construction Projects	AIP-3-39-0040-0505	20.11	73,700	
FAA Reimbursement of Construction Projects	AIP-3-39-0040-0706	20.11	<u>15,153</u>	
Total U.S. Department of Transportation			<u>99,154</u>	
<i>Passed through the Ohio Dept. of Safety</i>				
Highway Planning and Construction:				
Roadside Hazard Inv.	TE-2006-36-00-00-00553-00	20.21	21,260	
Guardrail Inventory	TE-2006-36-00-00-00553-00	20.21	<u>31,200</u>	
Total Ohio Department of Safety			<u>52,460</u>	
<i>Passed through the Governor's Highway Safety Office</i>				
Airborne Traffic Enforcement Grant	LEO-2006-36-00-00-00408-00	20.6	<u>24,839</u>	
Total Governor's Highway Safety Office			<u>24,839</u>	
TOTAL FEDERAL ASSISTANCE			<u>\$1,215,722</u>	<u>\$7,250</u>

HIGHLAND COUNTY

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – MATCHING REQUIREMENTS

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

NOTE C – HOMELAND SECURITY CLUSTER

The State Homeland Security Program (CFDA# 97.073) for federal fiscal years 2005 and 2004 was incorporated in the Homeland Security Grant Program (CFDA# 97.067) in accordance with the guidance from the U. S. Department of Homeland Security.

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Mary Taylor, CPA

Auditor of State

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

Highland County
114 Governor Foraker Place
Hillsboro, Ohio 45133

To the Board of County Commissioners:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Highland County, Ohio (the County), as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon dated November 28, 2007, wherein, we noted the County uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the County's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the County's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-006.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the County's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We also noted certain internal control matters that we reported to the County's management in a separate letter dated November 28, 2007.

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 2006-001 and 2006-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the County's management in a separate letter dated November 28, 2007.

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



Mary Taylor, CPA
Auditor of State

November 28, 2007



Mary Taylor, CPA

Auditor of State

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

Highland County
114 Governor Foraker Place
Hillsboro, Ohio 45133

To the Board of County Commissioners:

Compliance

We have audited the compliance of Highland County, Ohio (the County), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended December 31, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the County's major federal programs. The County's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, the County complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2006. In a separate letter to the County's management dated November 28, 2007, we reported another matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the County's management in a separate letter dated November 28, 2007.

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

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

Mary Taylor, CPA
Auditor of State

November 28, 2007

HIGHLAND COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2006

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	> Medical Assistance Program CFDA# 93.778 > CDBG CFDA# 14.228 > Airport Improvement Grant CFDA# 20.106
(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 2006-001

Non-Compliance Citation

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

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

Officials' Response:

We did not receive a response from Officials to this finding.

FINDING NUMBER 2006-002

Non-Compliance Citation

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

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

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

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

**FINDING NUMBER 2006-002
(Continued)**

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

Forty-seven percent (47%) of the purchases tested were initiated without obtaining the prior certification of the County Auditor and were not subsequently approved by the County Commissioners within the aforementioned 30 day time period.

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

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

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

Officials' Response:

We did not receive a response from Officials to this finding.

FINDING NUMBER 2006-003

Significant Deficiency

The County's standard established reconciliation process is two-fold. First, the County Treasurer must reconcile the County Treasurer's book balance to the various bank and investment accounts. The County Treasurer must perform this step in the process due to the fact that Ohio Revised Code establishes the County Treasurer as the custodian of County funds. Secondly, the County Treasurer must reconcile to the County Auditor's book balance. As of December 31, 2006, the Treasurer had not reconciled to the bank and investment accounts since April, 2003. However, the Treasurer had reconciled with the County Auditor's Fund Report.

**FINDING NUMBER 2006-003
(Continued)**

During our review of the County's cash reconciliation process, we noted the following:

- Investments were not been properly carried at cost.
- Outstanding warrants were not cleared timely or accurately. Warrants are cleared and documented by the financial institution using a check number, whereas, they are cleared from the County's system by the warrant number which resulted in inconsistencies.
- Deposits-in-transit was not properly reconciled or documented.
- Interest earnings from the checking and security investments were not always properly or completely recorded.

The County's December 31, 2005 reconciliation has an immaterial variance of \$50,694.

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

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

Officials' Response:

The County Treasurer has met with a representative of the Office of the Audit of the State of Ohio, and has identified reconciliation issues and is attempting to take corrective action as necessary to ensure the reconciliation is accurate.

FINDING NUMBER 2006-004

Significant Deficiency

Public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance of the reliability of financial reporting by maintaining an accounting system and accounting records sufficient to enable the public office to identify and report its transactions.

During 2006, the County had various transfers recorded on their financial records. Our review of these transfers revealed that some of these transactions were actually reimbursements between funds and not true transfers. Failure to properly post transactions reduces the County's ability and the ability of individual departments within the County to monitor financial activity and to make sound decisions which effect the overall available cash position of the County. Reclassifications in the amount of \$235,480 were made in the financial statements to properly reflect these transactions on the statements. We recommend that the County review all transfers prior to them being made to assure compliance with ORC 5705.14, .15, and .16.

**FINDING NUMBER 2006-004
(Continued)**

Officials' Response:

The County Auditor is working closely with the County departments to identify transfers and reimbursements and ensure they are properly recorded.

FINDING NUMBER 2006-005

Significant Deficiency

Public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance of the reliability of financial reporting by maintaining an accounting system and accounting records sufficient to enable the public office to identify and report its transactions.

During testing of new debt issues, it was noted that the County received on-behalf payments issued to contractors from their approved OWDA Loan #4496 which were not posted by the County. Failure to completely and properly post all transactions reduces the County's ability to make informed decisions which effect the overall available cash position of the County, and increases the likelihood that theft or fraud will not be detected. We recommend that the County Auditor regularly obtain detailed disbursement information from the OWDA web-site regarding expenditures made on-behalf of the County's projects. All such on-behalf payments should be posted to the respective capital projects fund as an intergovernmental receipt, and as a contract expenditure to the respective capital projects fund.

Officials' Response:

The County Auditor's Office is aware that OWDA payments made directly to the contractor can be confirmed on OWDA's website and will take corrective action to ensure payments are properly recorded.

FINDING NUMBER 2006-006

Significant Deficiency

Public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance of the reliability of financial reporting by maintaining an accounting system and accounting records sufficient to enable the public office to identify and report its transactions.

There were several instances where tax and intergovernmental receipts were not properly classified. The following posting errors were noted during testing:

- Tax settlement receipts in the amount of were posted at the net amount of the check, instead of the gross amount before the county auditor deductions resulting in reclassifications of \$132,676.
- Property tax exemptions and public utility reimbursements reported as taxes instead of intergovernmental receipts resulting in reclassifications of \$39,703.
- Homestead and rollback disbursements, tax equity, family support services, were reported as other receipts instead of intergovernmental receipts resulting in reclassifications of \$442,154.
- County share of sales tax receipts were reported as sales taxes instead of intergovernmental receipts resulting in reclassifications of \$809,861.
- County share of State court fines and fees were reported as fines and forfeitures instead of intergovernmental receipts resulting reclassifications of \$30,587.

**FINDING NUMBER 2006-006
(Continued)**

- Various miscellaneous receipts were incorrectly reported as intergovernmental instead of other receipts resulting in reclassifications of \$43,487.

Failure to properly post and report receipts resulted in financial statements that could mislead the reader, and resulted in addition audit time and charges. Reclassifications were required on the financial statements to properly present these receipts. Officials should review the chart of accounts to assure that items are being posted to the proper account codes.

Officials' Response:

We did not receive a response from Officials to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

HIGHLAND COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END DECEMBER 31, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2005-001	Failure to prepare annual financial report in accordance with generally accepted accounting principles. Reported on cash basis.	No	Repeated as finding 2006-001
2005-002	Failure to prior certify funds before making purchases.	No	Repeated as finding 2006-002.
2005-003	The County Failed to reconcile to the bank and investments accounts.	No	Repeated as finding 2006-003.



Mary Taylor, CPA
Auditor of State

FINANCIAL CONDITION

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 10, 2008**