

Highland County  
Single Audit  
For the Year Ended December 31, 2012



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# Dave Yost • Auditor of State

Board of County Commissioners  
Highland County  
119 Governor Foraker Place  
Hillsboro, Ohio 45133

We have reviewed the *Independent Auditor's Report* of Highland County, prepared by Millhuff-Stang, CPA, Inc., for the audit period January 1, 2012 through December 31, 2012. 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. Highland County is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

August 5, 2013

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**Highland County**  
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*For the Fiscal Year Ended December 31, 2012*

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**Independent Auditor's Report**

Board of Commissioners  
Highland County  
119 Governor Foraker Place  
Hillsboro, Ohio 45133

**Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Highland County, Ohio (the County), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash basis of accounting Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the County's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

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***Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units***

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

***Qualified Opinion***

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of Highland County, Ohio, as of December 31, 2012, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Highland County, Ohio, as of December 31, 2012, and the respective changes in cash financial position and the respective budgetary comparison for the General, Public Assistance, Repair MVL, and Board of Developmental Disabilities funds thereof for the year then ended in accordance with the accounting basis described in Note 2.

***Accounting Basis***

Ohio Administrative Code Section 117-2-03 (B) requires the County to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the accounting basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

***Emphasis of Matter***

As discussed in Note 18 to the financial statements, during 2012, the County adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. We did not modify our opinion regarding these matters.

***Other Matters***

*Supplemental and Other Information*

We audited to opine on the County's financial statements that collectively comprise its basic financial statements. Management's Discussion and Analysis includes tables of net position, changes in net position, and governmental activities. The Schedule of Federal Awards Expenditures (the Schedule) is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These tables and the Schedule provide additional analysis and are not a required part of the basic financial statements.

These tables and the Schedule are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables and the Schedule are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in the Management's Discussion and Analysis, and we express no opinion or any other assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2013 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



Natalie Millhuff-Stang, CPA  
President/Owner  
Millhuff-Stang, CPA, Inc.

June 26, 2013

Highland County, Ohio  
Management's Discussion and Analysis  
For the Year Ended December 31, 2012

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This discussion and analysis of Highland County's financial performance provides an overall review of the County's financial activities for the year ended December 31, 2012, within the limitations of the County's cash basis of accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the County's financial performance.

**Highlights**

Key highlights for 2012 are as follows:

Net position of governmental activities increased \$1,958,747 from the prior year.

Net position of the County's business-type activity decreased \$118,413 from the prior year.

**Using the Basic Financial Statements**

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

**Report Components**

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

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

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

**Basis of Accounting**

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

Highland County, Ohio  
Management's Discussion and Analysis  
For the Year Ended December 31, 2012

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

**Reporting the County as a Whole**

The statement of net position – cash basis and the statement of activities – cash basis reflect how the County did financially during 2012 within the limitations of cash basis accounting. The statement of net position presents the cash balances and investments of the governmental and business-type activities of the County at year-end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the County's general receipts.

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

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

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

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

Highland County, Ohio  
Management's Discussion and Analysis  
For the Year Ended December 31, 2012

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The financial activities of the Highland County Regional Airport Authority, the component unit of Highland County, is presented in a separate column on the statement of net position and as separately identified activities on the statement of activities. While the County provides services and resources to the Highland County Regional Airport Authority, the discrete presentation is made in order to emphasize that it is still a legally separate organization from the County. However, focus on the government-wide financial statements remains clearly on the County as the primary government.

**Reporting the County's Most Significant Funds**

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

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

**Proprietary Fund** - When the County charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The County's only enterprise fund is the Sewer Fund.

**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the County's programs. The County has two private purpose trust funds which account for monies to be used by the Children Services Department as authorized in the wills of Carey B. Emery and Fannie L. Polk. Agency funds are purely custodial in nature and are used to account for assets held by the County for political subdivisions for which the County act as fiscal agent and for taxes, State-levied shared revenues, and fines and forfeitures collected and distributed to other political subdivisions.

Highland County, Ohio  
Management's Discussion and Analysis  
For the Year Ended December 31, 2012

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**The County as a Whole**

Table 1 provides a summary of the County's net position for 2012 compared to 2011 on a cash basis:

(Table 1)  
**Net Position**

	Governmental Activities		Business-Type Activity		Total	
	2012	2011	2012	2011	2012	2011
<b>Assets</b>						
Cash and Cash Equivalents	\$14,216,179	\$12,257,432	\$165,161	\$283,574	\$14,381,340	\$12,541,006
<b>Net Position</b>						
Restricted for:						
Capital Projects	\$516,710	\$210,729	\$0	\$0	\$516,710	\$210,729
Debt Service	162,941	254,277	0	0	162,941	254,277
Other Purposes	9,925,276	8,966,897	0	0	9,925,276	8,966,897
Unrestricted	3,611,252	2,825,529	165,161	283,574	3,776,413	3,109,103
Total Net Position	\$14,216,179	\$12,257,432	\$165,161	\$283,574	\$14,381,340	\$12,541,006

As mentioned previously, net position of governmental activities increased \$1,958,747 during 2012. Net position restricted for other purposes increased \$958,379, due to cost-cutting measures outpacing decreases in revenues as well as the influx of stimulus monies. Net position restricted for debt service decreased \$91,336 due to the County making annual debt payments. Unrestricted net position increased \$785,723 due to the County's diligence in maintaining spending levels as well as increased sales tax revenue.

The net position of business-type activities decreased \$118,413 due to disbursements exceeding receipts.

Highland County, Ohio  
Management's Discussion and Analysis  
For the Year Ended December 31, 2012

Table 2 reflects the changes in net position in 2012 and 2011.

(Table 2)  
Changes in Net Position

	Governmental		Business-Type		Total	
	Activities		Activity			
	2012	2011	2012	2011	2012	2011
<b>Receipts</b>						
<b>Program Receipts</b>						
Charges for Services and Sales	\$3,514,395	\$3,453,071	\$643,590	\$636,161	\$4,157,985	\$4,089,232
Operating Grants and Contributions	12,615,838	14,247,682	0	0	12,615,838	14,247,682
Capital Grants and Contributions	2,577,080	1,695,702	0	0	2,577,080	1,695,702
Total Program Receipts	<u>18,707,313</u>	<u>19,396,455</u>	<u>643,590</u>	<u>636,161</u>	<u>19,350,903</u>	<u>20,032,616</u>
<b>General Receipts</b>						
Property Taxes	4,449,962	4,772,330	0	0	4,449,962	4,772,330
Sales Taxes Levied for General Purposes	5,705,769	5,292,013	0	0	5,705,769	5,292,013
Payments in Lieu of Taxes	17,598	17,241	0	0	17,598	17,241
Grants and Entitlements Not Restricted						
to Specific Programs	1,203,396	1,060,241	0	0	1,203,396	1,060,241
Interest	20,039	40,981	0	0	20,039	40,981
Miscellaneous	670,943	604,787	0	0	670,943	604,787
Total General Receipts	<u>12,067,707</u>	<u>11,787,593</u>	<u>0</u>	<u>0</u>	<u>12,067,707</u>	<u>11,787,593</u>
Total Receipts	<u>30,775,020</u>	<u>31,184,048</u>	<u>643,590</u>	<u>636,161</u>	<u>31,418,610</u>	<u>31,820,209</u>
<b>Disbursements</b>						
General Government	3,878,117	3,990,557	0	0	3,878,117	3,990,557
Public Safety	4,950,856	4,962,339	0	0	4,950,856	4,962,339
Public Works	4,847,354	5,007,692	0	0	4,847,354	5,007,692
Health	4,531,954	4,369,196	0	0	4,531,954	4,369,196
Human Services	6,601,880	6,352,442	0	0	6,601,880	6,352,442
Capital Outlay	2,193,047	1,357,085	0	0	2,193,047	1,357,085
Debt Service	1,814,944	1,864,402	0	0	1,814,944	1,864,402
Sewer	0	0	760,124	706,826	760,124	706,826
Total Disbursements	<u>28,818,152</u>	<u>27,903,713</u>	<u>760,124</u>	<u>706,826</u>	<u>29,578,276</u>	<u>28,610,539</u>
Excess (Deficiency) Before Transfers/Advances	1,956,868	3,280,335	(116,534)	(70,665)	1,840,334	3,209,670
Transfers In	1,879	3	0	0	1,879	3
Transfers Out	0	0	(1,879)	(3)	(1,879)	(3)
Advances In	0	5,000	0	23,425	0	28,425
Advances Out	0	(23,425)	0	(5,000)	0	(28,425)
Increase (Decrease) in Net Position	1,958,747	3,261,913	(118,413)	(52,243)	1,840,334	3,209,670
Net Position at Beginning of Year	<u>12,257,432</u>	<u>8,995,519</u>	<u>283,574</u>	<u>335,817</u>	<u>12,541,006</u>	<u>9,331,336</u>
Net Position at End of Year	<u>\$14,216,179</u>	<u>\$12,257,432</u>	<u>\$165,161</u>	<u>\$283,574</u>	<u>\$14,381,340</u>	<u>\$12,541,006</u>

Program receipts represent \$18,707,313 of total receipts for governmental activities and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money.

Property taxes decreased \$322,368. Although the County has experienced relatively stable collections between years, there is the appearance of a decrease in taxes due timing differences in distributions from agency funds to the County's funds.

Governmental activities general receipts represent \$12,067,707 of the County's total receipts, and of this amount, \$4,449,962 are property tax receipts and \$5,705,769 is sales tax receipts. Grants and entitlements not restricted to specific programs total \$1,203,396.

Highland County, Ohio  
Management's Discussion and Analysis  
For the Year Ended December 31, 2012

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

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

**Governmental Activities**

If you look at the statement of activities – cash basis, you will see that the first column lists the major services provided by the County. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for Human Services, Public Works and Public Safety which account for 23, 17 and 17 percent of all governmental disbursements, respectively. Health also represents a significant cost, about 16 percent. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the County that must be used to provide a specific service. The Net (Disbursements) Receipts column compares the program receipts to the cost of the service. This “net cost” amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)  
**Governmental Activities**

	Total Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2012	Net Cost of Services 2011
General Government	\$3,878,117	\$3,990,557	\$1,666,734	\$1,793,059
Public Safety	4,950,856	4,962,339	3,568,826	3,328,157
Public Works	4,847,354	5,007,692	328,754	276,564
Health	4,531,954	4,369,196	1,965,275	1,423,622
Human Services	6,601,880	6,352,442	1,150,339	160,071
Capital Outlay	2,193,047	1,357,085	(384,033)	(338,617)
Debt Service	1,814,944	1,864,402	1,814,944	1,864,402
<b>Total Disbursements</b>	<b>\$28,818,152</b>	<b>\$27,903,713</b>	<b>\$10,110,839</b>	<b>\$8,507,258</b>

Highland County, Ohio  
Management's Discussion and Analysis  
For the Year Ended December 31, 2012

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The total cost of Governmental Activities services increased \$914,439. This was due primarily to a significant State-administered ODOT project recorded on the County's books, which was partially offset by the County continuing cost control measures during 2012 that were implemented in prior years. Capital Outlay increased by \$835,962, primarily because of the aforementioned project. General Government, Public Safety, and Public Works all decreased insignificantly in the amounts of \$112,440, \$11,483, and \$160,338, respectively. Health and Human Services increased insignificantly in the amounts of \$162,758 and \$249,438, respectively. Debt Service decreased \$49,458 due mainly to the County taking on no new debt in 2012.

**Business-Type Activity**

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

**The County's Funds**

Total governmental funds had receipts of \$30,775,020 and disbursements of \$28,818,152. The Repair MVL Fund and Board of Developmental Disabilities Fund saw increases in fund balances for the year. The \$163,405 increase in the Repair MVL Fund is due to an increase in grant monies received. The increase of \$751,513 in the Board of Developmental Disabilities Fund is due to the County monitoring disbursements more closely in an effort to better control its spending situation. The \$144,953 decrease in the General Fund and the \$20,331 decrease in the Public Assistance Fund were insignificant.

**General Fund Budgeting Highlights**

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

During 2012, the County amended its General Fund budget several times to reflect changing circumstances. Actual receipts were above final budgeted receipts primarily due to intergovernmental receipts being higher than expected, but partially offset by property tax collections being lower than expected.

Final disbursements were budgeted at \$7,031,015 while actual disbursements were \$7,573,737. The County's original appropriations were \$6,535,123. The variance between original and final appropriations was \$495,892, due to increases in estimates for overall disbursements. The variance between final appropriations and actual disbursements of \$542,722 was mainly due to increases in public safety and general government.

### **Capital Assets and Debt Administration**

#### **Capital Assets**

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

#### **Debt**

At December 31, 2012, the County's outstanding debt included \$5,163,928 in general obligation bonds issued for improvements to buildings and structures and \$9,894,021 in special assessment bonds, OWDA loans, OPWC loans, long-term notes and ODOD loans for facilities and equipment. For further information regarding the County's debt, refer to Note 11 to the basic financial statements.

#### **Current Issues**

In 2005, the County Commissioners increased the sales tax by one half percent. The increase was necessary as there had been reductions in local government funds and local government revenue assistance funds over the past few years. The County's residential and commercial development has decreased considerably in the past few years. The continuing reason for the decline is the closing of DHL in Wilmington which was one of the County's major employers. Johnson Controls, another major employer has also closed. Highland County continues to be among the highest in unemployment in the State.

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

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

#### **Contacting the County's Financial Management**

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

Highland County, Ohio  
Statement of Net Position - Cash Basis  
December 31, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activity	Total	Highland County Airport Authority
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$14,080,822	\$165,161	\$14,245,983	\$29,824
Cash and Cash Equivalents in Segregated Accounts	1,135	0	1,135	0
Cash and Cash Equivalents with Fiscal Agents	134,222	0	134,222	0
<i>Total Assets</i>	<u>\$14,216,179</u>	<u>\$165,161</u>	<u>\$14,381,340</u>	<u>\$29,824</u>
<b>Net Position</b>				
Restricted for:				
Capital Projects	\$516,710	\$0	\$516,710	\$0
Debt Service	162,941	0	162,941	0
Other Purposes	9,925,276	0	9,925,276	0
Unrestricted	3,611,252	165,161	3,776,413	29,824
<i>Total Net Position</i>	<u>\$14,216,179</u>	<u>\$165,161</u>	<u>\$14,381,340</u>	<u>\$29,824</u>

See accompanying notes to the basic financial statements

Highland County, Ohio  
Statement of Activities - Cash Basis  
For the Year Ended December 31, 2012

	Program Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities</b>				
General Government:				
Legislative and Executive	\$2,629,935	\$1,727,386	\$50	\$0
Judicial	1,248,182	361,971	121,976	0
Public Safety	4,950,856	507,425	874,605	0
Public Works	4,847,354	45,107	4,473,493	0
Health	4,531,954	270,942	2,295,737	0
Human Services	6,601,880	601,564	4,849,977	0
Capital Outlay	2,193,047	0	0	2,577,080
Debt Service:				
Principal Retirement	1,214,754	0	0	0
Interest and Fiscal Charges	600,190	0	0	0
<i>Total Governmental Activities</i>	28,818,152	3,514,395	12,615,838	2,577,080
<b>Business-Type Activity</b>				
Sewer	760,124	643,590	0	0
<i>Total Primary Government</i>	<u>\$29,578,276</u>	<u>\$4,157,985</u>	<u>\$12,615,838</u>	<u>\$2,577,080</u>
<b>Component Unit</b>				
Highland County Airport Authority	<u>\$152,262</u>	<u>\$90,738</u>	<u>\$1,862</u>	<u>\$0</u>

**General Receipts**

Property Taxes Levied for:

General Purposes

Road Improvements

Board of Developmental Disabilities

Human Services

Sales Taxes Levied for General Purposes

Payments in Lieu of Taxes

Grants and Entitlements not Restricted to Specific Programs

Interest

Miscellaneous

*Total General Receipts*

Transfers In

*Total General Receipts and Transfers*

Change in Net Position

*Net Position at Beginning of Year*

*Net Position at End of Year*

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts  
and Changes in Net Position

Governmental Activities	Primary Government		Component Unit
	Business-Type Activity	Total	Highland County Airport Authority
(\$902,499)	\$0	(\$902,499)	\$0
(764,235)	0	(764,235)	0
(3,568,826)	0	(3,568,826)	0
(328,754)	0	(328,754)	0
(1,965,275)	0	(1,965,275)	0
(1,150,339)	0	(1,150,339)	0
384,033	0	384,033	0
(1,214,754)	0	(1,214,754)	0
(600,190)	0	(600,190)	0
(10,110,839)	0	(10,110,839)	0
0	(116,534)	(116,534)	0
(10,110,839)	(116,534)	(10,227,373)	0
0	0	0	(59,662)
1,576,235	0	1,576,235	0
6,783	0	6,783	0
2,333,940	0	2,333,940	0
533,004	0	533,004	0
5,705,769	0	5,705,769	0
17,598	0	17,598	0
1,203,396	0	1,203,396	0
20,039	0	20,039	7
670,943	0	670,943	54,338
12,067,707	0	12,067,707	54,345
1,879	(1,879)	0	0
12,069,586	(1,879)	12,067,707	54,345
1,958,747	(118,413)	1,840,334	(5,317)
12,257,432	283,574	12,541,006	35,141
<u>\$14,216,179</u>	<u>\$165,161</u>	<u>\$14,381,340</u>	<u>\$29,824</u>

Highland County, Ohio  
Statement of Cash Basis Assets and Fund Balances  
Governmental Funds  
December 31, 2012

	General Fund	Public Assistance Fund	Repair MVL Fund
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$488,912	\$252,078	\$1,044,643
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	218,851	0	0
Cash and Cash Equivalents in Segregated Accounts	0	0	0
Cash and Cash Equivalents with Fiscal Agents	0	0	0
<i>Total Assets</i>	<u>\$707,763</u>	<u>\$252,078</u>	<u>\$1,044,643</u>
<b>Fund Balances</b>			
Nonspendable	\$219,527	\$0	\$0
Restricted	0	252,078	1,044,643
Assigned	0	0	0
Unassigned	488,236	0	0
<i>Total Fund Balances</i>	<u>\$707,763</u>	<u>\$252,078</u>	<u>\$1,044,643</u>

See accompanying notes to the basic financial statements

Board of Developmental Disabilities Fund	Other Governmental Funds	Total Governmental Funds
\$4,351,889	\$7,724,449	\$13,861,971
0	0	218,851
0	1,135	1,135
134,222	0	134,222
<u>\$4,486,111</u>	<u>\$7,725,584</u>	<u>\$14,216,179</u>
\$0	\$0	\$219,527
4,486,111	4,822,095	10,604,927
0	2,903,489	2,903,489
0	0	488,236
<u>\$4,486,111</u>	<u>\$7,725,584</u>	<u>\$14,216,179</u>

Highland County, Ohio  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Basis Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2012

	General Fund	Public Assistance Fund	Repair MVL Fund
<b>Receipts</b>			
Property Taxes	\$1,576,235	\$0	\$6,783
Sales Taxes	5,705,769	0	0
Charges for Services	1,112,190	596,319	6,094
Licenses and Permits	3,020	0	0
Fines and Forfeitures	93,803	0	965
Intergovernmental	1,058,958	3,039,712	5,848,128
Payments in Lieu of Taxes	17,598	0	0
Special Assessments	0	0	0
Interest	5,289	0	2,574
Rentals	6,330	0	0
Contributions and Donations	0	0	0
Miscellaneous	147,220	130,275	37,529
<i>Total Receipts</i>	<u>9,726,412</u>	<u>3,766,306</u>	<u>5,902,073</u>
<b>Disbursements</b>			
Current:			
General Government:			
Legislative and Executive	1,671,649	0	0
Judicial	1,103,538	0	0
Public Safety	3,613,646	0	0
Public Works	500,651	0	4,216,338
Health	85,899	0	0
Human Services	598,354	3,786,637	0
Capital Outlay	0	0	1,522,330
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Disbursements</i>	<u>7,573,737</u>	<u>3,786,637</u>	<u>5,738,668</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>2,152,675</u>	<u>(20,331)</u>	<u>163,405</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	701	0	0
Transfers Out	(2,286,255)	0	0
Advances In	3,356	0	0
Advances Out	(15,430)	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(2,297,628)</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(144,953)	(20,331)	163,405
<i>Fund Balances at Beginning of Year</i>	<u>852,716</u>	<u>272,409</u>	<u>881,238</u>
<i>Fund Balances at End of Year</i>	<u>\$707,763</u>	<u>\$252,078</u>	<u>\$1,044,643</u>

See accompanying notes to the basic financial statements

Board of Developmental Disabilities Fund	Other Governmental Funds	Total Governmental Funds
\$2,333,940	\$533,004	\$4,449,962
0	0	5,705,769
183,490	1,265,783	3,163,876
0	106,779	109,799
0	139,622	234,390
1,971,953	3,890,750	15,809,501
0	0	17,598
0	472,649	472,649
14,687	63	22,613
0	0	6,330
0	111,590	111,590
700	355,219	670,943
<u>4,504,770</u>	<u>6,875,459</u>	<u>30,775,020</u>
0	958,286	2,629,935
0	144,644	1,248,182
0	1,337,210	4,950,856
0	130,365	4,847,354
3,716,640	729,415	4,531,954
0	2,216,889	6,601,880
0	670,717	2,193,047
0	1,214,754	1,214,754
0	600,190	600,190
<u>3,716,640</u>	<u>8,002,470</u>	<u>28,818,152</u>
<u>788,130</u>	<u>(1,127,011)</u>	<u>1,956,868</u>
0	2,324,751	2,325,452
(36,617)	(701)	(2,323,573)
0	188,573	191,929
0	(176,499)	(191,929)
<u>(36,617)</u>	<u>2,336,124</u>	<u>1,879</u>
751,513	1,209,113	1,958,747
<u>3,734,598</u>	<u>6,516,471</u>	<u>12,257,432</u>
<u>\$4,486,111</u>	<u>\$7,725,584</u>	<u>\$14,216,179</u>

Highland County, Ohio  
Statement of Receipts, Disbursements and Changes  
in Fund Balance - Budget and Actual - Budget Basis  
General Fund  
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property Taxes	\$2,110,240	\$2,110,240	\$1,721,104	(\$389,136)
Sales Taxes	4,846,030	5,294,407	5,705,769	411,362
Charges for Services	943,360	1,030,644	1,112,190	81,546
Licenses and Permits	2,565	2,802	3,020	218
Fines and Forfeitures	79,669	87,040	93,803	6,763
Intergovernmental	899,395	982,611	1,058,958	76,347
Payments in Lieu of Taxes	14,946	16,329	17,598	1,269
Interest	5,823	6,362	5,289	(1,073)
Rentals	5,376	5,874	6,330	456
Miscellaneous	125,037	136,606	147,220	10,614
<i>Total Receipts</i>	<u>9,032,441</u>	<u>9,672,915</u>	<u>9,871,281</u>	<u>198,366</u>
<b>Disbursements</b>				
Current:				
General Government				
Legislative and Executive	1,442,410	1,551,861	1,671,649	(119,788)
Judicial	952,206	1,024,460	1,103,538	(79,078)
Public Safety	3,118,093	3,354,698	3,613,646	(258,948)
Public Works	431,995	464,775	500,651	(35,876)
Health	74,119	79,744	85,899	(6,155)
Human Services	516,300	555,477	598,354	(42,877)
<i>Total Disbursements</i>	<u>6,535,123</u>	<u>7,031,015</u>	<u>7,573,737</u>	<u>(542,722)</u>
<i>Excess of Receipts Over Disbursements</i>	<u>2,497,318</u>	<u>2,641,900</u>	<u>2,297,544</u>	<u>(344,356)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	55,349	60,470	701	(59,769)
Transfers Out	(1,972,732)	(2,122,426)	(2,286,255)	(163,829)
Advances In	2,850	3,114	3,356	242
Advances Out	(13,314)	(14,324)	(15,430)	(1,106)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,927,847)</u>	<u>(2,073,166)</u>	<u>(2,297,628)</u>	<u>(224,462)</u>
<i>Net Change in Fund Balance</i>	569,471	568,734	(84)	(568,818)
<i>Fund Balance at Beginning of Year</i>	<u>580,267</u>	<u>580,267</u>	<u>580,267</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$1,149,738</u>	<u>\$1,149,001</u>	<u>\$580,183</u>	<u>(\$568,818)</u>

See accompanying notes to the basic financial statements

Highland County, Ohio  
Statement of Receipts, Disbursements and Changes  
in Fund Balance - Budget and Actual - Budget Basis  
Public Assistance Fund  
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Charges for Services	\$898,606	\$546,907	\$596,319	\$49,412
Intergovernmental	5,069,471	3,085,368	3,039,712	(45,656)
Miscellaneous	217,266	132,232	130,275	(1,957)
<i>Total Receipts</i>	6,185,343	3,764,507	3,766,306	1,799
<b>Disbursements</b>				
Current:				
Human Services	6,080,343	4,034,918	3,786,637	248,281
<i>Excess of Receipts Over (Under) Disbursements</i>	105,000	(270,411)	(20,331)	250,080
<b>Other Financing Sources (Uses)</b>				
Transfers In	95,373	74,322	0	(74,322)
Transfers Out	(105,000)	(2,000)	0	2,000
<i>Total Other Financing Sources (Uses)</i>	(9,627)	72,322	0	(72,322)
<i>Net Change in Fund Balance</i>	95,373	(198,089)	(20,331)	177,758
<i>Fund Balance at Beginning of Year</i>	272,409	272,409	272,409	0
<i>Fund Balance at End of Year</i>	\$367,782	\$74,320	\$252,078	\$177,758

See accompanying notes to the basic financial statements

Highland County, Ohio  
Statement of Receipts, Disbursements and Changes  
in Fund Balance - Budget and Actual - Budget Basis  
Repair MVL Fund  
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Receipts</b>				
Property Taxes	\$8,655	\$8,816	\$8,816	\$0
Charges for Services	5,982	6,094	6,094	0
Fines and Forfeitures	947	965	965	0
Intergovernmental	4,246,585	5,847,923	5,848,128	205
Interest	989	1,007	2,574	1,567
Miscellaneous	36,843	37,527	37,529	2
<i>Total Receipts</i>	4,300,001	5,902,332	5,904,106	1,774
<b>Disbursements</b>				
Current:				
Public Works	4,633,535	4,800,726	4,796,747	3,979
Capital Outlay	0	1,522,330	1,522,330	0
<i>Total Disbursements</i>	4,633,535	6,323,056	6,319,077	3,979
<i>Net Change in Fund Balance</i>	(333,534)	(420,724)	(414,971)	5,753
<i>Fund Balance at Beginning of Year</i>	545,075	545,075	545,075	0
Prior Year Encumbrances Appropriated	333,535	333,535	333,535	0
<i>Fund Balance at End of Year</i>	<u>\$545,076</u>	<u>\$457,886</u>	<u>\$463,639</u>	<u>\$5,753</u>

See accompanying notes to the basic financial statements

Highland County, Ohio  
Statement of Receipts, Disbursements and Changes  
in Fund Balance - Budget and Actual - Budget Basis  
Board of Developmental Disabilities Fund  
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property Taxes	\$2,556,165	\$2,556,165	\$2,396,996	(\$159,169)
Charges for Services	80,605	80,605	183,490	102,885
Intergovernmental	785,095	785,095	1,971,953	1,186,858
Other	308	308	700	392
<i>Total Receipts</i>	3,422,173	3,422,173	4,553,139	1,130,966
<b>Disbursements</b>				
Current:				
Health	3,671,862	3,671,563	3,463,647	207,916
<i>Excess of Receipts Over (Under) Disbursements</i>	(249,689)	(249,390)	1,089,492	1,338,882
<b>Other Financing Uses</b>				
Transfers Out	(36,317)	(38,445)	(36,617)	1,828
<i>Net Change in Fund Balance</i>	(286,006)	(287,835)	1,052,875	1,340,710
<i>Fund Balance at Beginning of Year - Restated</i>	3,146,539	3,146,539	3,146,539	0
<i>Fund Balance at End of Year</i>	<u>\$2,860,533</u>	<u>\$2,858,704</u>	<u>\$4,199,414</u>	<u>\$1,340,710</u>

See accountant's compilation report

Highland County, Ohio  
Statement of Fund Net Position - Cash Basis  
Proprietary Fund  
December 31, 2012

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	<u>Sewer Fund</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$165,161</u>
<b>Net Position</b>	
Unrestricted	<u>\$165,161</u>

See accompanying notes to the basic financial statements

Highland County, Ohio  
Statement of Cash Receipts,  
Disbursements and Changes in Fund Net Position - Cash Basis  
Proprietary Fund  
For the Year Ended December 31, 2012

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	Sewer Fund
<b>Operating Receipts</b>	
Charges for Services	\$643,590
<b>Operating Disbursements</b>	
Contractual Services	760,124
<i>Operating Loss</i>	<i>(116,534)</i>
<i>Income (Loss) before Advances and Transfers</i>	<i>(116,534)</i>
Advances In	3,356
Advances Out	(3,356)
Transfers Out	(1,879)
<i>Change in Net Position</i>	<i>(118,413)</i>
<i>Net Position at Beginning of Year</i>	<i>283,574</i>
<i>Net Position at End of Year</i>	<i>\$165,161</i>

See accompanying notes to the basic financial statements

Highland County, Ohio  
Statement of Fiduciary Net Position - Cash Basis  
Fiduciary Funds  
December 31, 2012

	Private Purpose Trust Funds	Agency Funds
<b><u>Assets:</u></b>		
Equity in Pooled Cash and Cash Equivalents	\$67,404	\$2,058,450
Cash and Cash Equivalents In Segregated Accounts	0	356,878
<i>Total Assets</i>	67,404	\$2,415,328
<b><u>Net Position:</u></b>		
Held in Trust for Private Purposes	\$67,404	\$0
Held on Behalf of Others	0	2,415,328
<i>Total Net Position</i>	\$67,404	\$2,415,328

See accompanying notes to the basic financial statements

Highland County  
Statement of Changes in Fiduciary Net Position - Cash Basis  
Private Purpose Trust Funds  
For the Year Ended December 31, 2012

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	Private Purpose Trust Funds
<b><u>Additions:</u></b>	
Interest	\$0
<b><u>Deductions:</u></b>	
	<u>0</u>
<i>Change in Net Position</i>	0
<i>Net Position at Beginning of Year</i>	<u>67,404</u>
<i>Net Position at End of Year</i>	<u><u>\$67,404</u></u>

See accompanying notes to the basic financial statements

**Note 1 - Reporting Entity**

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

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

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

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

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

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

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Note 1 - Reporting Entity** (continued)

The Highland County Airport Authority (the Authority) is a legally separate body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Authority is directed by a seven member Board, appointed by the Highland County Commissioners. The Authority is responsible for the safety and efficient operation and maintenance of the airport. The Highland County Commissioners administer and account for bond anticipation notes for airport improvements. The Authority is a component unit of the County, and it is discretely presented to emphasize that it is legally separate from the County.

The information presented in Notes 2 through 18 relates to the primary government. Information related to the discretely presented component unit is presented in Note 19.

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

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

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

Ross, Pickaway, Highland and Fayette Counties Joint Solid Waste District  
Paint Valley Board of Alcohol, Drug Addiction and Mental Health Services  
South Central Regional Juvenile Detention Center  
Southern Ohio Council of Governments  
County Risk Sharing Authority, Inc.  
County Commissioners' Association of Ohio Service Corporation

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Note 2 - Summary of Significant Accounting Policies**

As discussed further in the Basis of Accounting section of this Note, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the County's accounting policies.

Basis of Presentation

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

Government-Wide Financial Statements

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

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

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

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Note 2 - Summary of Significant Accounting Policies** (continued)

Fund Financial Statements

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

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

Fund Accounting

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

Governmental Funds

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

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

Public Assistance – This fund accounts for and reports federal, State, and local monies restricted to provide general relief and to pay providers of medical assistance and social services.

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

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Note 2 - Summary of Significant Accounting Policies** (continued)

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

The other governmental funds of the County account for and report grants and other resources whose use is restricted, committed, or assigned to a particular purpose.

Proprietary Fund

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

Enterprise Fund - The enterprise fund may be used to account for any activity for which a fee is charged to external users for goods or services. The following is the County's only enterprise fund:

Sewer Fund – To account for and report the provision of sanitary sewer services to the residents and businesses of the County.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. 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 not available to support the County's own programs. These funds are distinguished by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held. The County has two private purpose trust funds which account for monies to be used by the Children Service's Department as authorized in the wills of Carey B. Emery and Fannie L. Polk. Agency funds are purely custodial in nature and are used to account for assets held by the County for political subdivisions for which the County acts as fiscal agent and for taxes, State-levied shared revenues, and fines and forfeitures collected and distributed to other political subdivisions.

Basis of Accounting

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

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Note 2 - Summary of Significant Accounting Policies** (continued)

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

Budgetary Process

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

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

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

Cash and Investments

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

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

The Southern Ohio Council of Governments is currently holding deposits that belong to the County. These are represented as "Cash and Cash Equivalents with Fiscal Agents" on the financial statements.

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Note 2 - Summary of Significant Accounting Policies** (continued)

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents.

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

The County has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) and Federal Government Obligations Money Market Mutual Fund during 2012. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's net asset value per share which is the price the investment could be sold at December 31, 2012. Investments are reported at fair value. The fair value of the mutual funds is determined by the fund's December 31, 2012 share price.

Interest earnings are allocated to County funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2012 were \$5,289, which includes \$4,875 assigned from other County funds.

**Restricted Assets**

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

**Inventory and Prepaid Items**

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

**Capital Assets**

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

**Interfund Receivables/Payables**

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

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Note 2 - Summary of Significant Accounting Policies** (continued)

Accumulated Leave

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

Employer Contributions to Cost-Sharing Pension Plans

The County recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Long-Term Obligations

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

Net Position

Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes activities involving the upkeep of the County's roads and bridges, various mental health services, child support and welfare services, services for the handicapped and mentally disabled, and activities of the County's courts. None of which is restricted by enabling legislation.

The County's policy is to first apply restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Balance

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

**Note 2 - Summary of Significant Accounting Policies** (continued)

Nonspendable

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

Restricted

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

Committed

The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Commissioners. Those committed amounts cannot be used for any other purpose unless the County Commissioners remove or change the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned

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

Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Note 2 - Summary of Significant Accounting Policies** (continued)

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

**Interfund Transactions**

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

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

**Note 3 - Compliance**

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

Ohio Revised Code, Section 5705.41(B) requires that no subdivision or taxing unit is to expend money unless it has been appropriated. The County had expenditures in excess of appropriations within its General Fund at December 31, 2012, which is contrary to the Ohio Revised Code.

Ohio Revised Code, Section 5705.41(D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless funds have been properly certified. The County had commitments of funds during 2012 that were not properly certified, which is contrary to the Ohio Revised Code.

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Note 4 - Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The statement of receipts, disbursements and changes in fund balance – budget and actual – budget basis presented for the General Fund and each major special revenue fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the cash basis are outstanding year-end encumbrances which are treated as expenditures (budgetary basis) rather than as restricted, committed, or assigned fund balance (cash basis). In addition, cash that is held by agency funds on behalf of County funds on a budget basis are allocated and reported on the cash basis in the appropriate County fund. The encumbrances outstanding at year-end and agency fund distributions (budgetary basis) amounted to:

	General	Public Assistance	Repair MVL	Board of Developmental Disabilities
Cash Basis	(\$144,953)	(\$20,331)	\$163,405	\$751,513
Encumbrances	0	0	(580,409)	0
Southern Ohio Council of Governments Activity	0	0	0	238,306
Agency Fund Distribution:				
Beginning of Year	272,449	0	2,628	215,531
End of Year	(127,580)	0	(595)	(152,475)
Budget Basis	<u>(\$84)</u>	<u>(\$20,331)</u>	<u>(\$414,971)</u>	<u>\$1,052,875</u>

**Note 5 - Deposits and Investments**

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States, or any book entry, zero coupon United States treasury security that is a direct obligation of the United States;

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Note 5 - Deposits and Investments** (continued)

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

**Note 5 - Deposits and Investments** (continued)

12. Up to one percent of the County's average portfolio in debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government.

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

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

Investments

As of December 31, 2012, the County's investments were in STAROhio and Federal Government Obligations Money Market Mutual Fund. Investments had a carrying value of \$4,003,435 and \$5,172,821, respectively, and mature in less than one year.

Interest Rate Risk

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

Credit Risk

STAROhio and the Federal Government Obligations Money Market Fund carry a rating of AAAM by Standard & Poor's. The County has no investment policy dealing with investment credit risk beyond the requirements in State statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

**Note 5 - Deposits and Investments** (continued)

**Concentration of Credit Risk**

The County's investment policy does not address concentration of credit risk beyond the requirements in State statute. The County holds 44% of its investments in STAROhio and 56% in money market mutual funds.

**Note 6 - Permissive Sales and Use Tax**

The County Commissioners, by resolution, imposed a 1.5 percent tax on all retail sales made in the County, except sales of motor vehicles, and on the storage, use, or consumption of tangible personal property in the County, including motor vehicles, not subject to the sales tax. In 2012, the County received a total of \$5,705,769. The allocation of the sales tax is 100 percent to the County's General Fund. Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies the amount of the tax to be returned to the County to the State Auditor. The Tax Commissioner's certification must be made within 45 days after the end of each month. The State Auditor then has five days in which to draw the warrant payable to the County.

**Note 7 - Property Taxes**

Property taxes include amounts levied against all real and public utility property located in the County. Property tax revenue received during 2012 for real and public utility property taxes represents collections of 2011 taxes.

2012 real property taxes are levied after October 1, 2012, on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Note 7 - Property Taxes** (continued)

The full tax rate for all County operations for the year ended December 31, 2012, was \$10.15 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2012 property tax receipts were based are as follows:

Real Property:	
Residential and Agricultural	\$573,486,920
Other	75,948,290
Public Utility Property:	
Real	138,030
Personal	32,622,070
Total Assessed Value	\$682,195,310

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

**Note 8 - Risk Management**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2012, the County contracted with County Risk Sharing Authority, Inc. (CORSA) for insurance coverage. The CORSA program has a \$2,500 deductible. Coverage provided by CORSA is as follows:

	<u>Liability</u>
General Liability	\$1,000,000
Law Enforcement Liability	1,000,000
Automobile Liability	1,000,000
Uninsured/Underinsured Motorists	250,000
Errors and Omissions Liability (\$1,000,000 annual aggregate)	1,000,000
Excess Liability (sublimit \$5,000,000 for sexual harassment)	9,000,000
Property (total covered value)	64,246,019
Equipment Breakdown	100,000,000
Crime Insurance	1,000,000
Stop Gap Liability	1,000,000
Medical Professional Liability (sublimit \$6,000,000 for sexual harassment)	10,000,000
Foster Parents (sublimit \$6,000,000 for sexual harassment)	10,000,000

**Note 8 - Risk Management** (continued)

There has been no significant change in insurance coverage from 2011, and settled claims have not exceeded this coverage in the past three years. The County pays all elected officials' bonds by statute.

For 2012, the County participated in the County Commissioners' Association of Ohio Service Corporation, an insurance purchasing pool (See Note 16). The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The workers' compensation experience of the participating counties is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than the individual rate.

In order to allocate the savings derived by formation of the Plan, and to maximize the number of participants in the Plan, annually the Plan's executive committee calculates the total savings which accrued to the Plan through its formation. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from, or pays rate equalization rebates to the various participants. Participation in the Plan is limited to counties that can meet the Plan's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the Plan. Each year, the County pays an enrollment fee to the Plan to cover the costs of administering the program.

The County may withdraw from the Plan if written notice is provided 60 days prior to the prescribed application deadline of the Ohio Bureau of Workers' Compensation. However, the County is not relieved of the obligation to pay any amounts owed to the Plan prior to withdrawal, and any county leaving the Plan allows a representative of the Plan to assess loss experience for three years following the last year of participation.

**Note 9 - Defined Benefit Pension Plans**

**Ohio Public Employees Retirement System**

Plan Description – The County participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Note 9 - Defined Benefit Pension Plans** (continued)

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions and 12 percent for law enforcement and public safety members. For the year ended December 31, 2012, members in state and local divisions contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.5 percent and 12.1 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2012, member and employer contribution rates were consistent across all three plans.

The County's 2012 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the County's contribution was 18.10 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.0 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 for 2012. Employer contribution rates are actuarially determined.

The County's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010 were \$1,452,613, \$1,491,315, and \$1,453,248, respectively. The full amount has been contributed for 2012, 2011 and 2010. Contributions to the Member-Directed Plan for 2012 were \$8,247 made by the County and \$5,891 made by plan members.

**State Teachers Retirement System of Ohio**

Plan Description – Certified teachers employed by the school for developmental disabilities participate in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

**Note 9 - Defined Benefit Pension Plans** (continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. The County was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The County's required contributions for pension obligations to STRS Ohio for the years ended December 31, 2012, 2011, and 2010 were \$14,917, \$15,016, and \$13,437 respectively. The full amount has been contributed for 2012, 2011, and 2010.

**Note 10 - Post-Employment Benefits**

Ohio Public Employees Retirement System

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

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

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

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012.

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Note 10 - Post-Employment Benefits** (continued)

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

The County's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were \$408,014, \$409,678, and \$521,663, respectively. The full amount has been contributed for 2012, 2011, and 2010.

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

**State Teachers Retirement System of Ohio**

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The County's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$1,147, \$1,155, and \$1,034, respectively. The full amount has been contributed for 2012, 2011, and 2010.

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**Note 11 - Long -Term Debt**

The County's long-term debt activity for the year ended December 31, 2012, was as follows:

	Interest Rate	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due Within One Year
<u>General Obligation Bonds:</u>						
1996 GO Bonds Series A						
Tec Center	5.00%	\$474,900	\$0	\$85,900	\$389,000	\$90,300
1996 GO Bonds Series B						
Tec Center	5.00%	173,700	0	31,400	142,300	33,000
2002 GO Bonds						
Correctional Facilities	1.5 - 4.8%	3,220,000	0	230,000	2,990,000	240,000
2005 GO Bonds						
Various Purpose	4.80%	1,312,000	0	68,000	1,244,000	71,000
2008 GO Bonds Various Purpose						
Refunding and Improvement Bonds Board of Developmental Disabilities	5.05%	414,511	0	15,883	398,628	16,695
<b>Total GO Bonds</b>		<b>5,595,111</b>	<b>0</b>	<b>431,183</b>	<b>5,163,928</b>	<b>450,995</b>
<u>OPWC Loans:</u>						
1996 OPWC Rocky Fork Lake						
Area Wastewater Collection System Loan	0.00%	160,000	0	20,000	140,000	20,000
2003 OPWC Rolling Acres						
WWTP Loan	0.00%	23,174	0	2,107	21,067	2,107
2009 OPWC Southwest WWTP Loan	0.00%	212,011	0	11,460	200,551	11,460
2009 OPWC Lakeside WWTP Repair Loan	0.00%	64,991	0	3,513	61,478	3,513
<b>Total OPWC Loans</b>		<b>460,176</b>	<b>0</b>	<b>37,080</b>	<b>423,096</b>	<b>37,080</b>
<u>Long-Term Notes:</u>						
Bond Anticipation Note						
Geographic Information System	4.21%	359,925	0	19,000	340,925	20,000
Bond Anticipation Note						
Real Estate Acquisition	4.21%	119,000	0	6,000	113,000	7,000
Bond Anticipation Note						
Airport Improvement	6.00%	911,000	0	49,000	862,000	51,000
Bond Anticipation Note						
Juvenile Detention Center	3.40%	520,000	0	25,000	495,000	30,000
Bond Anticipation Note						
Various Purpose	4.07%	359,000	0	152,000	207,000	17,000
<b>Total Long-Term Notes</b>		<b>2,268,925</b>	<b>0</b>	<b>251,000</b>	<b>2,017,925</b>	<b>125,000</b>
<u>OWDA Loans:</u>						
1998 OWDA Rocky Fork						
Water Pollution Control Loan	2.20%	3,821,703	0	413,606	3,408,097	422,756
2004 OWDA Highland-Leesburg						
Sewer Loan	3.98%	693,640	0	17,146	676,494	17,835
2006 OWDA Mowrystown Sewer Loan	3.92%	1,949,868	0	42,938	1,906,930	44,637
2009 OWDA Babington Sewer Loan	4.75%	334,310	0	5,901	328,409	6,185
<b>Total OWDA Loans</b>		<b>6,799,521</b>	<b>0</b>	<b>479,591</b>	<b>6,319,930</b>	<b>491,413</b>
<u>Other Long-Term Obligations:</u>						
1994 Special Assessment Bonds Series A						
Madison Township	4.50%	619,700	0	15,900	603,800	16,600
2002 ODOB Leesburg						
Industrial Park Loan	2.10%	529,270	0	0	529,270	163,545
<b>Total Other Long-Term Obligations</b>		<b>1,148,970</b>	<b>0</b>	<b>15,900</b>	<b>1,133,070</b>	<b>180,145</b>
<b>Total Long-Term Liabilities</b>		<b>\$16,272,703</b>	<b>\$0</b>	<b>\$1,214,754</b>	<b>\$15,057,949</b>	<b>\$1,284,633</b>

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Note 11 - Long-Term Debt** (continued)

1996 Tec Center General Obligation Bonds Series A

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

1996 Tec Center General Obligation Bonds Series B

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

2002 Correctional Facilities General Obligation Bonds

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

2005 Various Purpose General Obligation Bonds

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

2008 Various Purpose Refunding and Improvement Bonds

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

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Note 11 - Long-Term Debt** (continued)

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

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

2003 Ohio Public Works Commission Rolling Acres Wastewater Treatment Plant Loan

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

2009 Ohio Public Works Commission Southwest Wastewater Treatment Plant Loan

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

2009 Ohio Public Works Commission Lakeside Wastewater Treatment Plant Repair Loan

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

Bond Anticipation Note - Geographic Information System

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

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Note 11 - Long-Term Debt** (continued)

Bond Anticipation Note - Real Estate Acquisition

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

Bond Anticipation Note - Airport Improvement

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

Bond Anticipation Note - Juvenile Detention Center

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

Bond Anticipation Note – Various Purpose

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

1998 Ohio Water Development Authority Rocky Fork Water Pollution Control Loan

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

2004 Ohio Water Development Authority Highland - Leesburg Sewer Loan

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

2006 Ohio Water Development Authority Mowrystown Sewer Loan

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

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

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**Note 11 - Long-Term Debt** (continued)

2009 Ohio Water Development Authority Babington Sewer Loan

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

1994 Madison Township Series A Special Assessment Bonds

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

2002 Ohio Department of Development Leesburg Industrial Park Loan

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

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

Year	General Obligation Bonds		OPWC	Long-Term Notes	
	Principal	Interest	Loans	Principal	Interest
2013	\$450,995	\$249,314	\$37,080	\$125,000	\$87,521
2014	471,949	229,081	37,080	130,000	81,807
2015	492,346	207,926	37,080	134,000	75,904
2016	519,089	183,227	37,080	138,000	69,832
2017	396,381	157,192	37,080	147,000	63,458
2018-2022	2,287,645	468,036	125,400	764,000	215,521
2023-2027	510,247	57,972	74,866	579,925	42,104
2028-2030	35,276	1,342	37,430	0	0
Total	<u>\$5,163,928</u>	<u>\$1,554,090</u>	<u>\$423,096</u>	<u>\$2,017,925</u>	<u>\$636,147</u>

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**Note 11 - Long-Term Debt** (continued)

Year	OWDA Loans		Special Assessment Bonds		ODOD Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$491,413	\$189,260	\$16,600	\$27,171	\$163,545	\$36,467
2014	503,546	177,127	17,400	26,424	75,735	13,879
2015	515,999	164,674	18,200	25,641	78,794	10,819
2016	528,781	151,892	19,000	24,822	211,196	27,976
2017	541,902	138,772	19,800	23,967	0	0
2018-2022	1,652,765	512,047	113,400	105,624	0	0
2023-2027	553,915	372,344	141,300	77,711	0	0
2028-2032	675,829	250,429	176,100	42,921	0	0
2033-2037	756,482	102,901	82,000	5,575	0	0
2038-2040	99,298	3,604	0	0	0	0
Total	<u>\$6,319,930</u>	<u>\$2,063,050</u>	<u>\$603,800</u>	<u>\$359,856</u>	<u>\$529,270</u>	<u>\$89,141</u>

The Ohio Revised Code provides that net general obligation debt of the County, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed one percent of the total assessed valuation of the County. The Revised Code further provides that total voted and unvoted net debt of the County less the same exempt debt shall never exceed a sum equal to three percent of the first \$100,000,000 of assessed valuation, plus 1.5 percent of such valuation in excess of \$100,000,000 and not in excess of \$300,000,000, plus 2.5 percent of such valuation in excess of \$300,000,000. The County's unvoted debt margin was \$2,629,593 at December 31, 2012.

**Note 12 - Leases**

In current and prior years, the County entered into capital leases for sheriff's vehicles. Total lease payments for 2012 totaled \$17,451.

Future lease payments are as follows:

Year	Amount
2013	\$17,451
2014	17,451
Total	<u>\$34,902</u>

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**Note 13 - Interfund Activity**

Interfund Transfers

During 2012, the following transfers were made:

		Transfer From				Total
		General Fund	Board of Developmental Disabilities Fund	Other Governmental Funds	Enterprise Fund	
Transfer To	General Fund	\$0	\$0	\$701	\$0	\$701
	Other Governmental Funds	2,286,255	36,617	0	1,879	2,324,751
	Total All Funds	<u>\$2,286,255</u>	<u>\$36,617</u>	<u>\$701</u>	<u>\$1,879</u>	<u>\$2,325,452</u>

Transfers from the General Fund were made to move unrestricted balances to support programs and projects accounted for in other funds. Transfers from other governmental funds were made to reimburse various funds for expenditures and annual debt payments.

Interfund Advances

During 2012, the following advances were made:

		Advances Out			Total
		General Fund	Other Governmental Funds	Enterprise Fund	
Advances In	General Fund	\$0	\$0	\$3,356	\$3,356
	Other Governmental Funds	12,074	176,499	0	188,573
	Enterprise Fund	3,356	0	0	3,356
	Total All Funds	<u>\$15,430</u>	<u>\$176,499</u>	<u>\$3,356</u>	<u>\$195,285</u>

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

**Note 14 - Contingent Liabilities**

Litigation

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

Federal and State Grants

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

**Note 15 - Jointly Governed Organizations**

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

The Ross, Pickaway, Highland and Fayette Counties Joint Solid Waste District (the District) is a jointly governed organization among Ross, Pickaway, Highland and Fayette Counties. Each of these governments supports the District. The County made no contribution during 2012. The degree of control exercised by any participating County is limited to its representation on the Board. The Board of Directors consists of 12 members, the three County Commissioners of each of the four counties. The District does not have any outstanding debt. The District is self-sufficient, operating entirely on collected fees.

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

The Paint Valley Board of Alcohol, Drug Addiction and Mental Health Services (the Board) of Pike, Fayette, Highland, Pickaway and Ross Counties is a jointly governed organization that is responsible for developing, coordinating, modernizing, funding, monitoring and evaluating a community-based mental health and substance abuse program. The Board consists of 18 members. Four members are appointed by the Director of the Ohio Department of Mental Health and four members are appointed by the Director of the Ohio Department of Alcohol and Drug Addiction Services. The remaining members are appointed by the County Commissioners of Pike, Fayette, Highland, Pickaway and Ross Counties in the same proportion as each County's population bears to the total population of the five counties combined. The Board received revenue from the participating counties and received federal and State funding through grant monies which are applied for and received by the Board of Trustees.

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

**Note 15 - Jointly Governed Organizations** (continued)

South Central Regional Juvenile Detention Center

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

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

Southern Ohio Council of Governments

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

**Note 16 - Public Entity Risk Pool and Insurance Purchasing Pool**

County Risk Sharing Authority, Inc.

The County Risk Sharing Authority, Inc. (CORSA) is a public entity shared risk pool among 62 counties in Ohio. CORSA was formed as an Ohio non-profit corporation for the purpose of establishing the CORSA Insurance/Self-Insurance Program, a group primary and excess insurance/self-insurance and risk management program. Member counties agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by CORSA. The coverage includes comprehensive general liability, automobile liability, certain property insurance and public officials' errors and omissions liability insurance.

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

Each member county has one vote on all matters requiring a vote, to be cast by a designated representative. The affairs of CORSA are managed by an elected board of not more than nine trustees. Only county commissioners of member counties are eligible to serve on the Board of Trustees. No county may have more than one representative on the Board of Trustees at any time. Each member county's control over the budgeting and financing of CORSA is limited to its voting authority and any representation it may have on the Board of Trustees. CORSA has issued certificates of participation in order to provide adequate cash reserves. The certificates are secured by the member counties' obligations to make coverage payments to CORSA. The participating counties have no responsibility for the payment of the certificates. The County does not have an equity interest in or a financial responsibility for CORSA. Any additional premium or contribution amounts and estimates of losses are not reasonably determinable. The County's payment to CORSA for insurance in 2012 was \$202,843

**B. County Commissioners' Association of Ohio Service Corporation**

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

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

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2012

**Note 17 - Fund Balances**

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

Fund Balances	General	Public Assistance Fund	Repair MVL Fund	Board of Developmental Disabilities Fund	Other Governmental Funds	Total
<u>Nonspendable:</u>						
Unclaimed Monies	\$219,527	\$0	\$0	\$0	\$0	\$219,527
<u>Restricted for:</u>						
General Government	0	0	0	0	1,224,314	1,224,314
Public Safety	0	0	0	0	493,128	493,128
Public Works	0	0	1,044,643	0	186,893	1,231,536
Health	0	0	0	4,486,111	439,086	4,925,197
Human Services	0	252,078	0	0	1,799,023	2,051,101
Capital Improvements	0	0	0	0	516,710	516,710
Debt Service Payments	0	0	0	0	162,941	162,941
<i>Total Restricted</i>	<u>0</u>	<u>252,078</u>	<u>1,044,643</u>	<u>4,486,111</u>	<u>4,822,095</u>	<u>10,604,927</u>
<u>Assigned to:</u>						
Debt Service Payments	0	0	0	0	2,903,489	2,903,489
<u>Unassigned</u>	<u>488,236</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>488,236</u>
<b>Total Fund Balances</b>	<b><u>\$707,763</u></b>	<b><u>\$252,078</u></b>	<b><u>\$1,044,643</u></b>	<b><u>\$4,486,111</u></b>	<b><u>\$7,725,584</u></b>	<b><u>\$14,216,179</u></b>

**Note 18 – Change in Accounting Principle**

For 2012, the County has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements,” Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements,” Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,” Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53” Statement No. 65, “Items Previously Reported as Assets and Liabilities,” and Statement No. 66, “Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62”

**Note 18 – Change in Accounting Principle** (continued)

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the County's financial statements.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the County's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the County's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the County's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the County's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the County's financial statements.

**Note 19 - Highland County Regional Airport Authority**

**Summary of Significant Accounting Policies**

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

**Note 19 - Highland County Regional Airport Authority** (continued)

Description of the Entity

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

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

Basis of Accounting

The financial statements follow the cash accounting basis. The Authority recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

Cash and Equivalents

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

Property, Plant, and Equipment

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

Equity in Pooled Cash

The carrying amount of deposits and investments at December 31, 2012 was \$29,824. Deposits are insured by the Federal Depository Insurance Corporation.

Risk Management

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

**Highland County**  
*Schedule of Federal Awards Expenditures*  
*For the Year Ended December 31, 2012*

Federal Grantor Pass-Through Grantor Program Title	Pass-Through Entity's Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
<b>United States Department of Agriculture</b>				
<i>Passed Through Ohio Department of Education:</i>				
National School Lunch Program	3L60	10.555	\$4,560	\$1,214
Food Assistance	G-1213-11-0054	10.561	229,859	0
<b>Total United States Department of Agriculture</b>			<b>234,419</b>	<b>1,214</b>
<b>United States Department of Housing and Urban Development</b>				
<i>Passed Through Ohio Department of Development:</i>				
Community Development Block Grants/State's Program	B-C-11-1BG-1	14.228	224,728	0
Community Development Block Grants/State's Program	B-F-11-1BG-1	14.228	87,924	0
Community Development Block Grants/State's Program	B-F-12-1BG-1	14.228	2,400	0
Total Community Development Block Grants/State's Program			315,052	0
<b>Total United States Department of Housing and Urban Development</b>			<b>315,052</b>	<b>0</b>
<b>United States Department of Justice</b>				
<i>Passed through the State of Ohio Attorney General:</i>				
Crime Victim Assistance	2012SAGENE025	16.575	4,600	0
Crime Victim Assistance	2013SAGENE025	16.575	1,301	0
Crime Victim Assistance	2012VAGENE025	16.575	60,973	0
Crime Victim Assistance	2013VAGENE025	16.575	15,924	0
Total Crime Victim Assistance			82,798	0
<i>Passed through the Office of Criminal Justice</i>				
Edward Byrne Justice Assistance Grant Formula Program	2011-JG-LLE-5867	16.738	10,000	0
<b>Total United States Department of Justice</b>			<b>92,798</b>	<b>0</b>
<b>United States Department of Labor</b>				
<i>Passed Through Montgomery County Department of Job and Family Services:</i>				
Workforce Investment Act (WIA) Cluster:				
WIA Adult Program-Administration	N/A	17.258	5,054	0
WIA Adult Program	N/A	17.258	91,978	0
WIA Youth Activities-Administration	N/A	17.259	2,391	0
WIA Youth Activities	N/A	17.259	107,032	0
WIA Dislocated Workers-Administration	N/A	17.278	12,974	0
WIA Dislocated Workers	N/A	17.278	113,074	0
Total Workforce Investment Act (WIA) Cluster:			332,503	0
WIA National Emergency Grants	N/A	17.277	141,456	0
Employer Services-One Stop Resource Sharing	N/A	17.207	7,559	0
Disabled Veterans Outreach Program	N/A	17.801	2,342	0
Total Employment Services Cluster			151,357	0
<b>Total United States Department of Labor</b>			<b>483,860</b>	<b>0</b>
<b>United States Department of Transportation</b>				
<i>Passed Through the Federal Aviation Administration:</i>				
FAA Reimbursement of Construction Projects	AIP-3-39-0040-0810	20.106	236	0
FAA Reimbursement of Construction Projects	AIP-3-39-0040-0911	20.106	125,046	0
FAA Reimbursement of Construction Projects	AIP-3-39-0040-1012	20.106	5,145	0
Total FAA Reimbursement of Construction Projects			130,427	0
<i>Passed Through Ohio Department of Transportation</i>				
Highway Planning and Construction	80514	20.205	6,098	0
Highway Planning and Construction	80746	20.205	3,103	0
Highway Planning and Construction	83987	20.205	38,044	0
Highway Planning and Construction	85678	20.205	30,680	0
Highway Planning and Construction	89455	20.205	4,070	0
Highway Planning and Construction			81,995	0

(continued)

**Highland County**  
*Schedule of Federal Awards Expenditures*  
*For the Year Ended December 31, 2012*

Federal Grantor Pass-Through Grantor Program Title	Pass-Through Entity's Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
<i>Passed Through the Governor's Highway Safety Office</i>				
Airborne Traffic Enforcement Grant	HVEO-2013-36-00-00-00306-00	20.601	\$4,432	
Airborne Traffic Enforcement Grant	HVEO-2012-36-00-00-00320-00	20.601	21,171	0
Total Airborne Traffic Enforcement Grant			25,603	0
<b>Total United States Department of Transportation</b>			<b>238,025</b>	<b>0</b>
<b>United States Department of Education</b>				
<i>Passed Through Ohio Department of Job and Family Services:</i>				
Help Me Grow	03610021HG0312	84.181	45,182	0
Total Help Me Grow			45,182	0
<b>United States Environmental Protection Agency</b>				
Emergency Response to Hazardous Substance Releases	N	66.xxx	3,053	0
<b>Total United States Environmental Protection Agency</b>			<b>3,053</b>	<b>0</b>
<b>United States Department of Health and Human Services</b>				
<i>Passed Through Ohio Department of Developmental Disabilities:</i>				
Social Services Block Grant	N/A	93.667	41,820	0
<i>Passed Through Ohio Department of Job and Family Services:</i>				
Social Services Block Grant	G-1213-11-0054	93.667	194,741	0
Total Social Services Block Grant			236,561	0
<i>Passed Through Ohio Department of Developmental Disabilities:</i>				
MAC-Medical Assistance Program	G-1213-11-0054	93.778	57,623	0
<i>Passed Through Ohio Department of Job and Family Services:</i>				
Medical Assistance Program	G-1213-11-0054	93.778	560,318	0
Total Medical Assistance Program			617,941	0
<i>Passed Through Ohio Department of Job and Family Services:</i>				
Temporary Assistance for Needy Families	G-1213-11-0054	93.558	1,099,782	0
Promoting Safe and Stable Families	G-1213-11-0054	93.556	23,023	0
Child Support Enforcement	G-1213-11-0054	93.563	305,858	0
Foster Care-Protect Ohio	G-1213-11-0054	93.658	282,157	0
Child Welfare Services	G-1213-11-0054	93.645	67,248	0
Adoption Assistance	G-1213-11-0054	93.659	91,114	0
Child Abuse and Neglect	G-1213-11-0054	93.669	2,021	0
Chafee Foster Care Independence Program	G-1213-11-0054	93.674	928	0
Quality Child Care	G-1213-11-0054	93.575	67,379	0
<b>Total United States Department of Health and Human Services</b>			<b>2,794,012</b>	<b>0</b>
<b>United States Election Assistance Commission (EAC)</b>				
<i>Passed Through Ohio Secretary of State:</i>				
Help America Vote Act	N/A	90.401	3,696	0
<b>Total United States Election Assistance Commission (EAC)</b>			<b>3,696</b>	<b>0</b>
<b>United States Department of Homeland Security</b>				
<i>Passed Through Ohio Emergency Management Agency:</i>				
Emergency Management Performance Grants	2011-EP-E9-0061	97.042	15,570	0
<i>State Homeland Security Programs:</i>				
State Homeland Security Program	2009-GE-T7-0030	97.067	5,549	
State Homeland Security Program	2010-GE-T7-0030	97.067	67,477	
Total State Homeland Security Program			73,026	0
<b>Total United States Department of Homeland Security</b>			<b>88,596</b>	<b>0</b>
<b>Total Federal Awards Expenditures</b>			<b>\$4,298,693</b>	<b>\$1,214</b>

N/A - pass-through entity number not available.  
N - direct from the federal government

See the accompanying notes to the schedule of federal awards expenditures.

**Highland County**  
*Notes to the Schedule of Federal Awards Expenditures*  
*For the Year Ended December 31, 2012*

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**Note 1 – Significant Accounting Policies**

The accompanying schedule of federal awards expenditures (the schedule) includes the federal grant activity of the County and has been prepared on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**Note 2 – Subrecipients**

The County passes through certain Federal assistance received from the Ohio Department of Jobs and Family Services to other governments or not-for-profit agencies (subrecipients). As described in Note 1, the County records expenditures of Federal awards to subrecipients when paid in cash.

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

**Note 3 – Child Nutrition Cluster**

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

**Note 4 – Matching Requirements**

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

**Note 5 – Medical Assistance Program**

During the calendar year, the County Board of Developmental Disabilities received a refund for eFMAP (ARRA) funds to the Medical Assistance Program (CFDA #93.778) in the amount of \$413 from the Ohio Department of Developmental Disabilities. This refund was a correction to the eFMAP percentage of four billing cycles during July and August 2009. This revenue is not listed on the County's Schedule of Federal Awards Expenditures since the underlying expenses occurred in prior reporting periods.

**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***

Independent Auditor's Report

Board of Commissioners  
Highland County  
119 Governor Foraker Place  
Hillsboro, Ohio 45133

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Highland County, Ohio (the County) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 26, 2013, wherein we noted the County followed the cash basis of accounting rather than accounting principles generally accepted in the United States of America and adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. We qualified our opinion on the aggregate discretely presented component units because the County's financial statements do not include the financial data for the County's legally separate component unit, Highco, Inc.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

Highland County

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*

Page 2

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2012-3 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2012-5 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2012-1, 2012-2, and 2012-4.

### **County's Response to Findings**

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Natalie Millhuff-Stang, CPA  
President/Owner  
Millhuff-Stang, CPA, Inc.

June 26, 2013

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**Report on Compliance For Each Major Program; and Report on Internal Control Over Compliance  
Required by OMB Circular A-133**

Independent Auditor's Report

Board of Commissioners  
Highland County  
119 Governor Foraker Place  
Hillsboro, Ohio 45133

**Report on Compliance for Each Major Federal Program**

We have audited Highland County's, Ohio (the County) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-6 through 2012-8. Our opinion on each major federal major was not modified with respect to these matters.

The County's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Report on Internal Control Over Compliance**

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the County's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-6 through 2012-8 to be material weaknesses.

The County's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Highland County, Ohio  
Report on Compliance For Each Major Program; and Report on Internal Control Over Compliance  
Required by OMB Circular A-133  
Page 3

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, reading "Natalie Millhuff-Stang". The signature is written in a cursive style with a large initial "N".

Natalie Millhuff-Stang, CPA  
President/Owner  
Millhuff-Stang, CPA, Inc.

June 26, 2013

**Highland County**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133 Section .505*  
*For the Year Ended December 31, 2012*

**Section I – Summary of Auditor’s Results**

<i>Financial Statements</i>	
Type of financial statement opinion:	Qualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes
<i>Federal Awards</i>	
Internal control over major program(s):	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any auditing findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes
Identification of major program(s):	Community Development Block Grant/States Program (CFDA #14.228)  Child Support Enforcement (CFDA #93.563)  Medical Assistance Program (CFDA #93.778)  Temporary Assistance for Needy Families (CFDA #93.558)
Dollar threshold used to distinguish between type A and type B programs:	Type A: >\$300,000 Type B: all others
Auditee qualified as low-risk auditee?	No

**Section II – Financial Statement Findings**

**Finding 2012-1**

**Noncompliance – Annual Financial Reports**

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

**Highland County**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133 Section .505*  
*For the Year Ended December 31, 2012*

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**Finding 2012-1 (Continued)**

**Noncompliance – Annual Financial Reports (Continued)**

Ohio Administrative Code 117-2-03 (B) requires the County to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). This report is required to be filed with the Auditor of State's office within 150 days of fiscal year-end. The County prepares its financial statements in accordance with the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit material assets, liabilities, fund equities, and disclosures that, while presumably material, cannot be reasonably determined at this time. The County can be fined and various other remedies may be taken against the County, as such, we recommend the County take the necessary steps to ensure that the financial report is prepared in accordance with generally accepted accounting principles.

**Client Response:**

The County thinks the cost outweighs the benefits.

**Finding 2012-2**

**Noncompliance – Prior Certification of Funds**

Ohio Revised Code, Section 5705.41(D)(1) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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

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

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

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

**Highland County**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133 Section .505*  
*For the Year Ended December 31, 2012*

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**Finding 2012-2 (Continued)**

**Noncompliance – Prior Certification of Funds (Continued)**

3. Super Blanket Certificate – The Board may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Several disbursements tested were initiated without obtaining the prior certification of the County Auditor and were not subsequently approved by the County Commissioners within the aforementioned 30 day time period.

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

We recommend the County certify purchases to which 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Auditor should sign the certification at the time the Auditor incurs a commitment, and only when the requirements of 5705.41(D) are satisfied, or follow one of the exceptions the Revised Code permits.

**Client Response:**

County held a department head meeting on June 23, 2010 to emphasize the importance of requesting purchase orders in a timely manner. Department heads were provided a copy of this noncompliance, but some have continued to not meet the requirement. The County will again send a copy of this most recent report to department heads to show the need for improvement.

**Finding 2012-3**

**Material Weakness – Financial Reporting**

A monitoring system by the County should be in place to prevent or detect misstatements for the accurate presentation of the County’s financial statements. Various audit adjustments were proposed to correct errors in postings, misclassifications, or omissions. Certain adjustments were deemed material and were corrected within the financial statements. Other adjustments were deemed to be immaterial by both management and the audit team and therefore correction was waived. The County should implement additional monitoring procedures to ensure activity is properly recorded and reported.

**Client Response:**

The County is working on these items.

**Highland County**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133 Section .505*  
*For the Year Ended December 31, 2012*

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**Finding 2012-4**

**Noncompliance – Expenditures in Excess of Appropriations**

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. The County had instances of expenditures in excess of appropriations as evidenced in their budgetary statements within the basic financial statements. The County should implement the appropriate procedures to ensure that expenditures do not exceed appropriations, including at the legal level of control.

**Client Response:**

We have reviewed the Budget Adjustments 2012-3 and 2012-4. We recognize the debt amounts were charged to line items under the general fund for 2012. We have corrected this for the FY2013.

**Finding 2012-5**

**Significant Deficiency – Internal Controls Over Title Department**

Sound internal control procedures over cash handling and voids is essential to ensure the safeguarding of public funds. The deputies initial a calculator tape or deposit ticket at the end of each day to show that the collections (deposit) reconcile to the daily report, and that cash and check totals equal the breakdown per the system. We noted several instances in our testing where the calculator tape/deposit ticket wasn't initialed.

Also, for voided titles, the reason for the void is not documented on the title and there is currently no review process in place for voiding titles. The Court is at risk of timely detection of errors or fraud. The Court should ensure the calculator tape/deposit ticket is initialed every day to document that the totals reconcile to the daily report and that cash and check totals equal the breakdown per the system. Also, the Court should document the reason for voiding a title on the voided title, and all voids should be reviewed by a supervisor. Assuring that the proper control procedures are in place and operating and that the appropriate monitoring procedures are also functioning properly can provide assurance that errors and/or fraud can be timely identified and resolved.

**Client Response:**

Deputies have been advised to initial all deposits and put reason for voids on voided titles.

**Section III – Federal Award Findings and Questioned Costs**

**Finding 2012-6**

<b>CFDA Title and Number</b>	Community Development Block Grants/State's Program
<b>Federal Award Number and Year</b>	2011/2012
<b>Federal Agency</b>	US Department of Housing and Urban Development
<b>Pass-Through Entity</b>	Ohio Department of Development

**Noncompliance/Material Weakness – Subrecipient Monitoring**

Office of Management and Budget (OMB) Circular A-133, Subpart D, Section 400(d)(3) states a pass-through entity shall monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements and that performance goals are achieved. A pass-through entity needs to establish an appropriate subrecipient monitoring process to decide what, if any, additional monitoring procedures may be necessary to ensure the subrecipient's compliance. During 2012, the Board of County Commissioners contracted with the Highland County Community Action Organization (HCCAO) to provide services related to its CDBG State Administered Small Cities Program Federal

**Highland County**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133 Section .505*  
*For the Year Ended December 31, 2012*

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**Finding 2012-6 (Continued)**

**Noncompliance/Material Weakness – Subrecipient Monitoring (Continued)**

grant. The County did not monitor the funds. The County cannot ensure its subrecipient was using CDBG funds for authorized purpose in compliance with provisions of the grant. The County should establish and maintain their own internal control procedures over compliance to grant requirements. The Board of County Commissioners should develop and implement a subrecipient monitoring policy, including, but not limited to, provision for assessment of its subrecipients’ susceptibility to the OMB Circular A-133 audit requirement and, where appropriate, review of the resulting reports. The policy should include provisions for appropriate follow-up to such audits. Monitoring should be performed throughout the life of the grant. The Board of County Commissioners should also monitor federal expenditures to ensure that they are made for the purpose intended under the grant agreement. County Commissioners should review OMB circular A-133, Subpart D, Section 400(d), which lists its responsibilities as a pass through entity.

**Corrective Action/Client Response:**

The County agrees with the finding. The County now receives copies of all grant information.

**Finding 2012-7**

<b>CFDA Title and Number</b>	Community Development Block Grants/State’s Program
<b>Federal Award Number and Year</b>	2011/2012
<b>Federal Agency</b>	US Department of Housing and Urban Development
<b>Pass-Through Entity</b>	Ohio Department of Development

**Noncompliance/Material Weakness – Cash Management**

24 C.F.R. Section 85.21 subsection (c) indicates grantees and subgrantees shall be paid in advance provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds ant their disbursement by the grantee or subgrantee. As provided in subsection (h)(2)(i), except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act (23 U.S.C. 450), grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subrantee may keep interest amounts up to \$100 per year for administrative expenses.

According to the State of Ohio Department of Development, Office of Housing and Community Partnership Financial Management Rules and Regulations Handbook, Section (A)(3)(f), the grantee must develop a cash management system to ensure compliance with the Fifteen Day Rule relating to prompt disbursement of funds. This rule states that fund draw downs should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within fifteen days of receipt of any funds. Lump sum draw downs are not permitted.

The County did not disburse the balance of draw downs to a balance of less than \$5,000 within fifteen days.

The County should develop a cash management system to ensure compliance with the Fifteen Day Rule which relates to prompt disbursement of funds. We further recommend that documentation be maintained with each draw down request to support the amounts required.

**Corrective Action/Client Response:**

The County agrees with the finding. The County is attempting to expend all drawdowns in a timely manner.

**Highland County**  
*Schedule of Findings and Questioned Costs*  
*OMB Circular A-133 Section .505*  
*For the Year Ended December 31, 2012*

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**Finding 2012-8**

<b>CFDA Title and Number</b>	Community Development Block Grants/State's Program
<b>Federal Award Number and Year</b>	2011/2012
<b>Federal Agency</b>	US Department of Housing and Urban Development
<b>Pass-Through Entity</b>	Ohio Department of Development

**Noncompliance/Material Weakness – Procurement/Suspension/Debarment**

2 CFR part 180 states that non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 2 CFR section 180.220 of the governmentwide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300). The information contained in the EPLS is available in printed and electronic formats. The printed version is published monthly. Copies may be obtained by purchasing a yearly subscription from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, or by calling the Government Printing Office Inquiry and Order Desk at (202) 783-3238. The electronic version can be accessed on the Internet (<https://www.sam.gov/portal/public/SAM/>).

The County entered into contracts with vendors for which determination as to suspension or debarment status had not been made. Although audit testing did not reveal that a suspended or debarred vendor was issued funds, the County was subject to the risk of issuing funds to a vendor that is suspended or debarred. The County should implement procedures to ensure that suspension and debarment determinations are made, and documented, prior to awarding a contract to be paid for with federal funds.

**Corrective Action/Client Response:**

The County agrees with the finding. The County currently is reviewing the EPLS system prior to awarding contracts.

**Highland County**  
*Schedule of Prior Audit Findings*  
*OMB Circular A-133 Section .315(b)*  
*For the Year Ended December 31, 2012*

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain</b></i>
Finding 2011-1	Noncompliance with ORC Section 117.38/OAC Section 117-2-03(B) – Failure to Report on Required Accounting Basis	No	Reissued as Finding 2012-1
Finding 2011-2	Noncompliance with ORC Section 5705.41(D) – Prior Encumbrance of Funds	No	Reissued as Finding 2012-2
Finding 2011-3	Material Weakness – Financial Reporting	No	Reissued as Finding 2012-3
Finding 2011-4	Noncompliance with ORC Section 5705.39 – Appropriations Limited By Estimated Resources	Yes	
Finding 2011-5	Noncompliance with OMB Circular A-133 Section .320(a) – Nine Month Deadline for Single Audits	Yes	
Finding 2011-6	Noncompliance with OMB Circular A-133 Section 310(b) and Material Weakness – Inaccurate Completion of Federal Schedule Reporting	Yes	



# Dave Yost • Auditor of State

## HIGHLAND COUNTY FINANCIAL CONDITION

### HIGHLAND COUNTY

#### CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
AUGUST 15, 2013