

MORROW COUNTY, OHIO

BASIC FINANCIAL STATEMENTS
(Audited)

FOR THE YEAR ENDED
DECEMBER 31, 2007

MARY M. HOLTREY, AUDITOR



Mary Taylor, CPA
Auditor of State

Board of Commissioners
Morrow County
48 East Main Street
Mount Gilead, Ohio 43338

We have reviewed the *Independent Auditor's Report* of Morrow County, prepared by Julian & Grube, Inc., for the audit period January 1, 2007 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 2, 2008

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MORROW COUNTY

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Board of Commissioners
Morrow County
48 E. High Street
Mt. Gilead, OH 43338

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrow County, Ohio, as of and for the year ended December 31, 2007, which collectively comprise Morrow County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Morrow County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Morrow County Hospital, a major Enterprise Fund, which represents 99% of the total assets, 98% of total net assets and 99% of total revenue of the business-type activities. We also did not audit the financial statements of Whetstone Industries, Inc. Morrow County's only discretely presented component unit. Morrow County Hospital and Whetstone Industries, Inc. financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Morrow County, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrow County, Ohio, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, Emergency Squad, Motor Vehicle Gas Tax, Public Assistance, and Mental Retardation and Developmental Disabilities funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2008, on our consideration of Morrow County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morrow County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as 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 of Morrow County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
June 25, 2008

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2007

The management's discussion and analysis of Morrow County's (the "County") financial performance provides an overall review of the County's financial activities for the year ended December 31, 2007. The intent of this discussion and analysis is to look at the County's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the County's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- The total net assets of the County increased \$2,892,172. Net assets of governmental activities increased \$2,338,514, which represents a 6.63% increase from fiscal year 2006. Net assets of business-type activities increased \$553,658 or 4.01% from fiscal year 2006.
- General revenues accounted for \$9,374,004 or 33.36% of total governmental activities revenue. Program specific revenues accounted for \$18,726,801 or 66.64% of total governmental activities revenue.
- The County had \$25,776,143 in expenses related to governmental activities; \$18,726,801 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$9,374,004 were adequate to provide for these programs.
- The general fund, the County's largest major fund, had revenues and other financing sources of \$8,606,502 in 2007, a decrease of \$172,832 or 1.97% from 2006 revenues. The general fund, had expenditures and other financing uses of \$8,852,903 in 2007, an increase of \$16,286 or .18% from 2006. The increase in expenditures and decrease in revenues contributed to the general fund balance decrease of \$246,401 from 2006 to 2007.
- The emergency squad fund, a County major fund, had revenues of \$1,091,882 in 2007. The emergency squad fund, had expenditures of \$1,085,657. The emergency squad fund balance increased \$6,225 from 2006 to 2007.
- The motor vehicle and gas tax, a County major fund, had revenues of \$4,225,129 in 2007. The motor vehicle and gas tax, had expenditures of \$3,955,172 in 2007. The motor vehicle and gas tax fund balance increased \$269,957 from 2006 to 2007.
- The public assistance fund, a County major fund, had revenues and other financing sources of \$6,739,691 in 2007. The public assistance fund, had expenditures of \$5,507,066 in 2007. The public assistance fund balance increased \$1,232,625 from 2006 to 2007.
- The MR/DD fund, a County major fund, had revenues and other financing sources of \$2,224,639 in 2007. The MR/DD fund, had expenditures of \$2,023,816 in 2007. The MR/DD fund balance increased \$200,823 from 2006 to 2007.
- Net assets for the business-type activities, which are made up of the Ketterman Project and Morrow County Hospital enterprise funds, increased in 2007 by \$553,658. This increase in net assets was due to adequate charges for services revenue and other general revenues were enough to cover operating expenses.
- In the general fund, the actual revenues and other financing sources came in \$874,945 higher than they were originally budgeted and actual expenditures and other financing sources were \$396,929 higher than the amount in the original budget. The County uses a conservative budgeting process.

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2007

Using this Basic Financial Statements (BFS)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the County as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole County, presenting both an aggregate view of the County's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the County's most significant funds with all other non-major funds presented in total in one column. In the case of the County, there are five major governmental funds. The general fund is the largest major fund.

Reporting the County as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets and the statement of activities answer the question, "How did we do financially during 2007?" These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the County's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the County as a whole, the financial position of the County has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the County's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the County is divided into two distinct kinds of activities:

Governmental Activities - Most of the County's programs and services are reported here including human services, health, public safety, public works and general government. These services are funded primarily by taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided.

The County's statement of net assets and statement of activities can be found on pages 15-18 of this report.

Reporting the County's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2007

Fund financial reports provide detailed information about the County's major funds. The County uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the County's most significant funds. The County's major governmental funds are the general fund, the emergency squad fund, the motor vehicle and gas tax fund, the public assistance fund, and the County Board of mental retardation and developmentally disabled (MR/DD) fund. The analysis of the County's major governmental and proprietary funds begins on page 9.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the major funds. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental financial statements can be found on pages 19-29 of this report.

Proprietary Funds

The County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its Ketterman project and Morrow County Hospital operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses an internal service fund to account for a self-funded health insurance program for employees of the County. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 30-33 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statement can be found on page 34 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government wide and fund financial statements. These notes to the basic financial statements can be found on pages 35-75 of this report.

MORROW COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Government-Wide Financial Analysis

The statement of net assets provides the perspective of the County as a whole. The table below provides a summary of the County's net assets for 2007 and 2006.

	Net Assets					
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities	2007 Total	2006 Total
	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<u>Assets</u>						
Current and other assets	\$ 20,022,044	\$ 12,562,095	\$ 17,758,720	\$ 12,787,033	\$ 32,584,139	\$ 30,545,753
Capital assets	<u>30,014,968</u>	<u>10,637,163</u>	<u>29,650,533</u>	<u>10,719,963</u>	<u>40,652,131</u>	<u>40,370,496</u>
Total assets	<u>50,037,012</u>	<u>23,199,258</u>	<u>47,409,253</u>	<u>23,506,996</u>	<u>73,236,270</u>	<u>70,916,249</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	6,463,912	3,860,362	6,459,674	4,436,813	10,324,274	10,896,487
Other liabilities	<u>5,940,346</u>	<u>4,971,862</u>	<u>5,655,339</u>	<u>5,256,807</u>	<u>10,912,208</u>	<u>10,912,146</u>
Total liabilities	<u>12,404,258</u>	<u>8,832,224</u>	<u>12,115,013</u>	<u>9,693,620</u>	<u>21,236,482</u>	<u>21,808,633</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	24,308,374	7,239,074	23,942,311	6,697,298	31,547,448	30,639,609
Restricted	12,207,001	-	9,963,544	-	12,207,001	9,963,544
Unrestricted	<u>1,117,379</u>	<u>7,127,960</u>	<u>1,388,385</u>	<u>7,116,078</u>	<u>8,245,339</u>	<u>8,504,463</u>
Total net assets	<u>\$ 37,632,754</u>	<u>\$ 14,367,034</u>	<u>\$ 35,294,240</u>	<u>\$ 13,813,376</u>	<u>\$ 51,999,788</u>	<u>\$ 49,107,616</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2007, the County's assets exceeded liabilities by \$51,999,788. This amounts to \$37,632,754 in governmental activities and \$14,367,034 in business-type activities.

Capital assets reported on the government-wide statements represent the largest portion of the County's net assets. At year-end, capital assets represented 55.51% of total governmental and business-type assets. Capital assets include land, land improvements, buildings, buildings and improvements, equipment, vehicles, infrastructure, construction in progress, the Ketterman project and the Morrow County Hospital. Capital assets, net of related debt to acquire the assets at December 31, 2007, were \$31,547,448. These capital assets are used to provide services to citizens and are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2007, the County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the County's net assets, \$12,207,001 or 23.48%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-activities unrestricted net assets of \$1,117,379 may be used to meet the government's ongoing obligations to citizens and creditors.

MORROW COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

The table below shows the changes in net assets for fiscal years 2007 and 2006.

	Change in Net Assets					
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities	2007 Total	2006 Total
	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 3,909,282	\$ 27,052,062	\$ 4,047,082	\$ 26,519,858	\$ 30,961,344	\$ 30,566,940
Operating grants and contributions	14,817,519	-	12,496,395	-	14,817,519	12,496,395
Total program revenues	<u>18,726,801</u>	<u>27,052,062</u>	<u>16,543,477</u>	<u>26,519,858</u>	<u>45,778,863</u>	<u>43,063,335</u>
General revenues:						
Property taxes	4,412,978	-	3,976,907	-	4,412,978	3,976,907
Sales tax	2,888,689	-	2,736,146	-	2,888,689	2,736,146
Unrestricted grants	746,233	-	844,733	-	746,233	844,733
Investment earnings	774,071	241,853	732,068	202,140	1,015,924	934,208
Other	552,033	2,014,598	867,310	1,953,815	2,566,631	2,821,125
Total general revenues	<u>9,374,004</u>	<u>2,256,451</u>	<u>9,157,164</u>	<u>2,155,955</u>	<u>11,630,455</u>	<u>11,313,119</u>
Total revenues	<u>28,100,805</u>	<u>29,308,513</u>	<u>25,700,641</u>	<u>28,675,813</u>	<u>57,409,318</u>	<u>54,376,454</u>
Expenses						
Program expenses:						
General government						
Legislative and executive	3,750,212	-	3,808,026	-	3,750,212	3,808,026
Judicial	1,659,161	-	1,685,355	-	1,659,161	1,685,355
Public safety	4,823,135	-	5,157,646	-	4,823,135	5,157,646
Public works	4,041,305	-	4,173,038	-	4,041,305	4,173,038
Health	2,104,859	-	2,074,935	-	2,104,859	2,074,935
Human services	7,997,436	-	7,453,749	-	7,997,436	7,453,749
Economic development and assistance	49,156	-	69,603	-	49,156	69,603
Intergovernmental	449,047	-	423,974	-	449,047	423,974
Other	679,464	-	732,646	-	679,464	732,646
Interest and fiscal charges	222,368	-	274,087	-	222,368	274,087
Morrow County Hospital	-	28,716,263	-	27,686,873	28,716,263	27,686,873
Ketterman Project	-	24,740	-	24,739	24,740	24,739
Total expenses	<u>25,776,143</u>	<u>28,741,003</u>	<u>25,853,059</u>	<u>27,711,612</u>	<u>54,517,146</u>	<u>53,564,671</u>
Change in net assets before transfers	2,324,662	567,510	(152,418)	964,201	2,892,172	811,783
Transfers	13,852	(13,852)	13,805	(13,805)	-	-
Change in net assets	2,338,514	553,658	(138,613)	950,396	2,892,172	811,783
Net assets at beginning of year	<u>35,294,240</u>	<u>13,813,376</u>	<u>35,432,853</u>	<u>12,862,980</u>	<u>49,107,616</u>	<u>48,295,833</u>
Net assets at end of year	<u>\$ 37,632,754</u>	<u>\$ 14,367,034</u>	<u>\$ 35,294,240</u>	<u>\$ 13,813,376</u>	<u>\$ 51,999,788</u>	<u>\$ 49,107,616</u>

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2007

Governmental Activities

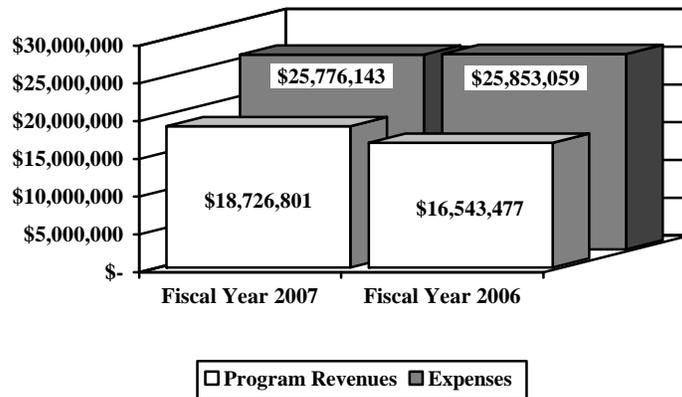
Governmental net assets increased \$2,338,514 in 2007 over 2006. This increase is due primarily to an increase in operating grants and tax revenues. Human services accounts for \$7,997,436 of expenses, or 31.03% of total governmental expenses of the County. These expenses were funded by \$524,683 in charges to users of services in 2007. General government, which includes legislative and executive and judicial programs, expenses totaled \$5,409,373 or 20.99% of total governmental expenses. General government expenses were covered by \$1,661,750 of direct charges to users in 2007.

The state and federal government contributed to the County revenues of \$14,817,519 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions \$8,503,158 or 57.39%, subsidized human services programs.

General revenues totaled \$9,374,004, and amounted to 33.36% of total revenues. These revenues primarily consist of property and sales tax revenue of \$7,301,667 or 77.89% of total general revenues in 2007. The other primary source of general revenues is grants and entitlements not restricted to specific programs, with local government and local government revenue assistance making up \$746,233, or 7.96% of the total.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2007 and 2006. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements. As can be seen in the Graph below, the County is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities.

Governmental Activities - Program Revenues vs. Total Expenses



MORROW COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Governmental Activities

	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
Program Expenses:				
General government				
Legislative and executive	\$ 3,750,212	\$ 2,652,704	\$ 3,808,026	\$ 2,780,162
Judicial	1,659,161	701,383	1,685,355	363,665
Public safety	4,823,135	3,146,000	5,157,646	3,399,403
Public works	4,041,305	(11,055)	4,173,038	493,484
Health	2,104,859	858,393	2,074,935	1,048,712
Human services	7,997,436	(1,030,405)	7,453,749	317,880
Economic development and assistance	49,156	34,479	69,603	69,603
Intergovernmental	449,047	449,047	423,974	423,974
Other	679,464	26,428	732,646	138,612
Interest and fiscal charges	<u>222,368</u>	<u>222,368</u>	<u>274,087</u>	<u>274,087</u>
Total	<u>\$ 25,776,143</u>	<u>\$ 7,049,342</u>	<u>\$ 25,853,059</u>	<u>\$ 9,309,582</u>

The dependence upon general revenues for governmental activities is apparent, with 27.35% of expenses supported through taxes and other general revenues during 2007.

Business-Type Activities

The Morrow County Hospital and Ketterman Project are the County's only enterprise funds. These programs had revenues of \$29,308,513 and expenses of \$28,741,003 for fiscal year 2007. The net assets of the enterprise funds increased \$553,658 or 4.01% during 2007.

Financial Analysis of the Government's Funds

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

Governmental Funds

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

The County's governmental funds (as presented on the balance sheet on pages 19-20) reported a combined fund balance of \$11,646,341, which is \$1,570,170 over last year's total of \$10,076,171. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2007 for all major and non-major governmental funds.

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Fund Balance</u> <u>December 31, 2007</u>	<u>Fund Balance</u> <u>December 31, 2006</u>	<u>Increase</u> <u>(Decrease)</u>
Major Funds:			
General	\$ 1,323,889	\$ 1,570,290	\$ (246,401)
Emergency Squad Fund	49,057	42,832	6,225
Motor Vehicle and Gas Tax	2,194,618	1,924,661	269,957
Public Assistance	1,556,409	323,784	1,232,625
MR/DD	875,705	674,882	200,823
Other Nonmajor Governmental Funds	<u>5,646,663</u>	<u>5,539,722</u>	<u>106,941</u>
Total	<u>\$ 11,646,341</u>	<u>\$ 10,076,171</u>	<u>\$ 1,570,170</u>

General Fund

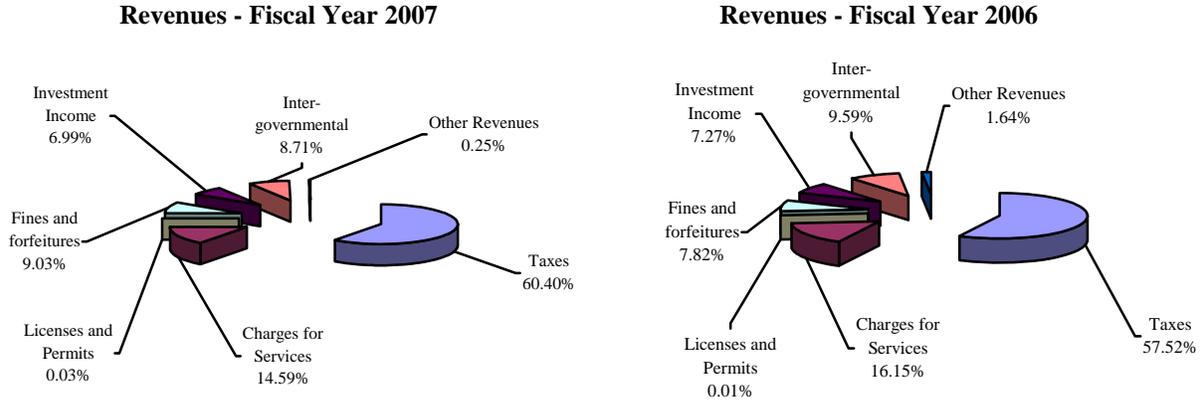
The County's general fund balance decreased \$246,401, primarily due to revenues decreasing faster than expenditures. The table that follows assists in illustrating the revenues of the general fund.

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 5,164,252	\$ 5,043,856	2.39 %
Charges for services	1,247,020	1,416,107	(11.94) %
Licenses and permits	2,441	2,304	5.95 %
Fines and forfeitures	772,132	685,544	12.63 %
Intergovernmental	744,878	841,221	(11.45) %
Investment income	597,496	637,198	(6.23) %
Other	<u>21,492</u>	<u>143,416</u>	(85.01) %
Total	<u>\$ 8,549,711</u>	<u>\$ 8,769,646</u>	(2.51) %

Tax revenue represents 60.40% of all general fund revenue. Tax revenue increased by 2.39% over prior year. The decrease in investment income is due to the timing of investment maturities throughout the year. The decrease in intergovernmental revenues is due to a reduction in funding from state and federal sources. The increase in fines and forfeitures is related to an increase in court costs and sheriff fees. The decrease in other revenue is caused by a decrease in several miscellaneous revenue categories including reimbursements and unclaimed monies. All other revenue remained comparable to 2007.

MORROW COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**



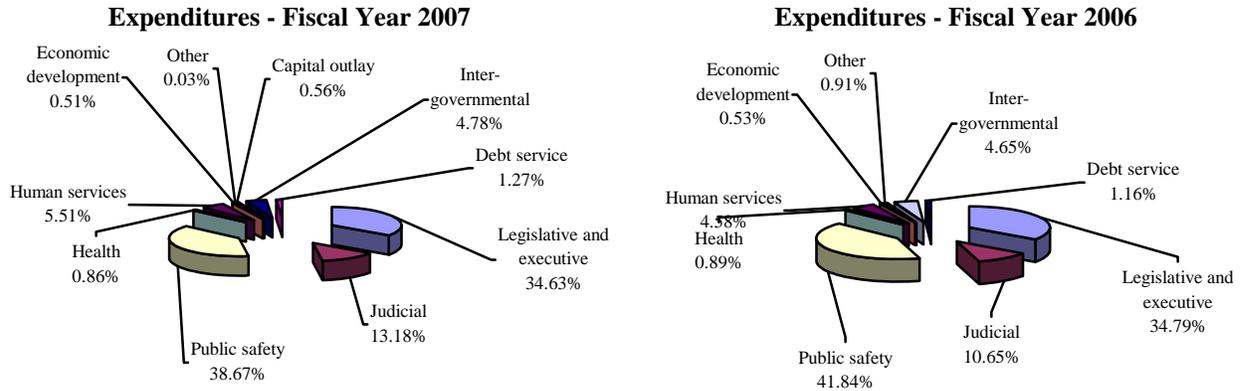
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government			
Legislative and executive	\$ 3,017,250	\$ 3,053,983	(1.20) %
Judicial	1,148,187	935,104	22.79 %
Public safety	3,369,917	3,674,157	(8.28) %
Health	74,699	78,144	(4.41) %
Human services	479,852	402,169	19.32 %
Economic development and assistance	44,177	46,232	(4.44) %
Other	2,659	79,716	(96.66) %
Capital outlay	49,025	-	100.00 %
Intergovernmental	416,488	408,306	2.00 %
Debt service	<u>110,649</u>	<u>101,506</u>	9.01 %
Total	<u><u>\$8,712,903</u></u>	<u><u>\$ 8,779,317</u></u>	(0.76) %

The most significant increase was in the area of capital outlay due to capital lease additions. Judicial increased due to more money spent by the common pleas court, probate court and clerk of courts. The increase in human services expenditures was primarily in the areas of veteran services and soldier relief. The most significant decrease was in the area of other expenses. All other expenditures remained comparable to 2007. The largest expenditure line item, public safety, decreased only slightly, which is primarily attributed to wage and benefit controls by the County.

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2007



Emergency Squad Fund

The emergency squad fund, a County major fund, had revenues of \$1,091,882 and expenditures of \$1,085,657. The emergency squad fund balance increased \$6,225 from 2006 to 2007.

Motor Vehicle License and Gas Tax Fund

The motor vehicle and gas tax fund, a County major fund, had revenues of \$4,225,129 and expenditures of \$3,955,172 in 2007. The motor vehicle and gas tax fund balance increased \$269,957 from 2006 to 2007.

Public Assistance Fund

The public assistance fund, a County major fund, had revenues and other financing sources of \$6,739,691 and expenditures of \$5,507,066 in 2007. The public assistance fund balance increased \$1,232,625 from 2006 to 2007.

MR/DD Fund

The MR/DD fund, a County major fund, had revenues and other financing sources of \$2,224,639 and expenditures of \$2,023,816 in 2007. The MR/DD fund balance increased \$200,823 from 2006 to 2007.

Budgeting Highlights - General Fund

The County's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the County's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the County's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund, emergency squad fund, the motor vehicle and gas tax fund, the public assistance fund, and the MR/DD fund. In the general fund, actual revenues and other financing sources of \$8,722,289 exceeded final budgeted revenues and other financing sources by \$407,055 or 4.90%. This increase is due to the County's conservative approach to budgeting. Another significant difference between the final budget and actual expenditures was a \$73,330 decrease in expenditures.

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, but in more detail.

Capital Assets and Debt Administration

Capital Assets

At the end of 2007, the County had \$40,652,131 (net of accumulated depreciation) invested in land, land improvements, buildings, buildings and improvements, equipment, vehicles, infrastructure, construction in progress, the Ketterman project and the Morrow County Hospital. Of this total, \$30,014,968 was reported in governmental activities and \$10,637,163 was reported in business-type activities. The following table shows fiscal 2007 balances compared to 2006:

**Capital Assets at December 31
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 727,557	\$ 612,010	\$ 191,995	\$ 219,083	\$ 919,552	\$ 831,093
Land Improvements	17,908	-	-	-	17,908	-
Buildings	5,859,342	5,983,887	2,451,042	2,659,009	8,310,384	8,642,896
Building Improvements	298,146	304,874	-	-	298,146	304,874
Equipment	847,555	691,253	7,452,647	7,497,806	8,300,202	8,189,059
Vehicles	682,948	819,958	-	-	682,948	819,958
Infrastructure	21,581,512	21,238,551	205,100	210,227	21,786,612	21,448,778
Construction in progress	-	-	336,379	133,838	336,379	133,838
Total	\$ 30,014,968	\$ 29,650,533	\$ 10,637,163	\$ 10,719,963	\$ 40,652,131	\$ 40,370,496

Debt Administration

At December 31, 2007 the County had \$6,463,912 in general obligation bonds, notes, loans payable, OWDA loans, capital leases and compensated absences payable outstanding in governmental activities. Of this total, \$3,498,264 is due within one year and \$2,965,648 is due within greater than one year. Business-type activities had \$3,860,362 in capital lease, master lease purchase agreement, and compensated absences payable outstanding at December 31, 2007. See Note 14 to the basic financial statements for detail. The following table summarizes the bonds, notes and loan outstanding.

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2007

Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Long-Term Obligations				
General obligation bonds	\$ 2,035,000	\$ 2,155,000	\$ -	\$ -
Notes	3,057,000	3,167,000	-	-
Loans payable	247,532	6,740	-	-
OWDA loans	100,107	114,056	-	-
Capital leases	266,955	265,426	523,955	638,793
Master lease and purchase agreement	-	-	2,874,134	3,383,872
Compensated absences payable	<u>757,318</u>	<u>751,452</u>	<u>462,273</u>	<u>414,148</u>
Total	<u>\$ 6,463,912</u>	<u>\$ 6,459,674</u>	<u>\$ 3,860,362</u>	<u>\$ 4,436,813</u>

At December 31, 2007 the County's overall legal debt margin was \$12,945,677. The County maintains an A-3 rating from Moody's Investors Service.

Economic Factors and Next Year's Budget

Morrow County, Ohio is strategically located in north central Ohio and is home to a diverse manufacturing and agricultural base which includes fabricated and primary metals, polymers, automotive parts, and household goods and appliances. While primarily a rural community, Morrow County has easy access to all major city amenities from its two interchanges on Interstate 71, the major north-south transportation link between Cincinnati, Columbus, and Cleveland.

Location is also the key to Morrow County's future. Over 900 acres of industrial and commercial development opportunities are situated at the interchanges of Interstate 71 offering easy access for transportation of goods, materials and workers. There are three industrial based businesses opened in the facilities at State Route 61 and Interstate 71. While the County's 2007 overall unemployment rate (5.7%) was slightly higher than the State's average (5.6%), most of the County's major industrial companies increased employment levels.

Location also plays a key role in residential growth in the County. With an estimated 2007 population of 34,520, new home construction continues to increase.

Thirteen out of sixteen townships have approved county-wide zoning which will enable the County to better guide future growth, better coordinate capital improvement plans, and serve as a catalyst for quality development.

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 show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mary Holtrey, County Auditor at 48 East Main Street, Mount Gilead, Ohio 43338.

**BASIC
FINANCIAL STATEMENTS**

MORROW COUNTY, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets:				
Equity in pooled cash and cash equivalents	\$ 8,954,580	\$ 100,098	\$ 9,054,678	\$ 90,469
Cash and cash equivalents in segregated accounts.	-	547,730	547,730	-
Investments	-	615,723	615,723	-
Receivables (net of allowances for uncollectibles):				
Property and other local taxes.	4,438,874	1,250,000	5,688,874	-
Sales taxes	450,499	-	450,499	-
Accounts	336,404	4,956,263	5,292,667	5,148
Special assessments.	19,270	-	19,270	-
Accrued interest	99,914	-	99,914	-
Physician advances.	-	65,589	65,589	-
Due from other governments	4,488,059	-	4,488,059	-
Prepayments.	233,325	481,303	714,628	-
Deposits.	-	-	-	343
Materials and supplies inventory.	86,834	400,748	487,582	22,301
Loans receivable	914,285	-	914,285	-
Physician advances (noncurrent).	-	60,751	60,751	-
Restricted assets:				
Investments.	-	2,356,272	2,356,272	-
Cash and cash equivalents in segregated accounts	-	1,727,618	1,727,618	-
Capital assets:				
Land and construction in progress.	727,557	528,374	1,255,931	-
Depreciable capital assets, net	29,287,411	10,108,789	39,396,200	15,061
Total capital assets.	<u>30,014,968</u>	<u>10,637,163</u>	<u>40,652,131</u>	<u>15,061</u>
Total assets.	<u>50,037,012</u>	<u>23,199,258</u>	<u>73,236,270</u>	<u>133,322</u>

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MORROW COUNTY, OHIO

STATEMENT OF NET ASSETS (CONTINUED)
DECEMBER 31, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Liabilities:				
Accounts payable	\$ 673,840	\$ 1,620,759	\$ 2,294,599	\$ 76
Accrued wages and benefits	223,445	1,457,815	1,681,260	-
Due to other governments	622,495	-	622,495	-
Deferred revenue	-	1,250,000	1,250,000	330
Unearned revenue	3,947,248	-	3,947,248	-
Cost report settlement payable	-	316,777	316,777	-
Accrued interest payable	93,022	15,305	108,327	-
Claims payable	380,296	-	380,296	-
Other accrued liabilities	-	311,206	311,206	1,814
Long-term liabilities:				
Due within one year	3,498,264	1,243,977	4,742,241	-
Due in more than one year	2,965,648	2,616,385	5,582,033	-
Total liabilities	<u>12,404,258</u>	<u>8,832,224</u>	<u>21,236,482</u>	<u>2,220</u>
Net assets:				
Invested in capital assets, net of related debt	24,308,374	7,239,074	31,547,448	-
Restricted for:				
Capital projects	1,002,460	-	1,002,460	-
Debt service	946,736	-	946,736	-
Public safety	626,502	-	626,502	-
Public works	2,776,136	-	2,776,136	-
Human services	2,698,271	-	2,698,271	-
Other purposes	4,156,896	-	4,156,896	-
Unrestricted	<u>1,117,379</u>	<u>7,127,960</u>	<u>8,245,339</u>	<u>131,102</u>
Total net assets	<u>\$ 37,632,754</u>	<u>\$ 14,367,034</u>	<u>\$ 51,999,788</u>	<u>\$ 131,102</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities:			
General government:			
Legislative and executive	\$ 3,750,212	\$ 1,093,388	\$ 4,120
Judicial	1,659,161	568,362	389,416
Public safety	4,823,135	1,216,056	461,079
Public works	4,041,305	521	4,051,839
Health	2,104,859	340,718	905,748
Human services	7,997,436	524,683	8,503,158
Economic development and assistance	49,156	4,566	10,111
Intergovernmental	449,047	-	-
Other	679,464	160,988	492,048
Interest and fiscal charges	222,368	-	-
Total governmental activities	<u>25,776,143</u>	<u>3,909,282</u>	<u>14,817,519</u>
Business-type Activities:			
Morrow County Hospital	28,716,263	27,019,470	-
Ketterman Project	24,740	32,592	-
Total business-type activities	<u>28,741,003</u>	<u>27,052,062</u>	<u>-</u>
Total primary government	<u>\$ 54,517,146</u>	<u>\$ 30,961,344</u>	<u>\$ 14,817,519</u>
Component Unit:			
Whetstone Industries, Inc.	<u>\$ 536,211</u>	<u>\$ 474,106</u>	<u>\$ 75,193</u>

General Revenues:

Property taxes levied for:
General purposes
Special purposes
Sales taxes levied for:
General purposes
Grants and entitlements not restricted to specific programs
Investment earnings
Miscellaneous
Total general revenues
Transfers
Total general revenues and transfers
Change in net assets
Net assets, January 1
Net assets, December 31

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (2,652,704)	\$ -	\$ (2,652,704)	\$ -
(701,383)	-	(701,383)	-
(3,146,000)	-	(3,146,000)	-
11,055	-	11,055	-
(858,393)	-	(858,393)	-
1,030,405	-	1,030,405	-
(34,479)	-	(34,479)	-
(449,047)	-	(449,047)	-
(26,428)	-	(26,428)	-
(222,368)	-	(222,368)	-
<u>(7,049,342)</u>	<u>-</u>	<u>(7,049,342)</u>	<u>-</u>
-	(1,696,793)	(1,696,793)	-
-	7,852	7,852	-
<u>-</u>	<u>(1,688,941)</u>	<u>(1,688,941)</u>	<u>-</u>
<u>(7,049,342)</u>	<u>(1,688,941)</u>	<u>(8,738,283)</u>	<u>-</u>
-	-	-	13,088
2,357,030	-	2,357,030	-
2,055,948	-	2,055,948	-
2,888,689	-	2,888,689	-
746,233	-	746,233	-
774,071	241,853	1,015,924	-
<u>552,033</u>	<u>2,014,598</u>	<u>2,566,631</u>	<u>3,083</u>
9,374,004	2,256,451	11,630,455	3,083
<u>13,852</u>	<u>(13,852)</u>	<u>-</u>	<u>-</u>
<u>9,387,856</u>	<u>2,242,599</u>	<u>11,630,455</u>	<u>3,083</u>
2,338,514	553,658	2,892,172	16,171
<u>35,294,240</u>	<u>13,813,376</u>	<u>49,107,616</u>	<u>114,931</u>
<u>\$ 37,632,754</u>	<u>\$ 14,367,034</u>	<u>\$ 51,999,788</u>	<u>\$ 131,102</u>

MORROW COUNTY, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	General	Emergency Squad	Motor Vehicle & Gas Tax	Public Assistance
Assets:				
Equity in pooled cash and cash equivalents	\$ 920,590	\$ 49,057	\$ 1,081,303	\$ 1,028,819
Receivables (net of allowance for uncollectibles):				
Sales taxes	442,113	-	-	-
Property and other local taxes	2,024,656	1,477,366	-	-
Accounts	200,172	-	10,729	4,926
Special assessments	-	-	-	-
Accrued interest	99,416	-	-	-
Due from other funds	17,246	-	56,579	232,482
Due from other governments	383,994	65,706	1,906,529	506,619
Loans receivable	-	-	-	-
Prepayments	94,501	-	27,775	77,685
Materials and supplies inventory	22,831	-	57,711	6,292
Total assets	<u>\$ 4,205,519</u>	<u>\$ 1,592,129</u>	<u>\$ 3,140,626</u>	<u>\$ 1,856,823</u>
Liabilities:				
Accounts payable	\$ 170,967	\$ -	\$ 132,871	\$ 197,501
Accrued wages and benefits	96,093	-	30,297	42,318
Compensated absences payable	4,255	-	-	-
Due to other funds	100,568	-	3,752	1,978
Due to other governments	152,260	-	71,144	58,617
Deferred revenue	567,637	212,460	707,944	-
Unearned revenue	1,789,850	1,330,612	-	-
Total liabilities	<u>2,881,630</u>	<u>1,543,072</u>	<u>946,008</u>	<u>300,414</u>
Fund Balances:				
Reserved for encumbrances	166,390	-	203,109	416,795
Reserved for materials and supplies inventory	22,831	-	57,711	6,292
Reserved for debt service	-	-	-	-
Reserved for prepayments	94,501	-	27,775	77,685
Reserved for notes receivable	-	-	-	-
Reserved for unclaimed monies	74,893	-	-	-
Unreserved, undesignated, reported in:				
General fund	965,274	-	-	-
Special revenue funds	-	49,057	1,906,023	1,055,637
Capital projects funds	-	-	-	-
Total fund balances	<u>1,323,889</u>	<u>49,057</u>	<u>2,194,618</u>	<u>1,556,409</u>
Total liabilities and fund balances	<u>\$ 4,205,519</u>	<u>\$ 1,592,129</u>	<u>\$ 3,140,626</u>	<u>\$ 1,856,823</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MR/DD	Other Governmental Funds	Total Governmental Funds
\$ 744,820	\$ 5,123,974	\$ 8,948,563
-	8,386	450,499
936,852	-	4,438,874
50,322	69,897	336,046
-	19,270	19,270
-	498	99,914
4,375	42,009	352,691
282,290	1,342,921	4,488,059
-	914,285	914,285
18,947	14,417	233,325
-	-	86,834
<u>\$ 2,037,606</u>	<u>\$ 7,535,657</u>	<u>\$ 20,368,360</u>
\$ 19,867	\$ 152,634	\$ 673,840
24,781	29,956	223,445
-	7,188	11,443
50	246,343	352,691
35,504	304,970	622,495
254,913	1,147,903	2,890,857
826,786	-	3,947,248
<u>1,161,901</u>	<u>1,888,994</u>	<u>8,722,019</u>
114,418	514,608	1,415,320
-	-	86,834
-	996,937	996,937
18,947	14,417	233,325
-	914,285	914,285
-	-	74,893
-	-	965,274
742,340	2,209,168	5,962,225
-	997,248	997,248
<u>875,705</u>	<u>5,646,663</u>	<u>11,646,341</u>
<u>\$ 2,037,606</u>	<u>\$ 7,535,657</u>	<u>\$ 20,368,360</u>

MORROW COUNTY, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007

Total governmental fund balances		\$ 11,646,341
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		30,014,968
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Delinquent property taxes	\$ 491,626	
Special assessments	19,270	
Charges for services	46,731	
Accrued interest	63,227	
Intergovernmental revenues	<u>2,270,003</u>	
Total		2,890,857
An internal service fund is used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets. The net assets of the internal service fund are:		(373,921)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest payable	(93,022)	
General obligation bonds	(2,035,000)	
Notes payable	(3,057,000)	
OWDA loans payable	(100,107)	
Loans payable	(247,532)	
Capital lease payable	(266,955)	
Compensated absences	<u>(745,875)</u>	
Total		<u>(6,545,491)</u>
Net assets of governmental activities		<u><u>\$ 37,632,754</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	General	Emergency Squad	Motor Vehicle & Gas Tax	Public Assistance
Revenues:				
Property taxes	\$ 2,374,362	\$ 1,091,882	\$ -	\$ -
Sales taxes	2,789,890	-	-	-
Charges for services	1,247,020	-	-	80,412
Licenses and permits	2,441	-	-	-
Fines and forfeitures	772,132	-	521	-
Intergovernmental	744,878	-	4,135,836	6,604,922
Special assessments	-	-	-	-
Investment income	597,496	-	69,361	-
Rental income	-	-	-	-
Other	21,492	-	19,411	43,662
Total revenues	<u>8,549,711</u>	<u>1,091,882</u>	<u>4,225,129</u>	<u>6,728,996</u>
Expenditures:				
Current:				
General government:				
Legislative and executive	3,017,250	-	-	-
Judicial	1,148,187	-	-	-
Public safety	3,369,917	1,085,657	-	-
Public works	-	-	3,955,172	-
Health	74,699	-	-	-
Human Services	479,852	-	-	5,495,517
Economic development and assistance	44,177	-	-	-
Other	2,659	-	-	-
Intergovernmental	416,488	-	-	-
Capital outlay	49,025	-	-	10,695
Debt service:				
Principal retirement	94,565	-	-	574
Interest and fiscal charges	16,084	-	-	280
Note issuance costs	-	-	-	-
Total expenditures	<u>8,712,903</u>	<u>1,085,657</u>	<u>3,955,172</u>	<u>5,507,066</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(163,192)</u>	<u>6,225</u>	<u>269,957</u>	<u>1,221,930</u>
Other financing sources (uses):				
Sale of capital assets	17,822	-	-	-
Sale of notes	-	-	-	-
Premium on note issuance	-	-	-	-
Loan issuance	-	-	-	-
Capital lease transactions	38,969	-	-	10,695
Transfers in	-	-	-	-
Transfers out	(140,000)	-	-	-
Total other financing sources (uses)	<u>(83,209)</u>	<u>-</u>	<u>-</u>	<u>10,695</u>
Net change in fund balances	(246,401)	6,225	269,957	1,232,625
Fund balances at beginning of year	<u>1,570,290</u>	<u>42,832</u>	<u>1,924,661</u>	<u>323,784</u>
Fund balances at end of year	<u>\$ 1,323,889</u>	<u>\$ 49,057</u>	<u>\$ 2,194,618</u>	<u>\$ 1,556,409</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MR/DD	Other Governmental Funds	Total Governmental Funds
\$ 982,746	\$ -	\$ 4,448,990
-	98,799	2,888,689
25,469	1,002,585	2,355,486
-	119,225	121,666
-	109,423	882,076
833,058	2,736,718	15,055,412
-	160,886	160,886
-	52,310	719,167
147,237	350,799	498,036
172,613	299,915	557,093
<u>2,161,123</u>	<u>4,930,660</u>	<u>27,687,501</u>
-	619,070	3,636,320
-	489,274	1,637,461
-	215,254	4,670,828
-	-	3,955,172
1,894,753	159,355	2,128,807
18,539	1,801,359	7,795,267
-	6,089	50,266
25,160	650,248	678,067
-	32,559	449,047
63,516	778,433	901,669
17,103	3,312,566	3,424,808
4,745	250,625	271,734
-	7,935	7,935
<u>2,023,816</u>	<u>8,322,767</u>	<u>29,607,381</u>
<u>137,307</u>	<u>(3,392,107)</u>	<u>(1,919,880)</u>
-	-	17,822
-	3,057,000	3,057,000
-	35,196	35,196
-	253,000	253,000
63,516	-	113,180
-	153,852	153,852
-	-	(140,000)
<u>63,516</u>	<u>3,499,048</u>	<u>3,490,050</u>
200,823	106,941	1,570,170
674,882	5,539,722	10,076,171
<u>\$ 875,705</u>	<u>\$ 5,646,663</u>	<u>\$ 11,646,341</u>

MORROW COUNTY, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

Net change in fund balances - total governmental funds \$ 1,570,170

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Capital asset additions	\$	2,328,283	
Current year depreciation		(1,955,158)	
Total		373,125	373,125

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (8,690)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent property taxes		(36,012)	
Intergovernmental		352,741	
Charges for services		46,731	
Special assessments		(5,060)	
Interest		54,904	
Total		413,304	413,304

The issuance of notes, loans and capital leases transactions are recorded as an other financing source in the governmental funds, however, issuing debt increases long-term liabilities on the statement of net assets. (3,423,180)

Repayment of bonds, loans, notes and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 3,424,808

On the statement of activities, interest is accrued on outstanding bonds, loans, and notes whereas in governmental funds, an interest expenditure is reported when due. 22,105

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (4,159)

An internal service fund used by management to charge the costs of health insurance to individual funds is not reported in the entity-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (28,969)

Change in net assets of governmental activities \$ 2,338,514

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 2,216,422	\$ 2,348,573	\$ 2,364,500	\$ 15,927
Sales taxes	2,509,464	2,659,087	2,755,065	95,978
Charges for services	995,560	1,054,919	1,176,808	121,889
Licenses and permits.	2,123	2,250	2,366	116
Fines and forfeitures.	632,394	670,100	751,750	81,650
Intergovernmental	761,717	807,134	854,476	47,342
Investment income	622,862	660,000	692,786	32,786
Other	100,102	106,071	106,716	645
Total revenues.	<u>7,840,644</u>	<u>8,308,134</u>	<u>8,704,467</u>	<u>396,333</u>
Expenditures:				
Current:				
General government:				
Legislative and executive	3,127,004	3,296,447	3,250,906	45,541
Judicial.	1,078,131	1,136,551	1,113,193	23,358
Public safety	3,216,239	3,390,517	3,391,616	(1,099)
Health	77,637	81,844	81,149	695
Human services	470,544	496,041	496,137	(96)
Economic development and assistance	44,290	46,690	45,162	1,528
Other	90,687	95,601	95,357	244
Intergovernmental	395,080	416,488	416,488	-
Capital outlay	21,887	23,073	23,073	-
Total expenditures	<u>8,521,499</u>	<u>8,983,252</u>	<u>8,913,081</u>	<u>70,171</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(680,855)</u>	<u>(675,118)</u>	<u>(208,614)</u>	<u>466,504</u>
Other financing sources (uses):				
Sale of capital assets	6,700	7,100	17,822	10,722
Transfers out	(134,653)	(143,159)	(140,000)	3,159
Total other financing sources (uses)	<u>(127,953)</u>	<u>(136,059)</u>	<u>(122,178)</u>	<u>13,881</u>
Net change in fund balance	(808,808)	(811,177)	(330,792)	480,385
Fund balance at beginning of year	580,499	580,499	580,499	-
Prior year encumbrances appropriated	<u>346,750</u>	<u>346,750</u>	<u>346,750</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 118,441</u>	<u>\$ 116,072</u>	<u>\$ 596,457</u>	<u>\$ 480,385</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 EMERGENCY SQUAD
 FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 1,260,000	\$ 1,260,000	\$ 1,085,657	\$ (174,343)
Total revenues.	<u>1,260,000</u>	<u>1,260,000</u>	<u>1,085,657</u>	<u>(174,343)</u>
Expenditures:				
Current:				
Public safety	1,260,000	1,260,000	1,085,657	174,343
Total expenditures	<u>1,260,000</u>	<u>1,260,000</u>	<u>1,085,657</u>	<u>174,343</u>
Net change in fund balance	-	-	-	-
Fund balance at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at end of year.	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 MOTOR VEHICLE AND GAS TAX
 FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Fines and forfeitures.	\$ -	\$ -	\$ 505	\$ 505
Intergovernmental	3,379,645	3,500,000	3,734,391	234,391
Investment income	28,968	30,000	12,782	(17,218)
Other.	<u>177,387</u>	<u>183,704</u>	<u>29,315</u>	<u>(154,389)</u>
Total revenues	<u>3,586,000</u>	<u>3,713,704</u>	<u>3,776,993</u>	<u>63,289</u>
Expenditures:				
Current:				
Public works	<u>4,007,849</u>	<u>4,585,590</u>	<u>4,252,517</u>	<u>333,073</u>
Total expenditures	<u>4,007,849</u>	<u>4,585,590</u>	<u>4,252,517</u>	<u>333,073</u>
Net change in fund balance	(421,849)	(871,886)	(475,524)	396,362
Fund balance at beginning of year	953,808	953,808	953,808	-
Prior year encumbrances appropriated	<u>279,626</u>	<u>279,626</u>	<u>279,626</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 811,585</u>	<u>\$ 361,548</u>	<u>\$ 757,910</u>	<u>\$ 396,362</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 PUBLIC ASSISTANCE
 FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for services	\$ 49,756	\$ 60,000	\$ 71,709	\$ 11,709
Intergovernmental	5,043,781	6,082,199	6,120,559	38,360
Other	<u>41,463</u>	<u>50,000</u>	<u>46,280</u>	<u>(3,720)</u>
Total revenues	<u>5,135,000</u>	<u>6,192,199</u>	<u>6,238,548</u>	<u>46,349</u>
Expenditures:				
Current:				
Human services	<u>5,707,845</u>	<u>6,736,648</u>	<u>6,494,560</u>	<u>242,088</u>
Total expenditures	<u>5,707,845</u>	<u>6,736,648</u>	<u>6,494,560</u>	<u>242,088</u>
Net change in fund balance	(572,845)	(544,449)	(256,012)	288,437
Fund balance at beginning of year	71,692	71,692	71,692	-
Prior year encumbrances appropriated	<u>510,299</u>	<u>510,299</u>	<u>510,299</u>	<u>-</u>
Fund balance at end of year	<u>\$ 9,146</u>	<u>\$ 37,542</u>	<u>\$ 325,979</u>	<u>\$ 288,437</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 MR/DD
 FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 900,000	\$ 900,000	\$ 978,107	\$ 78,107
Charges for services	20,000	20,000	25,840	5,840
Intergovernmental	566,000	566,000	754,088	188,088
Rental income	127,000	127,000	198,828	71,828
Other	253,000	253,000	225,987	(27,013)
Total revenues.	<u>1,866,000</u>	<u>1,866,000</u>	<u>2,182,850</u>	<u>316,850</u>
Expenditures:				
Current:				
Health	2,207,751	2,210,055	2,050,006	160,049
Human services	20,523	20,544	20,468	76
Other	31,700	31,733	29,733	2,000
Total expenditures	<u>2,259,974</u>	<u>2,262,332</u>	<u>2,100,207</u>	<u>162,125</u>
Net change in fund balance	(393,974)	(396,332)	82,643	478,975
Fund balance at beginning of year	385,142	385,142	385,142	-
Prior year encumbrances appropriated	105,974	105,974	105,974	-
Fund balance at end of year.	<u>\$ 97,142</u>	<u>\$ 94,784</u>	<u>\$ 573,759</u>	<u>\$ 478,975</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2007

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Morrow County Hospital	Nonmajor	Total	
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ -	\$ 100,098	\$ 100,098	\$ 6,017
Cash and cash equivalent in segregated accounts . . .	547,730	-	547,730	-
Investments	300,000	-	300,000	-
Receivables (net of allowance for uncollectibles):				
Property and other local taxes.	1,250,000	-	1,250,000	-
Accounts	4,954,795	1,468	4,956,263	358
Physician advances.	65,589	-	65,589	-
Materials and supplies inventory	400,748	-	400,748	-
Prepayments.	481,303	-	481,303	-
Total current assets.	<u>8,000,165</u>	<u>101,566</u>	<u>8,101,731</u>	<u>6,375</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents in segregated accounts. . .	1,727,618	-	1,727,618	-
Investments.	2,356,272	-	2,356,272	-
Investments.	315,723	-	315,723	-
Physician advances.	60,751	-	60,751	-
Capital assets:				
Land and construction in progress	528,374	-	528,374	-
Depreciable capital assets, net	9,903,689	205,100	10,108,789	-
Total capital assets	<u>10,432,063</u>	<u>205,100</u>	<u>10,637,163</u>	<u>-</u>
Total noncurrent assets	<u>14,892,427</u>	<u>205,100</u>	<u>15,097,527</u>	<u>-</u>
Total assets	<u>22,892,592</u>	<u>306,666</u>	<u>23,199,258</u>	<u>6,375</u>
Liabilities:				
Current liabilities:				
Accounts payable	1,620,759	-	1,620,759	-
Accrued wages and benefits	1,457,815	-	1,457,815	-
Deferred revenue	1,250,000	-	1,250,000	-
Cost report settlement payable.	316,777	-	316,777	-
Accrued interest payable	15,305	-	15,305	-
Claims and judgements payable.	-	-	-	380,296
Other accrued liabilities.	311,206	-	311,206	-
Compensated absences.	462,273	-	462,273	-
Lease purchase agreement - current	539,981	-	539,981	-
Capital lease payable - current.	241,723	-	241,723	-
Total current liabilities	<u>6,215,839</u>	<u>-</u>	<u>6,215,839</u>	<u>380,296</u>
Noncurrent liabilities:				
Lease purchase agreement	2,334,153	-	2,334,153	-
Capital lease obligations	282,232	-	282,232	-
Total noncurrent liabilities	<u>2,616,385</u>	<u>-</u>	<u>2,616,385</u>	<u>-</u>
Total liabilities	<u>8,832,224</u>	<u>-</u>	<u>8,832,224</u>	<u>380,296</u>
Net assets:				
Invested in capital assets, net of related debt.	7,033,974	205,100	7,239,074	-
Unrestricted (deficit).	7,026,394	101,566	7,127,960	(373,921)
Total net assets (deficit).	<u>\$ 14,060,368</u>	<u>\$ 306,666</u>	<u>\$ 14,367,034</u>	<u>\$ (373,921)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Business-type Activities - Enterprise Funds			Governmental
	Morrow County Hospital	Nonmajor	Total	Activities - Internal Service Fund
Operating revenues:				
Charges for services	\$ -	\$ 32,592	\$ 32,592	\$ 2,719,847
Patient service revenue, net	27,019,470	-	27,019,470	-
Other operating revenue	730,468	-	730,468	-
Total operating revenues	27,749,938	32,592	27,782,530	2,719,847
Operating expenses:				
Personal services	14,253,489	-	14,253,489	-
Contractual services.	6,455,589	17,493	6,473,082	-
Materials and supplies	5,473,785	460	5,474,245	-
Depreciation	1,388,381	5,127	1,393,508	-
Claims	-	-	-	2,748,816
Other	899,330	1,660	900,990	-
Total operating expenses.	28,470,574	24,740	28,495,314	2,748,816
Operating income (loss)	(720,636)	7,852	(712,784)	(28,969)
Nonoperating revenues (expenses):				
Interest and fiscal charges	(245,689)	-	(245,689)	-
Property taxes	1,284,130	-	1,284,130	-
Interest income.	241,853	-	241,853	-
Total nonoperating revenues (expenses)	1,280,294	-	1,280,294	-
Income (loss) before transfers	559,658	7,852	567,510	(28,969)
Transfers out.	-	(13,852)	(13,852)	-
Changes in net assets	559,658	(6,000)	553,658	(28,969)
Net assets (deficit), January 1.	13,500,710	312,666	13,813,376	(344,952)
Net assets (deficit), December 31.	\$ 14,060,368	\$ 306,666	\$ 14,367,034	\$ (373,921)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2007

	Business-type Activities - Enterprise Funds			Governmental
	Morrow County			Activities -
	Hospital	Nonmajor	Total	Internal
				Service Funds
Cash flows from operating activities:				
Cash received from customers	\$ -	\$ 31,402	\$ 31,402	\$ 2,719,489
Cash received from patients and third-party payors. . .	26,325,118	-	26,325,118	-
Cash received from other operations.	730,468	-	730,468	-
Cash payments to suppliers for services and goods. . .	(12,816,219)	(17,493)	(12,833,712)	-
Cash payments for employees for services.	(14,193,119)	-	(14,193,119)	-
Cash payments for materials and supplies	-	(460)	(460)	-
Cash payments for claims	-	-	-	(2,757,866)
Cash payments for other operations	-	(1,660)	(1,660)	-
Net cash provided by (used in) operating activities. .	46,248	11,789	58,037	(38,377)
Cash flows from noncapital financing activities:				
Cash payments for transfers out.	-	(13,852)	(13,852)	-
Net cash (used in) noncapital financing activities	-	(13,852)	(13,852)	-
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(1,175,192)	-	(1,175,192)	-
Property tax levy.	1,284,130	-	1,284,130	-
Principal payments on long-term debt	(760,092)	-	(760,092)	-
Interest paid on long-term debt	(248,404)	-	(248,404)	-
Net cash used in capital and related financing activities	(899,558)	-	(899,558)	-
Cash flows from investing activities:				
Interest received.	241,853	1,072	242,925	-
Purchase of investments.	(1,750,375)	-	(1,750,375)	-
Decrease in assets limited as to use.	8,378	-	8,378	-
Proceeds from sale of investments	2,206,888	-	2,206,888	-
Net cash provided by investing activities.	706,744	1,072	707,816	-
Net decrease in cash and cash equivalents.	(146,566)	(991)	(147,557)	(38,377)
Cash and cash equivalents at beginning of year. . .	2,737,637	101,089	2,838,726	44,394
Cash and cash equivalents at end of year.	\$ 2,591,071	\$ 100,098	\$ 2,691,169	\$ 6,017

- - continued

MORROW COUNTY, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Morrow County</u>			<u>Activities -</u>
	<u>Hospital</u>	<u>Nonmajor</u>	<u>Total</u>	<u>Internal</u>
				<u>Service Funds</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (720,636)	\$ 7,852	\$ (712,784)	\$ (28,969)
Adjustments:				
Depreciation	1,388,381	5,127	1,393,508	-
Provision for bad debts.	2,839,002	-	2,839,002	-
Forgiveness of physician advances.	101,676	-	101,676	-
Changes in assets and liabilities:				
Increase in materials and supplies inventory.	(2,767)	-	(2,767)	-
Increase in accounts receivable.	-	(1,190)	(1,190)	(358)
Decrease in other current assets.	180,678	-	180,678	-
Increase in patient accounts receivable.	(3,505,981)	-	(3,505,981)	-
Decrease in accounts payable.	(121,051)	-	(121,051)	-
Decrease in third party settlements payable.	(27,373)	-	(27,373)	-
Decrease in accrued expenses	(85,681)	-	(85,681)	-
Decrease in claims payable.	-	-	-	(9,050)
Net cash provided by (used in) operating activities. . .	<u>\$ 46,248</u>	<u>\$ 11,789</u>	<u>\$ 58,037</u>	<u>\$ (38,377)</u>

Non-cash transactions:

Equipment obtained via capital lease during 2007 amounted to \$135,516 in the Morrow County Hospital fund.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 DECEMBER 31, 2007

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 2,935,554
Cash and cash equivalents in segregated accounts. . .	944,792
Receivables (net of allowance for uncollectibles):	
Special assessments	19,270
Real and other taxes	24,590,529
Due from other governments	1,557,917
 Total assets	 \$ 30,048,062
 Liabilities:	
Accounts payable.	\$ 36,373
Due to other governments	25,384,709
Undistributed assets.	4,626,980
 Total liabilities	 \$ 30,048,062

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 1 - DESCRIPTION OF THE COUNTY

Morrow County, Ohio (the "County"), was created in 1848. The County is governed by a board of three commissioners elected by the voters of the County. Other officials elected by the voters of the County that manage various segments of the County's operations are the Auditor, Treasurer, Recorder, Clerk of Courts, Coroner, Engineer, Prosecuting Attorney, Sheriff, and a Common Pleas/Probate/Juvenile Court Judge. Although the elected officials manage the internal operations of their respective departments, the County Commissioners authorize expenditures as well as serve as the budget and taxing authority, contracting body, and the chief administrators of public services for the entire County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the County have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The County also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The County has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The County has elected not to apply these FASB Statements and Interpretations.

The most significant of the County's accounting policies are described below.

A. Reporting Entity

The County's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity", as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". The basic financial statements (BFS) include all funds, agencies, boards, commissions, and component units for which the County and the County Commissioners are "accountable". Accountability as defined in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the County and whether exclusion would cause the County's basic financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of the PCU's board; fiscal dependency and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the County.

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the County. For the County, this includes the Morrow County Board of Mental Retardation and Developmental Disabilities (MR/DD); the Children Services Board; the Morrow County Hospital and Foundation; and other departments and activities that are directly operated by the elected County officials.

The Morrow County Hospital and the Morrow County Hospital Foundation (collectively, the "Hospital") are part of the County's primary government. The Morrow County Hospital is an acute and extended care facility and the Morrow County Hospital Foundation supports the Hospital and community programs to improve the health and well-being of the people served by the Hospital.

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Based on the foregoing criteria, the financial activities of the following PCUs have been reflected in the accompanying basic financial statements as:

DISCRETELY PRESENTED COMPONENT UNIT

Whetstone Industries, Inc. - Whetstone Industries, Inc. (the "Workshop") is a legally separate, not-for-profit corporation, served by a self-appointing Board of Trustees. The Workshop, under a contractual agreement with the MR/DD Board, provides sheltered, transitional, and outside employment for mentally retarded or handicapped adults in Morrow County. The MR/DD Board provides the Workshop with available resources and staff for operation of the Workshop. Based on the significant resources and services provided by the County to the Workshop and the Workshop's sole purpose of providing assistance to retarded and handicapped adults of the County, the Workshop is reflected as a discretely presented component unit of the County. It is reported separately to emphasize that it is legally separate from the County. Separately issued financial statements can be obtained from Whetstone Industries, Inc., Mt. Gilead, Ohio. See Note 23 for more information of the Workshop's accounting policies.

EXCLUDED POTENTIAL COMPONENT UNITS

As counties are structured in Ohio, the County Auditor and County Treasurer, respectively, serve as fiscal officer and custodian of funds for various agencies, boards, and commissions. As fiscal officer, the County Auditor certifies the availability of cash and appropriations prior to the processing of payments and purchases. As the custodian of all public funds, the County Treasurer invests public monies held on deposit in the County Treasury.

In the case of the separate agencies, boards, and commissions listed below, the County serves as fiscal agent and custodian, but is not accountable; therefore the operations of the following PCUs have been excluded from the County's BFS, but the funds held on behalf of these PCUs in the County Treasury are included in the agency funds within the BFS.

Morrow County Soil and Water Conservation District

Morrow County Disaster Services

Morrow County Law Library

Morrow County General Health District

Morrow County Air Facility

Information in the notes to the financial statements is applicable to the primary government. When information is provided relative to the component unit, it is specifically identified.

JOINTLY GOVERNED ORGANIZATIONS

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

JOINT VENTURE WITHOUT EQUITY INTEREST

Delaware-Morrow Mental Health and Recovery Services Board - The Delaware-Morrow Mental Health and Recovery Services Board (the "Board") is a joint venture between Delaware and Morrow Counties. The headquarters for the Board is in Delaware County. The Board provides mental health and recovery services. Statutorily created, the Board is made up of eighteen members, with ten appointed by the County Commissioners, four by the State Director of Alcohol and Drug Addiction Services, and four by the State Director of Mental Health. The County Commissioners' appointments are based on county population. Four of the ten members are appointed by the County Commissioners from Morrow County while six are appointed by the County Commissioners of Delaware County. Revenues to provide mental health and recovery services are generated through a one mill tax levy and through state and federal grants.

The Board does not have any outstanding debt. The Board is not accumulating significant financial resources nor experiencing fiscal stress that may cause an additional benefit or burden to the County. The existence of the Board depends upon the continuing participation of the County; however, the County does not have an equity interest in the Board. Separate financial statements may be obtained by contacting the Delaware-Morrow Health and Recovery Services Board, 40 North Sandusky Street, Suite 301, Delaware, Ohio 43015.

JOINTLY GOVERNED ORGANIZATION

Delaware-Knox-Marion-Morrow Joint Solid Waste District - The Delaware-Knox-Marion-Morrow Joint Solid Waste District (the "District") makes the disposal of waste in the four county area more comprehensive in terms of recycling, incinerating, and land filling. The Board of Directors consists of twelve members: the three county commissioners of each of the four counties. The Board exercises total control over the operation of the District including budgeting, appropriating, contracting, and designating management; however, the County has no ongoing financial interest or responsibility for the District. Most of the District's revenue was received from private haulers. Information can be obtained from the Delaware-Knox-Marion-Morrow Joint Solid Waste Management District, 222 West Center Street, Marion, Ohio 43302.

B. Basis of Presentation

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the County that are governmental and those that are considered business-type activities.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The statement of net assets presents the financial condition of the governmental and business-type activities of the County at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the County's governmental activities and for the business-type activities of the County. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. The policy of the County is to not allocate indirect expenses to functions in the statement of activities. Program revenues 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. Revenues, which are not classified as program revenues, are presented as general revenues of the County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues 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 proprietary 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. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activities of the proprietary funds. For the County, these revenues are primarily patient service revenue for the Hospital, and charges for services for the Ketterman project and self-insurance program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund.

C. 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. There are three categories of funds: governmental, proprietary and fiduciary.

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

General - This is the primary operating fund of the County. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Emergency Squad - This fund accounts for the operation of the County's emergency squad.

Motor Vehicle & Gas Tax - This fund accounts for monies received by the County for state gasoline tax and vehicle registration fees used for County road and bridge maintenance, construction and improvements.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Public Assistance - This fund accounts for various federal and state grants, as well as transfer from the general fund used to provide public assistance to general relief recipients, pay their providers for medical assistance, and for certain public social services.

Board of Mental Retardation and Developmentally Disabled (MR/DD) - This fund accounts for the operation of a school and the costs of administering a workshop for the mentally retarded and developmentally disabled. Revenue sources include a countywide property tax levy and federal and state grants.

Other governmental funds of the County are used to account for (a) the accumulation of resources for, and payment of, long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The County has presented the following major proprietary fund:

Morrow County Hospital - This fund accounts for the operation of the County Hospital and the Hospital Foundation. The cost of operating the Hospital facility is financed primarily through user patient services revenues.

The County has one non-major enterprise fund to account for the Ketterman sewer operations.

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the County on a cost-reimbursement basis. The County's internal service fund accounts for a self-insurance program for employee health insurance benefits.

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 has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The County's fiduciary funds are agency funds which are used to account for property taxes, special assessments, and other "pass through" monies to be distributed to local governments other than the County.

COMPONENT UNIT

Component Unit - Component units are either legally separate organizations for which the elected officials of the County are not financially accountable, or legally separate organizations for which the nature and significance of its relationship with the County is such that exclusion would not cause the County's financial statement to be misleading or incomplete. The County considers Whetstone Industries, Inc. to be a separate discretely presented component unit of the County (see Note 23).

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the County are included on the statement of net assets.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the County finances and meets the cash flow needs of its proprietary activities.

Agency funds do not report a measurement focus as they do not report operations.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. Government-wide financial statements are prepared using the full accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the full accrual basis of accounting. Differences in the full accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the full accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the County, available means expected to be received within sixty days of year-end.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Nonexchange transactions, in which the County receives value without directly giving equal value in return, include sales taxes, property taxes, grants, entitlements and donations. On a full accrual basis, revenue from sales taxes is recognized in the year in which the sales are made. On a full accrual basis, revenues from sales taxes is recognized in the year in which the sales are made (see Note 7). Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the County must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the County on a reimbursement basis. On a modified accrual basis, revenue from all other nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: sales tax, interest, federal and state grants and subsidies, state-levied locally shared taxes (including motor vehicle license fees and gasoline taxes), fees and rentals.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2007, but which were levied to finance year 2008 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as unearned revenue. Special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2007, are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

Expense/Expenditures - On the full accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriation Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All funds, other than agency funds, are legally required to be budgeted and appropriated. The level of budgetary control is at the object level within each department. Although the legal level of budgetary control was established at the object level within each department level of expenditures, the County has elected to present budgetary statement comparisons at the fund and function levels of expenditures. Budgetary modifications may only be made by resolution of the County Commissioners.

Budgetary information for the Whetstone Industries Inc. and the Morrow County Hospital are not reported because they are not included in the entity for which the "appropriated budget" is adopted and separate budgetary financial records are not maintained.

Tax Budget - A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. The expressed purpose of the Tax Budget is to reflect the need for existing (or increased) tax rates.

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews revenue estimates. The Commission certifies its actions to the County by September 1. As part of this certification, the County receives the official Certificate of Estimated Resources, which states the projected revenue of each fund.

On or about January 1, the Certificate of Estimated Resources is amended to include unencumbered fund balances at December 31. Further amendments may be made during the year if the County Auditor determines that revenue to be collected will be greater than or less than the prior estimates and the Budget Commission finds the revised estimates to be reasonable. The amounts set forth in the budgetary statements represent estimates from the first (original budget) and final (final budget) amended certificates issued during 2007.

Appropriations - A temporary appropriations resolution to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriations resolution must be passed by April 1 of each year for the period January 1 to December 31. The appropriations resolution may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified.

The allocation of appropriations among departments and objects within a fund (the legal level of budgetary control) may be modified during the year by a resolution of the County Commissioners. Several supplemental appropriation resolutions were legally enacted by the County Commissioners during the year. In the budgetary statements, the original budgeted amounts represent the original budgeted appropriations that covered the entire year of 2007. The final budgeted figures reflect the original budgeted amounts plus all budgetary amendments and supplemental appropriations that were legally enacted during 2007.

Lapsing of Appropriations - At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and is not reappropriated.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Cash and Investments

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

During fiscal year 2007, investments were limited to U.S Government bonds, nonnegotiable certificates of deposit, a U.S. Government money market mutual fund and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

The County has invested funds in STAR Ohio during fiscal year 2007. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities Exchange Commission (SEC) as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2007.

Under existing Ohio Statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$597,496 which includes \$546,651 assigned from other County funds.

The County has segregated bank accounts for monies held separately from the County's central bank account. These interest-bearing depository accounts are presented on the financial statements as "Cash in Segregated Accounts" since they are not required to be deposited into the County treasury.

For presentation on the basic financial statements and for purposes of the statement of cash flows, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the County are considered to be cash equivalents. In addition, non-current investments in the Hospital fund are considered cash and cash equivalents for purposes of the statement of cash flows. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the County's investment account at year-end is provided in Note 4.

H. Inventories of Materials and Supplies

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption for the governmental funds and medical and office supplies and pharmaceutical products for the Hospital.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Capital Assets

Governmental capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The County maintains a capitalization threshold of \$5,000. The County's infrastructure consists of roads, bridges, culverts and sanitary sewers. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is also capitalized for the proprietary funds.

All reported capital assets are depreciated except for land and construction in process. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the County's historical records of necessary improvements and replacements. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land improvements	10 - 40 years	5 - 25 years
Buildings and improvements	20 - 50 years	10 - 40 years
Machinery and Equipment	5 - 50 years	5 - 20 years
Infrastructure	20 - 50 years	20 - 50 years
Vehicles	5 - 20 years	N/A

J. Compensated Absences

Compensated absences of the County consist of vacation leave, compensatory time and sick leave to the extent that payment to the employee for these absences is attributable to services already rendered and is not contingent on a specific event that is outside the control of the County and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for compensatory time is accrued by those employees that are exempt from overtime. A liability for sick leave is based on the sick leave accumulated at December 31, 2007, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. Sick leave benefits are accrued using the "Vesting" method. The County records a liability for accumulated unused vested sick leave for employees with at last fifteen years of service with the County or who are over fifty-five years of age.

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The total liability for vacation, compensatory time and sick leave payments has been calculated using pay rates in effect at December 31, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments.

County employees earn vacation at varying rates ranging from two to five weeks per year. Sick leave is accumulated at the rate of 4.6 hours per 80 hours worked. Vacation and sick leave are accumulated on an hours worked basis. Vacation pay is vested after one year and sick pay upon eligibility for retirement. Accumulated vacation cannot exceed three times the annual accumulation rate for an employee.

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the accounts "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

K. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2007, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

On the fund financial statements, reported prepayments are equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

L. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported in the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability in the fund financial statements when due.

M. Interfund Transactions

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

During the normal course of operations, the County has numerous transactions between funds. Transfers represent movement of resources from a fund receiving revenue to a fund through which those resources will be expended and are recorded as other financing sources (uses) in governmental funds and as transfers in proprietary funds. Interfund transactions that would be treated as revenues and expenditures/expenses if they involved organizations external to the County are treated similarly when involving other funds of the County.

Outstanding balances between funds for goods and services rendered are reported as “due to/from other funds.” These amounts are eliminated in the statement of net assets, except for any residual balances outstanding between the governmental activities and business-type activities, which are reported in the government-wide financial statements as “internal balances”. The County did not have any internal balances at December 31, 2007.

N. Fund Balance Reserves

Reserved fund balances indicate that a portion of fund equity is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The County reports amounts representing encumbrances outstanding, materials and supplies inventory, debt service, prepayments, notes receivable and unclaimed monies as reservations of fund balance in the governmental funds.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes consist primarily of programs to enhance the security of persons and property and the general government.

The County applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the County Commissioners and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2007.

Q. Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

R. Patient Accounts Receivable

For the Hospital, accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

The details of the patient accounts receivable are set forth below:

	<u>2007</u>
Patient accounts receivable	\$ 9,344,795
Less:	
Allowance for uncollectable accounts	(1,980,000)
Allowance for contractual adjustments	<u>(2,410,000)</u>
Net accounts receivable	<u>\$ 4,954,795</u>

The Hospital grants credit without collateral to patients, most of who are local residents and are insured under third-party payor agreement. The composition of receivables from patients and third-party payors was as follows:

	<u>2007</u>
Medicare	31.00%
Medicaid	11.00%
Commercial insurance and HMO's	35.00%
Self-pay	<u>23.00%</u>
Total	<u>100.00%</u>

S. Assets Limited as to Use

Assets limited as to use consist of invested funds designated by the Hospital's Board of Trustees for operations.

T. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. Management of the Hospital believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action, including fines penalties, and exclusions from Medicare and Medicaid programs.

U. Contributions

The Hospital reports gifts or property and equipment as unrestricted unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absence explicit donor stipulations about how long those long-lived assets must be maintained, the Hospital reports the expiration of donor restrictions when the assets are placed in service.

V. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. During 2007, the Hospital provided charity care of approximately \$577,000.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balance/Net Assets

Fund balances/net assets at December 31, 2007 included the following individual fund deficits:

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
OCJS Drug Court	\$ 64
Court Support Mediation	3
Self-Insurance Internal Service Fund	373,921

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances in the nonmajor governmental funds are the result of recording adjustments for accrued liabilities. The deficit net assets in the internal service fund are the result of recording an accrued liability for claims payable at year-end.

B. Change in Accounting Principles

For 2007, the County has implemented GASB Statement No. 48 "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues". GASB Statement No. 48 established criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the County.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS

Primary Government

State Statutes classify monies held by the County into three categories:

Active deposits are public deposits necessary to meet current demands on the treasury. Such 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.

Inactive deposits are public deposits not required for use within the current five year period of designation of depositories as defined by the County's investment policy. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits in interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items 1 or 2 above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio).

The County may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds and other obligations guaranteed by the United States;
2. Discount notes of the Federal National Mortgage Association;
3. Bonds of the State of Ohio; and

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

4. Bonds of any municipal corporation, village, county, township, or other political subdivision of Ohio, as to which there is no default of principal, interest or coupons;

Protection of the County’s deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the County, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits with Financial Institutions

At December 31, 2007, the carrying amount of all County deposits was \$14,976,624. As of December 31, 2007, \$13,861,968 of the County’s bank balance of \$15,819,791 was exposed to custodial risk as discussed below, while \$1,957,823 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the County will not be able to recover deposits or collateral securities that are in the possession of an outside party. As permitted by Ohio Revised Code, the County’s deposits are collateralized by a pool of eligible securities deposited with Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the depository bank and pledged as a pool of collateral against all public deposits held by the depository. The County has no deposit policy for custodial credit risk beyond the requirements of State Statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the County to a successful claim by the FDIC.

B. Investments

As of December 31, 2007, the County had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
U.S. Government money market mutual fund	\$ 512,784	\$ 512,784	\$ -	\$ -	\$ -	\$ -
U.S. Government bonds	2,356,272	-	-	-	-	2,356,272
STAR Ohio	336,687	336,687	-	-	-	-
	<u>\$ 3,205,743</u>	<u>\$ 849,471</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,356,272</u>

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

The weighted average maturity of investments is 2.04 years.

Interest Rate Risk: The Ohio Revised Code general limits security purchases to those that mature within five years of the settlement date. 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 the consideration of market conditions and cash flow requirements in determining the term of an investment.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's and the U.S. government money market mutual fund carries a rating is Aaa by Moody's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The County's investments in U.S. government bonds carry a rating of AAA by Standard & Poor's and Aaa by Moody's.

Custodial Credit Risk: 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 U.S. government bonds are exposed to custodial credit risk in that 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 requirement in State Statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The County's investment policy addresses concentration of credit risk by requiring investments to be diversified to reduce the risk of loss resulting from over concentration of assets in a specific issue or specific class of securities. The following table includes the percentage of each investment type held by the County at December 31, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
U.S. Government money market mutual fund	\$ 512,784	16.00
U.S. Government bonds	2,356,272	73.50
STAR Ohio	<u>336,687</u>	<u>10.50</u>
	<u>\$ 3,205,743</u>	<u>100.00</u>

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2007:

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ 14,976,624
Investments	3,205,743
Total	<u>\$ 18,182,367</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 8,954,580
Business-type activities	5,347,441
Agency funds	3,880,346
Total	<u>\$ 18,182,367</u>

D. Component Unit

At December 31, 2007, the carrying amount of the component unit's demand deposits was \$90,469 and the bank balance was \$90,469. The entire bank balance was covered by FDIC. See Note 23 for more information on the component unit's depository accounts.

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended December 31, 2007, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:	
Nonmajor enterprise fund	\$ 13,852
General fund	<u>140,000</u>
Total	<u>\$ 153,852</u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements. Interfund transfers between governmental activities and business-type activities are reported as transfers on the statement of activities.

All transfers were in compliance with Ohio Revised Code Sections 5705.14, 5705.15, and 5705.16.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

B. Due from/to other funds consisted of the following at December 31, 2007, as reported on the fund financial statements:

<u>Due From</u>	Due To					<u>Total</u> <u>Due from</u>
	<u>General</u>	<u>Motor Vehicle & Gas Tax</u>	<u>Public Assistance</u>	<u>MR/DD</u>	<u>Nonmajor Governmental</u>	
General	\$ -	\$ 3,752	\$ -	\$ 50	\$ 13,444	\$ 17,246
Motor Vehicle & Gas Tax	56,579	-	-	-	-	56,579
Public Assistance	8,895	-	-	-	223,587	232,482
MR/DD	-	-	1,978	-	2,397	4,375
Nonmajor Governmental	35,094	-	-	-	6,915	42,009
Total Due to	\$ 100,568	\$ 3,752	\$ 1,978	\$ 50	\$ 246,343	\$ 352,691

The balances resulted from the time lag between the dates that payments between the funds are made.

Amounts due to/from other funds between governmental funds are eliminated on the government-wide financial statements.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the County. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2007 public utility property taxes became a lien December 31, 2006, are levied after October 1, 2007, and are collected in 2008 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2007 (other than public utility property) represent the collection of 2007 taxes. Tangible personal property taxes received in 2007 were levied after October 1, 2006, on the true value as of December 31, 2006. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 12.5% for 2007. This percentage will be reduced to 6.25% 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.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 6 - PROPERTY TAXES - (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the County due to the phasing out of the tax. In calendar years 2007-2010, the County will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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 assessed value upon which the 2007 taxes were collected was \$639,091,210. The full tax rate for all County operations applied to real property for fiscal year ended December 31, 2007, was \$10.59 per \$1,000 of assessed valuation. The assessed values of real and tangible personal property upon which 2007 property tax receipts were based are as follows:

Real Property

Agricultural/Residential	\$ 556,207,870
Commercial/Industrial/Mineral	44,622,740
Tangible Personal Property	12,201,930
Public Utility	<u>26,058,670</u>
Total Assessed Value	<u>\$ 639,091,210</u>

"Property and other local taxes" receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2007 and for which there is an enforceable legal claim. In the governmental funds, the current portion of the receivable has been offset by "unearned revenue" since the current taxes were not levied to finance 2007 operations and the delinquent portion of the receivable has been offset by "deferred revenue" since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 7 - 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. Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies to the State Auditor the amount of the tax to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of the month of collection. The State Auditor then has five days in which to draw the warrant payable to the County.

Proceeds of the tax are credited entirely to the general fund. A receivable is recognized at year-end for amounts that will be received from sales which occurred during 2007 and amounts that are measurable and available at year-end are accrued as revenue. Amounts received outside the available period are recorded as deferred revenue on the fund financial statements and as revenue on the government-wide financial statements. Sales and use tax revenue for 2007 amounted to \$2,888,689 on the governmental fund financial statements.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2007, consisted of taxes, accounts (billings for user charged services), special assessments, accrued interest, notes and intergovernmental receivables arising from grants, notes entitlements and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the financial statements. Receivables have been recorded to the extent that they are measurable at December 31, 2007.

A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Property and other local taxes	\$ 4,438,874
Sales taxes	450,499
Accounts	336,404
Special assessments	19,270
Accrued interest	99,914
Due from other governments	4,488,059
Loans	914,285

Business-Type Activities:

Property and other local taxes	1,250,000
Accounts	4,956,263

Receivables have been disaggregated on the face of the financial statements. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessments and loans which will be collected over various terms of the loan agreements.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 9 - LOANS RECEIVABLE

A summary of the changes in loans receivable reported in the nonmajor governmental funds follows:

	<u>Balance</u> 12/31/06	<u>Loans</u> <u>Issued</u>	<u>Principal</u> <u>Received</u>	<u>Balance</u> 12/31/07
<u>Special Revenue Funds</u>				
Community Development Block and HOME				
Investments Partnerships Program Grants Commercial Loans	\$ 750,846	\$ 20,000	\$ (50,304)	\$ 720,542
Water/Sewer Revolving Loans	79,942	24,956	(28,844)	76,054
Rural Hardship Revolving Loans	<u>171,057</u>	<u>8,876</u>	<u>(62,244)</u>	<u>117,689</u>
Total	<u>\$ 1,001,845</u>	<u>\$ 53,832</u>	<u>\$ (141,392)</u>	<u>\$ 914,285</u>

NOTE 10 - RESTRICTED ASSETS

The Hospital has assets whose use is limited consisting of invested funds securing bank debt and invested funds designated by the Hospital's Board of Trustees for the replacement, improvement, and expansion of the Hospital's facilities. Investments consist principally of U.S. Government securities and are recorded at fair market value. The composition of assets whose use is limited at December 31, 2007, is set forth in the following table:

Board restricted for capital improvements:	
Cash and cash equivalents in segregated accounts	\$ 1,727,618
Investments	<u>2,356,272</u>
Total	<u>\$ 4,083,890</u>

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 11 - CAPITAL ASSETS

- A. A summary of the business-type activities capital assets for the fiscal year ended December 31, 2007 is as follows:

<u>Business-type Activities:</u>	Balance <u>12/31/06</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/07</u>
Land and improvements	\$ 546,059	\$ -	\$ -	\$ 546,059
Buildings	5,049,889	15,735	-	5,065,624
Equipment	14,419,521	1,092,432	-	15,511,953
Construction in progress	133,838	721,043	(518,502)	336,379
Infrastructure	<u>256,370</u>	<u>-</u>	<u>-</u>	<u>256,370</u>
Total	<u>20,405,677</u>	<u>1,829,210</u>	<u>(518,502)</u>	<u>21,716,385</u>
Less: accumulated depreciation:				
Land and improvements	(326,976)	(27,088)	-	(354,064)
Buildings	(2,390,880)	(223,702)	-	(2,614,582)
Equipment	(6,921,715)	(1,137,591)	-	(8,059,306)
Infrastructure	<u>(46,143)</u>	<u>(5,127)</u>	<u>-</u>	<u>(51,270)</u>
Total accumulated depreciated	<u>(9,685,714)</u>	<u>(1,393,508)</u>	<u>-</u>	<u>(11,079,222)</u>
Business-type activities capital assets, net	<u>\$ 10,719,963</u>	<u>\$ 435,702</u>	<u>\$ (518,502)</u>	<u>\$ 10,637,163</u>

Construction in progress primarily consists of hospital facility improvements.

Depreciation expense was charged to enterprise funds of the County as follows:

<u>Business-type Activities:</u>	
Morrow County Hospital	\$ 1,388,381
Ketterman Project	<u>5,127</u>
Total depreciation expense - business-type activities	<u>\$ 1,393,508</u>

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 11 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the governmental activities for the fiscal year ended December 31, 2007, was as follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/06</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/07</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 612,010	\$ 115,547	\$ -	\$ 727,557
Total capital assets, not being depreciated	<u>612,010</u>	<u>115,547</u>	<u>-</u>	<u>727,557</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	145,697	18,851	-	164,548
Buildings	8,555,952	34,000	-	8,589,952
Building improvements	933,748	11,945	-	945,693
Equipment	1,582,730	321,838	-	1,904,568
Vehicles	4,358,716	116,559	(40,552)	4,434,723
Infrastructure	<u>39,125,993</u>	<u>1,709,543</u>	<u>-</u>	<u>40,835,536</u>
Total capital assets, being depreciated	<u>54,702,836</u>	<u>2,212,736</u>	<u>(40,552)</u>	<u>56,875,020</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(145,697)	(943)	-	(146,640)
Buildings	(2,572,065)	(158,545)	-	(2,730,610)
Building improvements	(628,874)	(18,673)	-	(647,547)
Equipment	(891,477)	(165,536)	-	(1,057,013)
Vehicles	(3,538,758)	(244,879)	31,862	(3,751,775)
Infrastructure	<u>(17,887,442)</u>	<u>(1,366,582)</u>	<u>-</u>	<u>(19,254,024)</u>
Total accumulated depreciation	<u>(25,664,313)</u>	<u>(1,955,158)</u>	<u>31,862</u>	<u>(27,587,609)</u>
Total capital assets being depreciated, net	<u>29,038,523</u>	<u>257,578</u>	<u>(8,690)</u>	<u>29,287,411</u>
Governmental activities capital assets, net	<u>\$ 29,650,533</u>	<u>\$ 373,125</u>	<u>\$ (8,690)</u>	<u>\$ 30,014,968</u>

Depreciation expense was charged to functions/programs of the governmental activities as follows:

<u>Governmental activities:</u>	
Legislative and executive	\$ 96,732
Judicial	11,110
Public safety	152,496
Public works	1,517,092
Health	5,666
Human services	170,539
Other	<u>1,523</u>
Total depreciation expense - governmental activities	<u>\$ 1,955,158</u>

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE

- A. During prior fiscal years, the County entered into capital leases for the acquisition of street maintenance equipment, vehicles, computer equipment, copier equipment, and a telephone system. In the current year, the County entered into a capital lease for the acquisition of copiers and a scanner. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, “Accounting for Leases” which defines a capital lease as one which transfers benefits and risks of ownership to the lessee.

Capital assets consisting of copiers, computer equipment, a scanner and a vehicle in the general fund, a vehicle and a copier in the MR/DD fund, a copier in the public assistance fund, and a vehicle in the Morrow County transit authority fund (a nonmajor governmental fund) have been capitalized in the amounts of \$408,243, \$75,589, \$10,695 and \$14,430, respectively. Accumulated depreciation as of December 31, 2007, for the copiers, computer equipment, scanner, and a vehicle in the general fund was \$125,146 leaving a current book value of \$283,097. Accumulated depreciation as of December 31, 2007, for a vehicle and a copier in the MR/DD fund, a copier the public assistance fund, and a vehicle a nonmajor governmental fund was \$7,124, \$764 and \$5,154, respectively, leaving current book values of \$68,465, \$9,931 and \$9,276, respectively. Principal payments in fiscal year 2007 totaled \$94,565, \$12,895, \$574, and \$3,617 made out of the general fund, MR/DD fund, public assistance fund and a nonmajor governmental fund, respectively.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2007:

Fiscal Year Ending	<u>Amount</u>
<u>December 31,</u>	
2008	\$ 136,734
2009	72,771
2010	60,117
2011	27,205
2012	<u>4,313</u>
Total future minimum lease payments	301,140
Less: amount representing interest	<u>(34,185)</u>
Present value of net minimum lease payments	<u>\$ 266,955</u>

- B. At December 31, 2007, the Hospital has capital leases for office equipment and furniture and fixtures. The lease agreements require the Hospital to pay insurance and maintenance costs. These capital leases are due in monthly installments including interest at rates ranging from 1.34 percent to 11.52 percent annually. The leases expire at various dates through 2009, and are collateralized by the leased equipment. Capitalized costs and accumulated depreciation of the leased equipment at December 31, 2007 were \$1,591,000 and \$1,071,000, respectively. The liability for the obligation under capital lease at December 31, 2007 was \$523,955.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2007:

<u>Fiscal Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2008	\$ 283,124
2009	231,089
2010	29,196
2011	29,195
2012	<u>19,969</u>
Total minimum lease payments	592,573
Amounts representing interest	<u>(68,618)</u>
Present value of net minimum payments	<u>\$ 523,955</u>

NOTE 13 - COMPENSATED ABSENCES

Vacation, compensatory time, and sick leave accumulated by governmental fund type employees have been recorded in the governmental activities on the statement of net assets. Vacation, compensatory time, and sick leave earned by proprietary funds type employees is expensed when earned.

County employees earn vacation at varying rates ranging from two to five weeks per year. Vacation is to be taken within one year of the employee's anniversary date. In certain cases, vacation can accumulate up to three times the annual vacation rate for an employee. All accumulated, unused vacation time is paid upon separation from the County. Compensatory time is time accrued by employees that are exempt from overtime. Such employees can accrue compensatory time up to but not exceed an 80 hour limit. Sick leave is accumulated at the rate of .0575/hour for every hour worked. Upon retirement, employees with ten years of service are entitled to 25 percent of their accumulated sick leave up to a maximum of 30 days. At December 31, 2007 vested benefits for vacation leave and compensatory time for governmental fund employees totaled \$597,986 and vested benefits for sick leave totaled \$71,938. In accordance with GASB Statement No. 16, an additional liability of \$87,394 was accrued to record termination (severance) payments expected to become eligible to retire in the future for the governmental fund type employees.

For the Hospital, paid time-off is charged to operations when earned. Unused and earned benefits are recorded as a liability on the financial statements. Employee's accumulative vacation days and sick leave benefits are calculated at varying rates depending on the years of service. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the Hospital may convert accumulated sick leave to termination payments equal to one-fourth of the accumulated balance, up to a maximum of 240 hours, calculated at the employees base pay rate as of the retirement date.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 14 - LONG-TERM OBLIGATIONS

A. Governmental Activities Long-Term Obligations

During the fiscal year 2007, the following changes occurred in the County's governmental activities long-term obligations:

	Maturity Date	Interest Rate	Balance 12/31/06	Additions	Reductions	Balance 12/31/07	Amount Due in One Year
<u>General obligation bonds:</u>							
MR/DD building bonds	2011	6.2-7.95%	\$ 180,000	\$ -	\$ (30,000)	\$ 150,000	\$ 35,000
County services building	2022	1.5-4.8%	<u>1,975,000</u>	-	(90,000)	1,885,000	100,000
Total general obligation bonds			<u>\$ 2,155,000</u>	<u>\$ -</u>	<u>\$ (120,000)</u>	<u>\$ 2,035,000</u>	<u>\$ 135,000</u>
<u>Loans payable:</u>							
MR/DD Van loan	2008	3.90%	\$ 6,740	\$ -	\$ (4,208)	\$ 2,532	\$ 2,532
JFS Service garage	2026	4.55%	-	253,000	(8,000)	245,000	9,000
Total loans payable			<u>\$ 6,740</u>	<u>\$ 253,000</u>	<u>\$ (12,208)</u>	<u>\$ 247,532</u>	<u>\$ 11,532</u>
OWDA loan payable	2011	7.50%	\$ 52,181	\$ -	\$ (10,199)	\$ 41,982	\$ 10,964
OWDA loan payable	2023	0.00%	<u>61,875</u>	-	(3,750)	58,125	3,750
Total OWDA loans payable			<u>\$ 114,056</u>	<u>\$ -</u>	<u>\$ (13,949)</u>	<u>\$ 100,107</u>	<u>\$ 14,714</u>
<u>Notes payable:</u>							
Various purpose bond anticipation notes	2007	4.00%	\$ 2,167,000	\$ -	\$ (2,167,000)	\$ -	\$ -
Various purpose bond anticipation notes	2008	4.50%	-	2,057,000	-	2,057,000	2,057,000
Courthouse Renovation bond anticipation notes	2008	4.50%	-	1,000,000	-	1,000,000	1,000,000
Courthouse Renovation bond anticipation notes	2007	6.00%	<u>1,000,000</u>	-	(1,000,000)	-	-
Total notes payable			<u>\$ 3,167,000</u>	<u>\$ 3,057,000</u>	<u>\$ (3,167,000)</u>	<u>\$ 3,057,000</u>	<u>\$ 3,057,000</u>
<u>Other long-term obligations:</u>							
Compensated absences payable			\$ 751,452	\$ 162,487	\$ (156,621)	\$ 757,318	\$ 160,940
Capital lease payable			<u>265,426</u>	<u>113,180</u>	<u>(111,651)</u>	<u>266,955</u>	<u>119,078</u>
Total other long-term obligations			<u>\$ 1,016,878</u>	<u>\$ 275,667</u>	<u>\$ (268,272)</u>	<u>\$ 1,024,273</u>	<u>\$ 280,018</u>
Total long-term obligations			<u>\$ 6,459,674</u>	<u>\$ 3,585,667</u>	<u>\$ (3,581,429)</u>	<u>\$ 6,463,912</u>	<u>\$ 3,498,264</u>

General Obligation Bonds: The general obligation bonds are supported by the full faith and credit of the County. The MR/DD building bonds were issued to provide resources for building renovations and improvements including energy conservation measures. In August 2002, the County issued bonds in the amount of \$2,300,000 to payoff the Social Services building notes. These bonds are being retired through rental charges and other County operating sources. The MR/DD general obligation bonds are being retired from the MR/DD bond retirement fund (a nonmajor governmental fund) and the county services building general obligation bonds are being retired from the social services bond retirement fund (a nonmajor governmental fund).

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

Loans Payable: The County has various loans payable as follows:

The County has received a loan from the Ohio Water Development Authority (OWDA) for the construction of a sanitary sewer from the City of Galion to the Ketterman Subdivision. At December 31, 2007, the balance of this OWDA loan is \$41,982. This OWDA loan is being retired from the Ketterman debt service fund (a nonmajor governmental fund).

The County has received a loan from the OWDA at zero percent interest. This loan is payable through 2023. This loan is being retired from the community development block grant fund (a nonmajor governmental fund).

In 2003, the County issued a loan through a line of credit to purchase a vehicle for MR/DD in the amount of \$20,000. This loan bears an interest rate of 3.90% and is scheduled to mature in 2008. This loan is being retired from the MR/DD fund.

In 2007, the County issued a loan through a line of credit to purchase a service garage for JFS in the amount of \$253,000. This loan bears an interest rate of 4.55% and is scheduled to mature in 2026. This loan is being retired from the social services bond retirement fund (a nonmajor governmental fund).

Compensated Absences: Compensated absences will be paid from the fund which the employee is paid, which for the County, is primarily the general fund, motor vehicle and gas tax fund, MR/DD fund, public assistance fund and child support enforcement fund (a nonmajor governmental fund).

Capital Leases Payable: Capital lease principal and interest payments are being made from the general fund, MR/DD fund, public assistance fund and a nonmajor governmental fund. See Note 12.A for further detail on the capital lease obligations.

Notes Payable: On July 12, 2007, the County issued \$2,057,000 in bond anticipation notes. The proceeds were used to retire previously issued bond anticipation notes. Principal of \$2,167,000 was retired from the jail note retirement fund (a nonmajor governmental fund) and the social services bond retirement fund (a nonmajor governmental fund). On January 23, 2007, the County issued \$1,000,000 in bond anticipation notes. The proceeds were used to retire previously issued bond anticipation notes. Principal of \$1,000,000 was retired from the court house improvements note retirement fund (a nonmajor governmental fund). In accordance with FASB Statement No. 6, "Classification of Short-Term Obligations Expected to Be Refinanced" the 2007 note issues are considered long-term obligations because the County has refinanced or consummated refinancing on a long-term basis prior to the issuance of the financial statements.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

Future Debt Service Requirements: The following is a summary of the County's future annual debt service principal and interest requirements for general long-term obligations.

Year Ended	General Obligation Bonds			MR/DD Van Loan		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 135,000	\$ 86,298	\$ 221,298	\$ 2,532	\$ 33	\$ 2,565
2009	135,000	80,755	215,755	-	-	-
2010	140,000	74,555	214,555	-	-	-
2011	145,000	68,155	213,155	-	-	-
2012	110,000	64,270	174,270	-	-	-
2013 - 2017	610,000	226,800	836,800	-	-	-
2018 - 2022	760,000	109,590	869,590	-	-	-
Total	\$ 2,035,000	\$ 710,423	\$ 2,745,423	\$ 2,532	\$ 33	\$ 2,565

Year Ended	JFS Service Garage Loan			OWDA Loans		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 9,000	\$ 11,282	\$ 20,282	\$ 14,714	\$ 3,149	\$ 17,863
2009	9,000	10,868	19,868	15,536	2,327	17,863
2010	9,000	10,453	19,453	16,420	1,443	17,863
2011	10,000	10,039	20,039	10,312	492	10,804
2012	10,000	9,579	19,579	3,750	-	3,750
2013 - 2017	58,000	40,478	98,478	18,750	-	18,750
2018 - 2022	71,000	25,926	96,926	18,750	-	18,750
2023 - 2026	69,000	8,105	77,105	1,875	-	1,875
Total	\$ 245,000	\$ 126,730	\$ 371,730	\$ 100,107	\$ 7,411	\$ 107,518

- B.** The Ohio Revised Code provides that the net general obligation debt of the County, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed one percent of the total assessed valuation of the County.

The Code further provides that the total voted and unvoted net debt of the County, less the same exempt debt, shall never exceed a sum equal to three percent of the first \$100,000,000 of the assessed valuation, plus one and one-half percent of such valuation in excess of \$100,000,000 and not in excess of \$300,000,000, plus two and one-half percent of such valuation in excess of \$300,000,000. The assessed valuation used in determining the County's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the County's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. Based on this calculation, the County's voted legal debt margin was \$12,945,677 at December 31, 2007 and the unvoted legal debt margin was \$6,198,113 at December 31, 2007.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

C. Business-Type Activities Long-Term Obligations

During the fiscal year 2007, the following changes occurred in the County's business-type activities long-term obligations:

	Interest Rate	Balance 12/31/06	Additions	Reductions	Balance 12/31/07	Amount Due in One Year
Capital lease payable		\$ 638,793	\$ 135,516	\$ (250,354)	\$ 523,955	\$ 241,723
Master lease and purchase agreement	5.89%	3,383,872	-	(509,738)	2,874,134	539,981
Compensated absences payable		414,148	888,059	(839,934)	462,273	462,273
Total enterprise fund obligations		<u>\$ 4,436,813</u>	<u>\$ 1,023,575</u>	<u>\$ (1,600,026)</u>	<u>\$ 3,860,362</u>	<u>\$ 1,243,977</u>

Capital Leases Payable: The capital lease obligation represents the leases entered into for medical and office equipment and furniture and fixtures for the Hospital. The leases are being retired from Hospital operating revenue. See Note 12.B for more detail on the Hospital's capital lease obligations.

Master Lease and Purchase Agreement: Under the master lease and purchase agreement, the Hospital borrowed \$4,950,000 under an arrangement with a finance company to finance the construction of facility improvements. The financing was provided by the issuance of a 10-year note maturing August 28, 2012, with interest at 5.89 percent. The debt is collateralized by capital assets purchased with the proceeds. The lease and purchase agreement provides, among other things, for certain covenants and payoff options which allow for early retirement of the debt of the Hospital. The master lease purchase agreement is being paid from the Hospital enterprise fund.

Compensated Absences: Compensated absences will be paid from the Hospital enterprise fund.

The following is a summary of the future debt service requirements under the master lease and purchase agreement:

Year Ended December 31,	Principal	Interest	Total
2008	\$ 539,981	\$ 157,939	\$ 697,920
2009	572,958	124,962	697,920
2010	607,464	90,456	697,920
2011	644,049	53,871	697,920
2012	509,682	15,120	524,802
Total	<u>\$ 2,874,134</u>	<u>\$ 442,348</u>	<u>\$ 3,316,482</u>

NOTE 15 - NET PATIENT SERVICE REVENUE

The Hospital provides services to certain patients covered by various third party payer arrangements that provide for payments to the Hospital at amounts different than its established rates. Net patient service revenue for 2007 recorded in the Hospital enterprise fund was \$27,019,470.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 16 - RISK MANAGEMENT

A. Property and Liability Insurance

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 2007, the County contracted with the County Risk Sharing Authority, Inc. (CORSA) for liability, property, automotive, and crime insurance. The CORSA program has a \$2,500 deductible. Coverage provided by CORSA is as follows:

	<u>Amount</u>
General Liability (per occurrence)	\$ 1,000,000
Law Enforcement Liability (per occurrence)	1,000,000
Automobile Liability and Physical Damage Liability (per occurrence)	1,000,000
Medical Payments	
Per Person	5,000
Per Occurrence	50,000
Uninsured Motorist (per person)	250,000
Physical Damage	Actual Cost
Flood and Earthquake (pool limit)	100,000,000
Property	79,854,885
Other Property Insurance:	
Extra Expense	1,000,000
Contractors' Equipment	Actual Cash Value
Valuable Papers and Records	1,000,000
Inland Marine	Actual Cash Value
Automatic Acquisition	5,000,000
Crime Insurance:	
Faithful Performance	1,000,000
Money and Securities (inside and outside)	1,000,000
Depositor's Forgery	1,000,000
Money Orders and Counterfeit Paper Currency	1,000,000
Boiler and Machinery	100,000,000
Public Officials (per occurrence)	1,000,000
Umbrella (per occurrence)	4,000,000

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

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; medical malpractice; and employee health dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this coverage in the past three years and there has been no significant reduction in coverage from the prior year. Also see Note 20.B. for information on the Hospital's medical malpractice insurance coverage.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 16 - RISK MANAGEMENT - (Continued)

B. Health, Prescription Drug, Dental and Vision Insurance

The County has established an Employee Self-Insurance (an internal service fund) to account for and finance its health, prescription drug, dental and vision insurance. The County purchases commercial insurance for claims in excess of coverage provided by the Fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

All funds of the County participate in the program and make payments to the Employee Self-Insurance Fund based on actuarial estimates of the amounts needed to pay claims and actual amounts needed to pay fixed costs (premiums for stop-loss coverage and medical conversion and administrative fees and services). A third party administrator reviews, and the County pays, all claims. The liability for unpaid claims of \$380,296 reported in the financial statements at December 31, 2007 is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by FASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims.

Changes in the balances of the self insurance claims liabilities during 2007 and 2006 were as follows:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
2007	\$ 389,346	\$ 2,748,816	\$ (2,757,866)	\$ 380,296
2006	306,638	2,517,998	(2,435,290)	389,346

The County offers life insurance, however, this is at the cost of the employee if they choose to participate. The entire risk of loss transfers to the commercial insurance carrier.

NOTE 17 - 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 Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% 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 Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 17 - PENSION PLANS - (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the 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, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2007, the members of all three plans, except those in law enforcement under the Traditional Pension Plan, were required to contribute 9.5% of their annual covered salaries. Members participating in the Traditional Pension Plan that were in law enforcement contributed 10.1% of their annual covered salary. The County's contribution rate for pension benefits for 2007 was 8.85% for the period January 1, 2007 through June 30, 2007 and 7.85% for the period July 1, 2007 through December 31, 2007, except for those plan members in law enforcement and public safety. For those classifications, the County's pension contributions were 12.17% of covered payroll for the period January 1, 2007 through June 30, 2007 and 11.17% of covered payroll for the period July 1, 2007 through December 31, 2007. The Ohio Revised Code provides statutory authority for member and employer contributions. The County's total contributions to the Traditional Pension and Combined Plans for the years ended December 31, 2007, 2006, and 2005 were \$2,843,759, \$2,658,918, and \$2,483,844, respectively; 91.27% has been contributed for 2007 and 100% has been contributed for 2006 and 2005.

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 administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries.

Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS Ohio funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 17 - PENSION PLANS - (Continued)

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

For the year ended December 31, 2007, plan members were required to contribute 10% of their annual covered salary and the County was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The County's total contributions for the DBP for the years ended December 31, 2007, 2006, and 2005 was \$7,105, \$7,000, and \$6,985, respectively; 100% has been contributed for fiscal years 2007, 2006 and 2005. There were no contributions for the DCP and CP for the fiscal year ended December 31, 2007.

NOTE 18 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-employment health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the Traditional Pension or Combined Plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the Member-Directed Plan do not qualify for post-employment health care coverage. The health care coverage provided by OPERS is considered an Other Post-employment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Post-employment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the Traditional Pension or Combined Plans is set aside for the funding of post-employment health care based on authority granted by State statute. The 2007 local government employer contribution rate was 13.85% of covered payroll (17.17% for public safety and law enforcement); 5.00% of covered payroll was the portion that was used to fund health care for the period January 1, 2007 through June 30, 2007 and 6.00% of covered payroll was the portion that was used to fund health care for the period July 1, 2007 through December 31, 2007.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus an additional factor ranging from .50% to 5.00% for the next eight years. In subsequent years, (nine and beyond) health care costs were assumed to increase at 4.00%.

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

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 18 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The number of active contributing participants in the Traditional Pension and Combined Plans was 374,979 as of December 31, 2007. The City's actual employer contributions for 2007 which were used to fund post-employment benefits were \$1,118,442. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2006 (the latest information available) were \$12.0 billion. At December 31, 2006 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

B. State Teachers Retirement System of Ohio

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended December 31, 2007, the Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the County, this amount was \$508.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.5 billion at June 30, 2007. For the fiscal year ended June 30, 2007, net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 19 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of GAAP, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund and major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as payables (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund and major special revenue funds are as follows:

Net Change in Fund Balances

	Governmental Fund Types				
	General	Emergency Squad	Motor Vehicle and Gas Tax	Public Assistance	MR/DD
Budget basis	\$ (330,792)	\$ -	\$ (475,524)	\$ (256,012)	\$ 82,643
Net adjustment for revenue accruals	(154,756)	6,225	448,136	490,448	(21,727)
Net adjustment for expenditure accruals	(45,465)	-	(26,048)	284,654	(57,877)
Net adjustment for other financing sources/(uses) accruals	38,969	-	-	10,695	63,516
Encumbrances (budget basis)	245,643	-	323,393	702,840	134,268
GAAP basis	<u>\$ (246,401)</u>	<u>\$ 6,225</u>	<u>\$ 269,957</u>	<u>\$ 1,232,625</u>	<u>\$ 200,823</u>

NOTE 20 - CONTINGENCIES

A. Grants

The County receives significant assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall position of the County at December 31, 2007.

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 20 - CONTINGENCIES - (Continued)

B. Medical Malpractice Claims

Based upon the nature of its operations, the Hospital is at times subject to pending or threatening legal actions, which arise in the normal course of its activities.

The Hospital is insured against medical malpractice claims under a claims-based policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim is incurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding \$1,000,000, or aggregate claims exceeding \$3,000,000, for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional \$4,000,000 of coverage.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on the occurrences during the claims-made term, but reported subsequently, will be uninsured.

The Hospital is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. No claims have been settled during the past three years that have exceeded policy coverage limits. The cost of this insurance policy represents the Hospital's cost for such claims for the past three years, and it has been charged to operations as a current expense.

C. Litigation

Several claims and lawsuits are pending against the County. In the opinion of the County Prosecutor, no liability is anticipated in excess of insurance coverage.

NOTE 21 - RELATED PARTY TRANSACTION

Whetstone Industries, Inc., a discretely presented component unit of the County, received contributions from the County for certain personnel and salaries. The contributions are reflected as operating revenues in the basic financial statements. For the year ended December 31, 2007 the County's contributions totaled \$469,488.

NOTE 22 - FEDERAL TRANSACTIONS

The Morrow County Department of Human Services (Welfare Department) distributes Federal food stamps to entitled recipients within the County. The receipt and issuance of these stamps have the characteristics of federal grants. However, the Welfare department merely acts in an intermediary capacity. Therefore, the inventory value of the stamps is not reflected in the accompanying financial statements as the only economic interest related to the stamps rest with the ultimate recipient.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 23 - WHETSTONE INDUSTRIES, INC. - COMPONENT UNIT

A. Reporting Entity

Whetstone Industries, Inc. (the “Workshop”) is a legally separate, not-for-profit corporation, served by a self-supporting Board of Trustees. The Workshop, under a contractual agreement with the Morrow County Board of Mental Retardation and Developmental Disabilities (Board of MRDD), provides sheltered employment for mentally retarded or disabled adults in Morrow County. Based on the significant services and resources provided by the County to the Workshop and Workshop’s sole purpose of providing assistance to the retarded and disabled adults of Morrow County, the Workshop is considered a component unit of Morrow County. Whetstone Industries, Inc. has a December 31 year end.

B. Summary of Significant Accounting Policies

Basis of Accounting - The financial statements of Whetstone Industries, Inc. have been prepared in conformity with GAAP as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Since Whetstone Industries, Inc. is a component unit of Morrow County, the same basis of accounting has been chosen to be used for presentation purposes.

Cash and Cash Equivalents - The Workshop maintains depository accounts at financial institutions. See Note 23.C. for more detail on the Workshop’s cash balances.

Receivables - The Workshop uses a direct write off method for trade receivables due to a good collection policy with very little bad debt.

Inventory - Inventory consists of items used for basket weaving, refinishing furniture, providing janitorial services, and various other productions related activities. Inventory is valued at the lower of cost or market using the first-in-first-out method of accounting for inventory.

Property and equipment - Additions and improvements to property and equipment are recorded at cost when purchased and at fair value when the asset has been donated. Depreciation is computed using the straight-line method at rates expected to depreciate the cost of the assets over their useful lives, which is 10 years for production equipment and a range of 3 to 7 years for office equipment.

Functional Allocation - The costs of providing the various programs and management and general activities have been summarized on a functional basis in the statement of functional expenses.

Use of Estimates - The financial statements of the Workshop are prepared in conformity with accounting principles generally accepted in the United States of America. This presentation requires the use of estimates and assumptions made by management that affects certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes - The Workshop is a non-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Revenue Sources - The Workshop received significant support in the form of grants and contributions from the Morrow County Board of Mental Retardation and Development Disabilities (MR/DD) and other sources. In addition, the Workshop generated revenue by providing a variety of services to the public. Such services include custodial, furniture restoration, basket weaving and sales, and various other production activities.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 23 - WHETSTONE INDUSTRIES, INC. - COMPONENT UNIT - (Continued)

C. Cash and Cash Equivalents

All deposits with financial institutions are fully insured by the Federal Deposit Insurance Corporation, are unrestricted and summarized below:

<u>Depository</u>	<u>Description</u>	<u>Balance</u> <u>12/31/07</u>
First Knox National Bank	Operating account	\$ 34,474
First Knox National Bank	Payroll account	1,089
MFS Investment Mgt.	Money market	976
First Knox National Bank	Certificates of Deposit	53,730
Cash on hand	Operations	<u>200</u>
Total		<u>\$ 90,469</u>

The Workshop has three certificates of deposit at December 31, 2007. These certificates of deposit are recorded at fair value, with maturities of nine to twenty-four months. These certificates of deposit earn interest at rates of 4.28% to 5.15%.

D. Contracts and Support

The Workshop has been formed in accordance with the regulations of the State of Ohio Department of Mental Retardation and Developmental Disabilities, and is under contract with the Morrow County Board of MR/DD for the delivery of services to adult clients in Morrow County, Ohio. Upon termination of the contract or successor contracts, all materials and equipment become the property of the Morrow County Board of MR/DD.

The current operations of the Workshop are dependent on the continuation of these or similar contractual relationships. The loss of support from this provider could significantly affect the Workshop's financial statements.

E. Related Party Transactions

The Morrow County Board of MR/DD provides the management and administrative personnel, at no charge, to the Workshop. In addition, land and facilities, utilities and certain other general and administrative costs are provided by the Morrow County Board of MR/DD to the Workshop. The Morrow County Board of MR/DD has estimated the value of this support to be \$469,488 for the year ending December 31, 2007. The Workshop has recognized this support in the statement of activities and changes in net assets.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 23 - WHETSTONE INDUSTRIES, INC. - COMPONENT UNIT - (Continued)

F. Concentration of Risk

A significant portion of the Workshop's annual revenues is generated from a limited number of customers located in the Mt. Gilead area. In addition, the in-kind contribution from the Morrow County Board of MR/DD comprise the majority of the Workshop's support and subject the Workshop to a concentration of credit risks. Approximately 90% of the support revenue was from in-kind contribution from the Morrow County Board of MR/DD. The County Board of MR/DD's ability to fund its in-kind contribution to the Organization is dependent on the passage of a local levy.

G. Capital assets

The following is a summary of the Workshop's capital assets activity for 2007:

	Balance 12/31/06	Additions	Reductions	Balance 12/31/07
Property and equipment	\$ 23,090	\$ 8,368	\$ -	\$ 31,458
Accumulated depreciation	(14,307)	(2,090)	-	(16,397)
Total	\$ 8,783	\$ 6,278	\$ -	\$ 15,061

NOTE 24 - AFFILIATION

The Hospital contracts with OhioHealth for management, information technology, and other support services. OhioHealth employs the Hospital's chief executive officer and chief financial officers and also appoints one representative to the Hospital's Board of Directors. Fees for services amounted to approximately \$487,000 for the year ended December 31, 2007. Amounts due to OhioHealth for services amounted to approximately \$44,000 at December 31, 2007 and has been included in accounts payable of the Hospital on the financial statements.

NOTE 25 - COST REPORT SETTLEMENTS

Approximately 60 percent of the Hospital's revenues from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under these reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

Medicare - Effective October 1, 2002, the Hospital received full accreditation from the Center for Medicare and Medicaid Services for the critical access hospital designation. As a critical access hospital, the Hospital receives reasonable, cost-based reimbursement for both inpatient and outpatient services provided to Medicare beneficiaries.

Medicaid - Inpatient, acute care services rendered to Medicaid program beneficiaries are paid to prospectively determined rates per discharge. Capital costs relating to Medicaid inpatients are paid on a cost-reimbursed method. The Hospital is reimbursed for outpatient services on a fee-for-service methodology.

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 25 - COST REPORT SETTLEMENTS - (Continued)

The Medicaid payment system in Ohio is a prospective one, whereby rates for the following State fiscal year beginning July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant changes in rates, or the payment system itself, could have a material impact on future Medicaid funding to providers.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the financial statements.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE 26 - SIGNIFICANT SUBSEQUENT EVENT

- A.** On January 22, 2008, the County issued a \$1,000,000 County courthouse bond anticipation note to retire the \$1,000,000 County courthouse bond anticipation note that was issued on January 23, 2007 (see Note 14). This note bears an interest rate of 5.50% and matures on January 21, 2009.
- B.** Effective January 1, 2008, the County has come traditionally insured for its health insurance.

SUPPLEMENTARY DATA

**MORROW COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(A),(F) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASSED THROUGH THE OHIO DEPARTMENT OF DEVELOPMENT OFFICE OF HOUSING AND COMMUNITY PARTNERSHIP:			
Community Development Block Grants/State's Program	14.228	B-F-05-054-1	\$ 23,202
Community Development Block Grants/State's Program	14.228	B-F-06-054-1	38,235
Community Development Block Grants/State's Program	14.228	B-C-06-054-1	65,694
(B) Community Development Block Grants/State's Program	14.228	N/A	2,901
(C) Community Development Block Grants/State's Program	14.228	N/A	145,620
(D) Community Development Block Grants/State's Program	14.228	N/A	62,445
Total Community Development Block Grants/State's Program			<u>338,097</u>
HOME Investment Partnerships Program	14.239	B-C-06-054-2	181,888
(E) HOME Investment Partnerships Program	14.239	N/A	34,281
Total HOME Investment Partnerships Program			<u>216,169</u>
Total U.S. Department of Housing and Urban Development			<u>554,266</u>
U.S. DEPARTMENT OF JUSTICE PASSED THROUGH THE OFFICE OF CRIMINAL JUSTICE SERVICES:			
Edward Byrne Memorial Formula Grant Program	16.579	2007-SAGENE069	24,456
Edward Byrne Memorial Formula Grant Program	16.579	2008-SAGENE069	7,647
Total Edward Byrne Memorial Formula Grant Program			<u>32,103</u>
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-JG-DOV-V7532	7,978
Total U.S. Department of Justice			<u>40,081</u>
U.S. DEPARTMENT OF LABOR PASSED THROUGH THE OHIO DEPARTMENT OF JOBS AND FAMILY SERVICES- WORKFORCE DEVELOPMENT ACT OF 1998 (WIA) CLUSTER:			
Employment Service/Wagner-Peyser Funded Activities	17.207	N/A	1,162
WIA Cluster:			
(G) WIA Adult Program	17.258	N/A	77,253
(G) WIA Adult Program - Administration	17.258	N/A	12,608
Total WIA Adult Program			<u>89,861</u>
(G) WIA Youth Activities	17.259	N/A	139,336
(G) WIA Dislocated Workers	17.260	N/A	105,387
Total WIA Cluster			<u>334,584</u>
Veterans' Employment Program	17.802	N/A	3,698
Total U.S. Department of Labor			<u>339,444</u>
OHIO DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:			
Special Education-Grants for Infants and Families	84.181	59-1-003-1-EG-07	30,766
Special Education-Grants for Infants and Families	84.181	59-1-002-1-HG-01-08	10,722
Total Special Education-Grants for Infants and Families			<u>41,488</u>
Total U.S. Department of Education			<u>41,488</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF HUMAN SERVICES			
Child Welfare Services_State Grants	93.645	N/A	83,979
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENT DISABILITIES:			
Child Care and Development Block Grant	93.575	N/A	6,466
Social Services Block Grant	93.667	N/A	24,071
Medical Assistance Program - Day Habilitation	93.778	N/A	503,553
Medical Assistance Program - Targeted Case Management	93.778	N/A	37,061
Total Medical Assistance Program			<u>540,614</u>
Total U.S. Department of Health and Human Services			<u>655,130</u>

-continued

**MORROW COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF HOMELAND SECURITY PASSED THROUGH THE OHIO EMERGENCY MANAGEMENT AGENCY			
Emergency Management Performance Grant:	97.042	2006-EM-E7-0085	25,092
Total U.S. Department of Homeland Security			<u>25,092</u>
Total Federal Financial Assistance			<u>\$ 1,655,501</u>

(A) This schedule was prepared on the cash basis of accounting

(B) The County has a revolving loan fund cash balance of \$2,901 which is subject to compliance requirements set forth by the awarding agency at December 31, 2007.

(C) The County has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households. The Federal Department of Housing and Urban Development (HUD) grants money for the loans to the County passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on this schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the schedule. These loans are collateralized by mortgages on real property. The County incurred \$17,011 in administrative and other costs during 2007.

Activity in the Community Development Block Grant revolving loan fund during 2007 is as follows:

Beginning loans receivable balance as of January 1, 2007	\$ 658,315
Loans Disbursed	-
Loan Repayments	(44,862)
Ending loans receivable balance as of December 31, 2007	<u>\$ 613,453</u>
Cash balance on hand as of December 31, 2007	\$ 128,609
Delinquent amounts due as of December 31, 2007	\$ 432,249

(D) The County has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households. The Federal Department of Housing and Urban Development (HUD) grants money for the loans to the County passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on this schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the schedule. These loans are collateralized by mortgages on real property. The County incurred \$4,948 in administrative and other costs during 2007.

Activity in the Community Development Block Grant revolving loan fund during 2007 is as follows:

Beginning loans receivable balance as of January 1, 2007	\$ 79,942
Loans Disbursed	24,956
Loan Repayments	(28,844)
Ending loans receivable balance as of December 31, 2007	<u>\$ 76,054</u>
Cash balance on hand as of December 31, 2007	\$ 3,541
Delinquent amounts due as of December 31, 2007	\$ 18,216

(E) The County has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households. The Federal Department of Housing and Urban Development (HUD) grants money for the loans to the County passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on this schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the schedule. These loans are collateralized by mortgages on real property. The County incurred \$1,354 in administrative and other costs during 2007.

Activity in the HOME Investment Partnership Program revolving loan fund during 2007 is as follows:

Beginning loans receivable balance as of January 1, 2007	\$ 92,531
Loans Disbursed	20,000
Loan Repayments	(5,442)
Ending loans receivable balance as of December 31, 2007	<u>\$ 107,089</u>
Cash balance on hand as of December 31, 2007	\$ 12,927
Delinquent amounts due as of December 31, 2007	\$ -

(F) 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.

(G) Included as part of the Workforce Investment Act Cluster and prepared on the accrual basis of accounting.



Julian & Grube, Inc.
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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Board of Commissioners
Morrow County
48 E. High Street
Mt. Gilead, OH 43338

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrow County, Ohio, as of and for the year ended December 31, 2007, which collectively comprise Morrow County's basic financial statements and have issued our report thereon dated June 25, 2008. We did not audit the financial statements of the Morrow County Hospital, a major Enterprise Fund, which represents 99% of the total assets, 98% of total net assets and 99% of total revenue of the business-type activities. We also did not audit the financial statements of Whetstone Industries, Inc. Morrow County's only discretely presented component unit. The Morrow County Hospital and Whetstone Industries, Inc. financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Morrow County, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Morrow County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morrow County's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Morrow 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 a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 Morrow County's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Morrow County's financial statements that is more than inconsequential will not be prevented or detected by Morrow County's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting as item 2007-MC-001.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Morrow County's internal control.

Board of Commissioners
Morrow County

Our consideration of 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 considered to be material weaknesses. However, we do not consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morrow County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2007-MC-002.

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

We noted certain matters that we reported to the management of Morrow County in a separate letter dated June 25, 2008.

This report is intended solely for the information and use of the management of Morrow County, federal awarding agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." The signature is written in dark ink and is positioned above the typed name of the firm.

Julian & Grube, Inc.
June 25, 2008



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**Report on Compliance With Requirements Applicable to Each
Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133**

Board of Commissioners
Morrow County
48 E. High Street
Mt. Gilead, OH 43338

Compliance

We have audited the compliance of Morrow County, Ohio, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. Morrow County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Morrow County's management. Our responsibility is to express an opinion on Morrow 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, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about Morrow County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Morrow County's compliance with those requirements.

In our opinion, Morrow County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of Morrow County 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 Morrow County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Morrow County's internal control over compliance.

Board of Commissioners
Morrow County

A control deficiency in Morrow County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Morrow County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Morrow County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Morrow County's internal control.

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

This report is intended solely for the information and use of the management of Morrow County, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
June 25, 2008

MORROW COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
 OMB CIRCULAR A-133 § .505
 DECEMBER 31, 2007

1. SUMMARY OF AUDITOR'S RESULTS		
(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(iii)	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	Yes
(d)(1)(iv)	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under §.510?</i>	No
(d)(1)(vii)	<i>Major Programs (listed):</i>	Medical Assistance Program CFDA #93.778; Community Development Block Grants/State's Program CFDA 14.228; HOME Investment Partnerships Program CFDA 14.239
(d)(1)(viii)	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	Yes

MORROW COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2007

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2007-MC-001

Significant Deficiency

The County did not properly and timely submit employee and employer pension contribution payments. Specifically, the County did not submit OPERS employee/employer contributions as required by Ohio Revised Code Section 145. In addition, amounts withheld for Sheriff union dues were also not submitted to the required agencies in a timely manner.

OPERS

There were four employees whose withholding's and related employer liability was not submitted to OPERS in a timely manner. The County has been in contact with OPERS to resolve the issue. Only one of the four has been issued a delinquent contribution billing invoice. It is for a total amount of \$6,310 (employee contribution - \$2,422; employer contribution - \$3,531, interest of \$357). The County has provided an estimate of \$1,479 on the remaining three employees; however, OPERS is currently reviewing these three employee's data in order to issue the delinquent contributions billing report.

Sheriff Union Due (FOPs) (Local and State)

There was \$1,308 and \$20,108 withheld from County employees for union dues that was not submitted to the respective agencies. The County has been in contact with the agencies to resolve the issue.

While these withheld amounts are secured in a specifically designated fund(s), we recommend the County implement additional internal controls to help ensure amounts are submitted to each agency in a timely and accurate manner.

The County is responsible for remitting the employee portion of OPERS and employee portion of FOPS' union dues and the employers portion of the retirement pension and in addition could result in fines, penalties and interest on late payments.

Client Response: The previous payroll clerk left employment without notice on February 12, 2008. These discrepancies were noted by the County's internal controls and addressed immediately with the respective agencies. The County is working on additional procedures to help ensure timely deposit of funds. As of the release of this report, the County has remitted payment in full to the FOPS.

Finding Number	2007-MC-002
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Ohio Revised Code Section 5705.36(A)(4) states that upon a determination by the Treasurer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the Treasurer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

MORROW COUNTY

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2007**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2007-MC-002 - (Continued)

At December 31, 2007, the County had appropriations greater than actual resources, which consist of actual revenues, beginning fund balance and prior year encumbrances appropriated in the following funds:

	Fund	Resources	Appropriations	Excess
Special Revenue	DRETAC	\$ 153,011	\$ 170,710	\$ 17,699
	Children Service Fund	220,144	503,266	211,459
	Child Support Enf. Agency	108,901	967,535	850,247
	Highland Family Connections	11,733	30,858	19,125
	Certificate of Title Administration	118,342	143,171	16,202
	Common Pleas Clerk/Court Info	90	500	410
	V/W Criminal Justice SVC Grant	8,762	22,836	10,303
	Common Pleas Spec Proj Fund	36,210	40,000	2,910
	Social Service Bond	2,540,516	2,563,891	22,877
	Co Court Drug Fines/Sheriff	9,223	12,000	2,777
	Court Support Mediation	245	600	355
	Chemical Emergency	53,458	71,205	17,747
	Family Resources	13,490	19,000	312
	DOJ/WMD Terr Equip	7,642	35,032	27,390
	County Probation Fees	22,439	25,846	1,716
	OPOTA Training	-	2,880	2,880

Amount of receivable was considered when calculating the excess.

By appropriating more funds than actual resources, the County is at risk of spending more money than is available; this may result in negative fund balances.

We recommend the County monitor appropriations in comparison to actual resources and obtain decreased amended appropriations as needed. Further guidance may be found in Auditor of State Bulletin 97-010.

Client Response: The County is attempting to monitor the budget more closely.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.



Mary Taylor, CPA
Auditor of State

FINANCIAL CONDITION

MORROW COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 14, 2008**