

Highland County  
Single Audit  
For the Year Ended December 31, 2016



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# Dave Yost • Auditor of State

Board of 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, 2016 through December 31, 2016. 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

October 5, 2017

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**Highland County**  
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*For the Year Ended December 31, 2016*

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**Independent Auditor's Report**

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

**Report on the Financial Statements**

We have audited the accompanying cash-basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Highland County, Ohio (the County), as of and for the year ended December 31, 2016, 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 accounting basis 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.

***Opinion***

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Highland County, Ohio, as of December 31, 2016, and the respective changes in cash financial position and the respective budgetary comparison for the General, Public Assistance, Repair MVL, Board of Developmental Disabilities, and Children Services 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 basis applied to these statements. The financial statements are prepared on the cash basis of accounting, 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 17 to the financial statements, the County restated its beginning fund balances for the correction of a material misstatement in its 2015 financial statements. We did not modify our opinion regarding this matter.

***Other Matters***

***Supplemental Information***

Our audit was conducted to opine on the financial statements taken as a whole

The Schedule of Federal Awards Expenditures presents additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is not a required part of the financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017 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 the effectiveness of 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, CITP  
President/Owner  
Millhuff-Stang, CPA, Inc.  
Portsmouth, Ohio

September 29, 2017

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Highland County, Ohio  
Statement of Net Position - Cash Basis  
December 31, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activity	Total	Highland County Airport Authority
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$18,672,844	\$233,362	\$18,906,206	\$40,780
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	1,883,000		1,883,000	
Cash and Cash Equivalents in Segregated Accounts	22,037	0	22,037	0
Cash and Cash Equivalents with Fiscal Agents	123,377	0	123,377	0
<i>Total Assets</i>	<u>\$20,701,258</u>	<u>\$233,362</u>	<u>\$20,934,620</u>	<u>\$40,780</u>
<b>Net Position</b>				
Restricted for:				
Capital Projects	\$1,005,215	\$0	\$1,005,215	\$0
Debt Service	2,222,503	0	2,222,503	0
Other Purposes	11,027,814	0	11,027,814	0
Unrestricted	6,445,726	233,362	6,679,088	40,780
<i>Total Net Position</i>	<u>\$20,701,258</u>	<u>\$233,362</u>	<u>\$20,934,620</u>	<u>\$40,780</u>

See accompanying notes to the basic financial statements

Highland County, Ohio  
Statement of Activities - Cash Basis  
For the Year Ended December 31, 2016

	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	\$3,426,633	\$1,815,662	\$0	\$0
Judicial	1,419,985	399,301	1,469,063	0
Public Safety	5,049,496	629,374	782,454	0
Public Works	6,961,233	48,483	5,548,410	0
Health	4,790,612	187,348	2,905,797	0
Human Services	8,729,070	269,343	6,188,106	0
Capital Outlay	1,252,303	0	0	662,187
Debt Service:				
Principal Retirement	1,290,186	0	0	0
Interest and Fiscal Charges	377,986	0	0	0
<i>Total Governmental Activities</i>	<u>33,297,504</u>	<u>3,349,511</u>	<u>16,893,830</u>	<u>662,187</u>
<b>Business-Type Activity</b>				
Sewer	785,271	705,296	0	0
<i>Total Primary Government</i>	<u>\$34,082,775</u>	<u>\$4,054,807</u>	<u>\$16,893,830</u>	<u>\$662,187</u>
<b>Component Unit</b>				
Highland County Airport Authority	<u>\$56,599</u>	<u>\$64,414</u>	<u>\$5</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

Interest

General Obligation Bonds Issued

Refunding Bonds Issued

Miscellaneous

*Total General Receipts*

Transfers In

Transfers Out

Advances In

Advances Out

*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
(\$1,610,971)	\$0	(\$1,610,971)	\$0
448,379	0	448,379	0
(3,637,668)	0	(3,637,668)	0
(1,364,340)	0	(1,364,340)	0
(1,697,467)	0	(1,697,467)	0
(2,271,621)	0	(2,271,621)	0
(590,116)	0	(590,116)	0
(1,290,186)	0	(1,290,186)	0
(377,986)	0	(377,986)	0
(12,391,976)	0	(12,391,976)	0
0	(79,975)	(79,975)	0
(12,391,976)	(79,975)	(12,471,951)	0
0	0	0	7,820
1,915,939	0	1,915,939	0
124	0	124	0
2,419,151	0	2,419,151	0
514,116	0	514,116	0
6,812,711	0	6,812,711	0
18,504	0	18,504	0
85,129	0	85,129	0
1,000,000	0	1,000,000	0
1,883,000	0	1,883,000	0
1,181,652	0	1,181,652	507
15,830,326	0	15,830,326	507
0	49,000	49,000	0
(49,000)	0	(49,000)	0
0	100,000	100,000	0
(100,000)	0	(100,000)	0
15,681,326	149,000	15,830,326	507
3,289,350	69,025	3,358,375	8,327
17,411,908	164,337	17,576,245	32,453
<u>\$20,701,258</u>	<u>\$233,362</u>	<u>\$20,934,620</u>	<u>\$40,780</u>

Highland County, Ohio  
Statement of Cash Basis Assets and Fund Balances  
Governmental Funds  
December 31, 2016

	General Fund	Public Assistance Fund	Repair MVL Fund
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$2,163,051	\$195,389	\$225,042
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	245,899	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>\$2,408,950</u>	<u>\$195,389</u>	<u>\$225,042</u>
<b>Fund Balances</b>			
Nonspendable	\$245,899	\$0	\$0
Restricted	0	195,389	225,042
Committed	1,000,000	0	0
Assigned	0	0	0
Unassigned (Deficit)	1,163,051	0	0
<i>Total Fund Balances</i>	<u>\$2,408,950</u>	<u>\$195,389</u>	<u>\$225,042</u>

See accompanying notes to the basic financial statements

Board of Developmental Disabilities Fund	Children Services Fund	Justice Center Debt Retirement Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$6,062,881	\$706,186	\$1,393,918	\$7,680,478	\$18,426,945
0	0	1,883,000	0	2,128,899
0	0	0	22,037	22,037
123,377	0	0	0	123,377
<u>\$6,186,258</u>	<u>\$706,186</u>	<u>\$3,276,918</u>	<u>\$7,702,515</u>	<u>\$20,701,258</u>
\$0	\$0	\$0	\$0	\$245,899
6,186,258	706,186	1,883,000	4,813,758	14,009,633
0	0	0	3,273	1,003,273
0	0	1,393,918	2,903,693	4,297,611
0	0	0	(18,209)	1,144,842
<u>\$6,186,258</u>	<u>\$706,186</u>	<u>\$3,276,918</u>	<u>\$7,702,515</u>	<u>\$20,701,258</u>

Highland County, Ohio  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Basis Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2016

	General Fund	Public Assistance Fund	Repair MVL Fund
<b>Receipts</b>			
Property Taxes	\$1,915,939	\$0	\$124
Sales Taxes	6,812,711	0	0
Charges for Services	1,393,472	118,634	0
Licenses and Permits	2,365	0	0
Fines and Forfeitures	92,282	0	1,518
Intergovernmental	1,427,237	3,900,563	4,712,308
Payments in Lieu of Taxes	18,504	0	0
Special Assessments	0	0	0
Interest	84,012	0	31,844
Rentals	57,589	0	0
Contributions and Donations	0	0	0
Miscellaneous	221,509	132,853	0
<i>Total Receipts</i>	<u>12,025,620</u>	<u>4,152,050</u>	<u>4,745,794</u>
<b>Disbursements</b>			
Current:			
General Government:			
Legislative and Executive	2,201,918	0	0
Judicial	1,312,122	0	0
Public Safety	3,822,680	0	0
Public Works	691,171	0	5,131,560
Health	180,781	0	0
Human Services	717,304	4,487,809	0
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	15,857	0	0
Interest and Fiscal Charges	1,095	0	0
<i>Total Disbursements</i>	<u>8,942,928</u>	<u>4,487,809</u>	<u>5,131,560</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>3,082,692</u>	<u>(335,759)</u>	<u>(385,766)</u>
<b>Other Financing Sources (Uses)</b>			
General Obligation Bonds Issued	0	0	0
Refunding Bonds Issued	0	0	0
Transfers In	18,138	0	0
Transfers Out	(2,325,710)	(5,859)	0
Advances In	98,044	0	0
Advances Out	(262,407)	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(2,471,935)</u>	<u>(5,859)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	610,757	(341,618)	(385,766)
<i>Fund Balances at Beginning of Year - Restated</i>	<u>1,798,193</u>	<u>537,007</u>	<u>610,808</u>
<i>Fund Balances at End of Year</i>	<u>\$2,408,950</u>	<u>\$195,389</u>	<u>\$225,042</u>

See accompanying notes to the basic financial statements

Board of Developmental Disabilities Fund	Children Services Fund	Justice Center Debt Retirement Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$2,419,151	\$514,116	\$0	\$0	\$4,849,330
0	0	0	0	6,812,711
111,777	4,416	0	1,213,576	2,841,875
0	0	0	172,947	175,312
0	0	0	180,935	274,735
2,408,927	1,526,841	0	2,822,656	16,798,532
0	0	0	0	18,504
0	0	0	536,359	536,359
0	0	0	1,117	116,973
0	0	0	0	57,589
0	133,733	0	55,549	189,282
63,691	1,360	0	762,239	1,181,652
<u>5,003,546</u>	<u>2,180,466</u>	<u>0</u>	<u>5,745,378</u>	<u>33,852,854</u>
0	0	0	1,224,715	3,426,633
0	0	0	107,863	1,419,985
0	0	0	1,226,816	5,049,496
0	0	0	1,138,502	6,961,233
3,753,522	0	0	856,309	4,790,612
0	2,804,856	0	719,101	8,729,070
0	0	0	1,252,303	1,252,303
0	0	305,600	968,729	1,290,186
0	0	56,039	320,852	377,986
<u>3,753,522</u>	<u>2,804,856</u>	<u>361,639</u>	<u>7,815,190</u>	<u>33,297,504</u>
<u>1,250,024</u>	<u>(624,390)</u>	<u>(361,639)</u>	<u>(2,069,812)</u>	<u>555,350</u>
0	0	0	1,000,000	1,000,000
0	0	1,883,000	0	1,883,000
0	800,000	455,000	1,608,569	2,881,707
(581,000)	0	0	(18,138)	(2,930,707)
0	0	0	261,407	359,451
0	0	0	(197,044)	(459,451)
<u>(581,000)</u>	<u>800,000</u>	<u>2,338,000</u>	<u>2,654,794</u>	<u>2,734,000</u>
669,024	175,610	1,976,361	584,982	3,289,350
<u>5,517,234</u>	<u>530,576</u>	<u>1,300,557</u>	<u>7,117,533</u>	<u>17,411,908</u>
<u>\$6,186,258</u>	<u>\$706,186</u>	<u>\$3,276,918</u>	<u>\$7,702,515</u>	<u>\$20,701,258</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, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property Taxes	\$2,303,900	\$2,303,900	\$1,901,207	(\$402,693)
Sales Taxes	5,519,893	6,497,264	6,812,711	315,447
Charges for Services	835,902	1,062,185	1,113,755	51,570
Licenses and Permits	1,916	2,255	2,365	110
Fines and Forfeitures	74,770	88,009	92,282	4,273
Intergovernmental	1,252,984	1,361,152	1,427,237	66,085
Payments in Lieu of Taxes	14,993	17,647	18,504	857
Interest	37,982	80,122	84,012	3,890
Rentals	46,661	54,922	57,589	2,667
Miscellaneous	179,474	211,253	221,509	10,256
<i>Total Receipts</i>	<u>10,268,475</u>	<u>11,678,709</u>	<u>11,731,171</u>	<u>52,462</u>
<b>Disbursements</b>				
Current:				
General Government				
Legislative and Executive	1,730,229	2,218,320	2,035,560	182,760
Judicial	1,115,305	1,312,122	1,312,122	0
Public Safety	3,249,284	3,822,694	3,822,680	14
Public Works	587,496	691,171	691,171	0
Health	153,664	180,781	180,781	0
Human Services	609,709	717,304	717,304	0
Debt Service:				
Principal Retirement	13,566	15,857	15,857	0
Interest and Fiscal Charges	937	1,095	1,095	0
<i>Total Disbursements</i>	<u>7,460,190</u>	<u>8,959,344</u>	<u>8,776,570</u>	<u>182,775</u>
<i>Excess of Receipts Over Disbursements</i>	<u>2,808,285</u>	<u>2,719,365</u>	<u>2,954,601</u>	<u>235,236</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	14,696	17,298	18,138	840
Transfers Out	(2,316,857)	(2,725,710)	(2,725,710)	0
Advances In	79,439	93,504	98,044	4,540
Advances Out	(223,046)	(262,407)	(262,407)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(2,445,768)</u>	<u>(2,877,315)</u>	<u>(2,871,935)</u>	<u>5,380</u>
<i>Net Change in Fund Balance</i>	362,517	(157,950)	82,666	240,616
<i>Fund Balance at Beginning of Year</i>	<u>725,865</u>	<u>725,865</u>	<u>725,865</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$1,088,382</u>	<u>\$567,915</u>	<u>\$808,531</u>	<u>\$240,616</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Receipts</b>				
Charges for Services	\$175,549	\$118,632	\$118,634	\$2
Intergovernmental	5,771,862	3,900,502	3,900,563	61
Miscellaneous	196,589	132,851	132,853	2
<i>Total Receipts</i>	6,144,000	4,151,985	4,152,050	65
<b>Disbursements</b>				
Current:				
Human Services	6,138,141	4,690,327	4,487,809	202,518
<i>Excess of Receipts Over (Under) Disbursements</i>	5,859	(538,342)	(335,759)	202,583
<b>Other Financing Uses</b>				
Transfers Out	(5,859)	(5,859)	(5,859)	0
<i>Net Change in Fund Balance</i>	0	(544,201)	(341,618)	202,583
<i>Fund Balance at Beginning of Year</i>	537,007	537,007	537,007	0
<i>Fund Balance at End of Year</i>	<u>\$537,007</u>	<u>(\$7,194)</u>	<u>\$195,389</u>	<u>\$202,583</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  
Repair MVL Fund  
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property Taxes	\$174	\$184	\$184	\$0
Fines and Forfeitures	1,439	1,518	1,518	0
Intergovernmental	4,468,193	4,712,027	4,712,308	281
Interest	30,194	31,841	31,844	3
Property Taxes				
<i>Total Receipts</i>	4,500,000	4,745,570	4,745,854	284
<b>Disbursements</b>				
Current:				
Public Works	4,982,779	5,354,510	5,262,888	91,622
<i>Net Change in Fund Balance</i>	(482,779)	(608,940)	(517,034)	91,906
<i>Fund Balance at Beginning of Year</i>	127,912	127,912	127,912	0
Prior Year Encumbrances Appropriated	482,779	482,779	482,779	0
<i>Fund Balance at End of Year</i>	\$127,912	\$1,751	\$93,657	\$91,906

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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b>Receipts</b>				
Property Taxes	\$2,604,620	\$2,604,620	\$2,414,793	(\$189,827)
Charges for Services	66,847	66,847	111,777	44,930
Intergovernmental	1,440,627	1,440,627	2,408,927	968,300
Other	38,090	38,090	63,691	25,601
<i>Total Receipts</i>	4,150,184	4,150,184	4,999,188	849,004
<b>Disbursements</b>				
Current:				
Health	3,567,769	4,153,769	3,751,503	402,266
<i>Excess of Receipts Over Disbursements</i>	582,415	(3,586)	1,247,685	1,251,270
<b>Other Financing Uses</b>				
Transfers Out	(581,000)	(581,000)	(581,000)	0
<i>Net Change in Fund Balance</i>	1,415	(584,585)	666,685	1,251,270
<i>Fund Balance at Beginning of Year</i>	5,292,168	5,292,168	5,292,168	0
<i>Fund Balance at End of Year</i>	<u>\$5,293,583</u>	<u>\$4,707,583</u>	<u>\$5,958,853</u>	<u>\$1,251,270</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  
Children Services Fund  
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property Taxes	\$553,850	\$553,850	\$513,188	(\$40,662)
Charges for Services	2,706	3,780	4,416	636
Intergovernmental	935,672	1,307,113	1,526,841	219,728
Contributions and Donations	81,954	114,487	133,733	19,246
Other	833	1,164	1,360	196
<i>Total Receipts</i>	1,575,015	1,980,394	2,179,538	199,144
<b>Disbursements</b>				
Current:				
Human Services	2,064,957	3,174,539	2,804,856	369,683
<i>Excess of Receipts Under Disbursements</i>	(489,942)	(1,194,145)	(625,318)	568,827
<b>Other Financing Sources</b>				
Transfers In	490,252	684,872	800,000	115,128
<i>Net Change in Fund Balance</i>	310	(509,273)	174,682	683,955
<i>Fund Balance at Beginning of Year</i>	509,396	509,396	509,396	0
<i>Fund Balance at End of Year</i>	\$509,706	\$123	\$684,078	\$683,955

See accompanying notes to the basic financial statements

Highland County, Ohio  
Statement of Fund Net Position - Cash Basis  
Proprietary Fund  
December 31, 2016

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	<u>Sewer Fund</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$233,362</u></u>
<b>Net Position</b>	
Unrestricted	<u><u>\$233,362</u></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, 2016

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	Sewer Fund
<b>Operating Receipts</b>	
Charges for Services	\$705,296
<b>Operating Disbursements</b>	
Contractual Services	785,271
<i>Operating Loss</i>	(79,975)
Transfers In	49,000
Advances In	100,000
<i>Change in Net Position</i>	69,025
<i>Net Position at Beginning of Year</i>	164,337
<i>Net Position at End of Year</i>	\$233,362

See accompanying notes to the basic financial statements

Highland County, Ohio  
Statement of Fiduciary Net Position - Cash Basis  
Fiduciary Funds  
December 31, 2016

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	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$67,404	\$1,786,830
Cash and Cash Equivalents In Segregated Accounts	<u>0</u>	<u>333,748</u>
<i>Total Assets</i>	<u><u>\$67,404</u></u>	<u><u>\$2,120,578</u></u>
<b>Net Position</b>		
Held in Trust for Private Purposes	\$67,404	\$0
Held on Behalf of Others	<u>0</u>	<u>2,120,578</u>
<i>Total Net Position</i>	<u><u>\$67,404</u></u>	<u><u>\$2,120,578</u></u>

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, 2016

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	<u>Private Purpose Trust Funds</u>
<b>Additions</b>	\$0
<b>Deductions</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.

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.

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016

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The information presented in Notes 2 through 19 relates to the primary government. Information related to the discretely presented component unit is presented in Note 20.

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 14 and 15 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

**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.

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016

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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.

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.

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016

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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 Fund – 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 Fund – 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 Fund – 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.

Board of Developmental Disabilities Fund – 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.

Children Services Fund – This fund accounts for and reports the County-wide tax levy along with various federal and State grants restricted for the support of foster homes, medical treatment, school supplies, counseling and parental assistance.

Justice Center Debt Retirement Fund – This fund accounts for and reports assigned resources that are used for the payment of principal and interest and fiscal charges for general obligation bonds.

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.

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016

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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.

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.

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016

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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.

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.

During 2016, the County invested in money market mutual funds, negotiable certificates of deposit, federal government agency securities and STAR Ohio. Investments are reported at cost, except for the money market fund and STAR Ohio. The County’s money market fund investment is recorded at the amount reported by Fifth Third Bank on December 31, 2016.

STAR Ohio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, “Certain External Investment Pools and Pool Participants.” The County also implemented GASB Statement No. 79 for 2016. The implementation of this GASB pronouncement had no effect on beginning net position/fund balance. The County measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016

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following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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 2016 were \$84,012, which includes \$76,139 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. Funds held for debt service payments are also 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.

#### 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.

#### Pensions

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016

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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 include activities involving the upkeep of the County's roads and bridges, various mental health services, child support and welfare services, services for the handicapped and mentally 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 are 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:

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.

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016

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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.

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 government-wide financial statements are reported in the same manner as general receipts.

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

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016

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**Note 3 – Compliance and Accountability**

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.

Accountability

At December 31, 2016, the Ohio Pet and Emergency Management Funds had deficit fund balances of \$135 and \$18,074, respectively. The General Fund is liable for any deficit in the nonmajor special revenue funds and will provide transfers when cash is required not when accruals occur.

**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 the following: 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; cash that is held by Southern Ohio Council of Governments Activity on behalf of County Board of Developmental Disabilities Fund and reported on the cash basis; and budgetary revenues and expenditures of the Certificate of Title Administration Special Revenue Fund and Child Emergency Special Revenue Fund are classified to the General Fund for gaap reporting. The encumbrances outstanding at year-end and agency fund distributions (budgetary basis) amounted to:

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016

	General Fund	Public Assistance Fund	Repair MVL Fund	Board of Developmental Disabilities Fund	Children Services Fund
Cash Basis	\$610,757	(\$341,618)	(\$385,766)	\$669,024	\$175,610
Encumbrances	0	0	(131,328)	0	0
Beginning of Year	80,946	0	117	99,670	21,180
End of Year	(95,677)	0	(57)	(104,028)	(22,108)
Southern Ohio Council of Governments Activity	0	0	0	2,019	0
Excluded Funds for Budget Purposes	(513,360)	0	0	0	0
Budget Basis	<u>\$82,666</u>	<u>(\$341,618)</u>	<u>(\$517,034)</u>	<u>\$666,685</u>	<u>\$174,682</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;
2. Bonds, notes, debentures, or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio; and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016

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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 (1) or (2) above and repurchase agreements secured by such obligations, provided these investments are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to simultaneously exchange either securities or cash, equal value for equal value;
9. 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 classification 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 purchases 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 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,
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. All interest and principal shall be denominated and payable in United States funds.

Reverse repurchase agreements, investments in derivatives, and investments in stripped principal or interest obligations that are not issued or guaranteed by the United States, are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Bankers' acceptances must mature within 180 days. Commercial paper and corporate notes must mature within 270 days. All other investments must mature within five

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years from the date of settlement unless matched to a specific obligation or debt of the County. Investments must be purchased with the expectation that they will be held to maturity.

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

Investments

The fair value of these investments is not materially different than measurement value:

	Measurement Amount	Investment Maturities (in Years)			Moody's or S&P Ratings	Percentage of Total Investments
		Less than 1	1-2	3-5		
Money Market Mutual Funds	\$343,211	\$343,211	\$0	\$0	AAAm	5.47%
Negotiable Certificates of Deposit	2,588,253	1,101,362	752,736	734,155	N/A	41.29%
Federal Home Loan Mortgage Bank Bonds	1,577,142	0	0	1,577,142	Aaa	25.16%
Federal Farm Credit Bank Bonds	748,140	0	748,140	0	Aaa	11.93%
STAROhio	1,012,334	1,012,334	0	0	AAAm	16.15%
Total Investments	<u>\$6,269,080</u>	<u>\$2,456,907</u>	<u>\$1,500,876</u>	<u>\$2,311,297</u>		

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the County's recurring fair value measurements as of December 31, 2016. As discussed further in Note 2, STAROhio is reported at its share price. All of the other County investments measured at fair value are valued using quoted market prices (Level 1 inputs).

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 Fifth Third Institutional Government Money Market Fund carry a rating of AAAM by Standard & Poor's. The negotiable certificates of deposit are in denominations of under \$250,000 each, in separate banks, and are insured by the Federal Deposit Insurance Corporation (FDIC). The negotiable certificates of deposit are, therefore, not subject to credit risk. The County has no investment policy dealing with investment credit risk beyond the

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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.

**Concentration of Credit Risk**

The County's investment policy does not address concentration of credit risk beyond the requirements in State statute.

**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 2016, the County received a total of \$6,812,711. The allocation of the sales tax is 100 percent to the County's General Fund. Vendor collections of the permissive sales tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies to the Office of Budget Management the amount of the tax to be returned to the County. The Tax Commissioner's certification must be made within 45 days after the end of each month. The Tax Commissioner shall then, on or before the 20<sup>th</sup> day of the month in which certification is made, provide for payment 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 2016 for real and public utility property taxes represents collections of 2015 taxes.

2016 real property taxes are levied after October 1, 2016, on the assessed value as of January 1, 2016, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2016 real property taxes are collected in and intended to finance 2017.

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. 2016 public utility property taxes became a lien December 31, 2015, are levied after October 1, 2016, and are collected in 2017 with real property taxes.

The full tax rate for all County operations for the year ended December 31, 2016, was \$10.15 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2016 property tax receipts were based are as follows:

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Real Property:	
Residential and Agricultural	\$666,533,000
Other	77,829,150
Public Utility Property:	
Real	126,850
Personal	34,305,000
Total Assessed Value	\$778,794,000

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 2016, the County contracted with County Risk Sharing Authority, Inc. (CORSA) for insurance coverage. The CORSA program has a \$2,500 deductible. Coverage provided by CORSA is as follows:

	Liability
General Liability	\$1,000,000
Law Enforcement Liability	1,000,000
Automobile Liability	1,000,000
Uninsured/Underinsured Motorists	250,000
Errors and Omissions Liability (\$1,000,000 annual aggregate)	1,000,000
Excess Liability (sublimit \$5,000,000 for sexual harassment)	9,000,000
Property (total covered value)	76,576,265
Equipment Breakdown	100,000,000
Crime Insurance	1,000,000
Stop Gap Liability	1,000,000
Medical Professional Liability (sublimit \$6,000,000 for sexual harassment)	10,000,000
Foster Parents (sublimit \$6,000,000 for sexual harassment)	10,000,000

There has been no significant change in insurance coverage from 2015 and settled claims have not exceeded this coverage in the past three years. The County pays all elected officials' bonds by statute.

For 2016, the County participated in the County Commissioners' Association of Ohio Service Corporation, an insurance purchasing pool (See Note 15). 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

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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**

#### ***Net Pension Liability***

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the County's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the County's obligation for this liability to annually required payments. The County cannot control benefit terms or the manner in which pensions are financed; however, the County does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each

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pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The net pension liability is disclosed as a commitment and not reported on the face of the financial statements as a liability because of the use of the cash basis framework.

***Plan Description – Ohio Public Employees Retirement System (OPERS)***

Plan Description - County employees participate 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 and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. County employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

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<b>Group A</b> Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	<b>Group B</b> 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	<b>Group C</b> Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
<b>Public Safety</b>	<b>Public Safety</b>	<b>Public Safety</b>
<b>Age and Service Requirements:</b> Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	<b>Age and Service Requirements:</b> Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	<b>Age and Service Requirements:</b> Age 52 with 25 years of service credit or Age 56 with 15 years of service credit
<b>Law Enforcement</b>	<b>Law Enforcement</b>	<b>Law Enforcement</b>
<b>Age and Service Requirements:</b> Age 52 with 15 years of service credit	<b>Age and Service Requirements:</b> Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	<b>Age and Service Requirements:</b> Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
<b>Public Safety and Law Enforcement</b>	<b>Public Safety and Law Enforcement</b>	<b>Public Safety and Law Enforcement</b>
<b>Formula:</b> 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	<b>Formula:</b> 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	<b>Formula:</b> 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25

Final Average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

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	<u>State and Local</u>	<u>Public Safety</u>	<u>Law Enforcement</u>
<b>2016 Statutory Maximum Contribution Rates</b>			
Employer	14.0 %	18.1 %	18.1 %
Employee	10.0 %	*	**
<b>2016 Actual Contribution Rates</b>			
Employer:			
Pension	12.0 %	16.1 %	16.1 %
Post-employment Health Care Benefits	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>
Total Employer	<u>14.0 %</u>	<u>18.1 %</u>	<u>18.1 %</u>
Employee	<u>10.0 %</u>	<u>12.0 %</u>	<u>13.0 %</u>

\* This rate is determined by OPERS' Board and has no maximum rate established by ORC.

\*\* This rate is also determined by OPERS' Board, but is limited by ORC to not more than 2 percent greater than the Public Safety rate.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The County's contractually required contribution was \$1,414,564 for 2016.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – County licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

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The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, 11 percent of the 12 percent member rate goes to the DC Plan and 1 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. Through June 30, 2016, the employer rate was 14 percent and the member rate was 13 percent. The statutory member contribution rate increased to 14 percent on July 1, 2016. The 2016 contribution rates were equal to the statutory maximum rates.

The County's contractually required contribution to STRS was \$17,894 for 2016.

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***Net Pension Liability***

The net pension liability for OPERS was measured as of December 31, 2015, and the net pension liability for STRS was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the respective measurement dates. The County's proportion of the net pension liability was based on the County's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS	STRS	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.08003600%	0.00106546%	
Prior Measurement Date	0.08480300%	0.00134551%	
Change in Proportionate Share	-0.00476700%	-0.00028005%	
Proportionate Share of the Net Pension Liability	\$13,863,244	\$356,642	\$14,219,886

***Actuarial Assumptions - OPERS***

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2015, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuations are presented below.

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:	
Pre-January 7, 2013 Retirees	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no

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projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.27 %</u>

**Discount Rate** The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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***Sensitivity of the County’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the County’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
County's proportionate share of the net pension liability	\$22,087,535	\$13,863,244	\$6,926,315

***Changes between Measurement Date and Report Date***

In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the County’s net pension liability is expected to be significant.

***Actuarial Assumptions - STRS***

The following actuarial assumptions for STRS relate to the June 30, 2016, measurement date.

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS’ investment consultant develops best estimates for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

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Asset Class	Target Allocation	10 Year Expected Nominal Rate of Return *
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
 Total	100.00 %	7.61 %

\* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

**Sensitivity of the County's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the County's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
County's proportionate share of the net pension liability	\$473,948	\$356,642	\$257,687

***Changes between Measurement Date and Report Date***

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to the County's NPL is expected to be significant.

**Note 10 - Post-Employment Benefits**

**Ohio Public Employees Retirement System**

Plan Description - The 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 maintained two cost-sharing, multiple-employer defined benefit postemployment health care trusts, which funded multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by 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 the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

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Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, state and local employers contributed at a rate of 14.0 percent of earnable salary 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. Active member contributions do not fund health care.

At the beginning of 2016, OPERS maintained three health care trusts. The two cost-sharing, multiple employer trusts, the 401(h) Health Care Trust (401(h) Trust) and the 115 Health Care Trust (115 Trust), worked together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. Each year, the OPERS Board of Trustees determines the portion of the employer contributions rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0 percent for both the Traditional Pension and Combined plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) Trust that provides funding for a Retiree Medical Account (RMA) for Member-Directed Plan members. The employer contribution as a percentage of covered payroll deposited to the RMAs for 2016 was 4.0 percent.

In March 2016, OPERS received two favorable rulings from the IRS allowing OPERS to consolidate all health care assets into the 115 Trust. Transition to the new health care trust structure occurred during 2016. OPERS Combining Statements of Changes in Fiduciary Net Position for the year ended December 31, 2016, will reflect a partial year of activity in the 401(h) Trust and VEBA Trust prior to the termination of these trusts as of end of business day June 30, 2016, and the assets and liabilities, or net position, of these trusts being consolidated into the 115 Trust on July 1, 2016.

Substantially all of the County's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2016, 2015, and 2014 was \$213,273, \$218,743, and \$219,350, respectively. The full amount has been contributed for all three years.

#### State Teachers Retirement System of Ohio

Plan Description – Certified teachers employed by the County 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 discretionary 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. Nearly all health care plan enrollees, for the most recent year, pay a portion of the

Highland County, Ohio  
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health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. For 2014, one percent of covered payroll was allocated to post-employment health care. The County's contributions for health care for the fiscal years ended December 31, 2016, 2015, and 2014 were \$0, \$918, and \$1,462, respectively. The full amount has been contributed for all three years.

**Note 11 - Long -Term Debt**

The County's long-term debt activity for the year ended December 31, 2016, was as follows:

	Interest Rate	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Due Within One Year
<u>General Obligation Bonds:</u>						
1996 GO Bonds Series A						
Tec Center	5.00%	\$104,500	\$0	\$104,500	\$0	\$0
1996 GO Bonds Series B						
Tec Center	5.00%	38,200	0	38,200	0	0
2005 GO Bonds						
Various Purpose	4.80%	1,020,000	0	82,000	938,000	86,000
2016 GO Energy Conservation Bonds	1.90%	0	1,000,000	0	1,000,000	58,000
Total GO Bonds		<u>1,162,700</u>	<u>1,000,000</u>	<u>224,700</u>	<u>1,938,000</u>	<u>144,000</u>
<u>OPWC Loans:</u>						
1996 OPWC Rocky Fork Lake						
Area Wastewater Collection System Loan	0.00%	80,000	0	20,000	60,000	20,000
2003 OPWC Rolling Acres						
WWTP Loan	0.00%	14,746	0	2,107	12,639	2,107
2009 OPWC Southwest WWTP Loan	0.00%	166,171	0	11,460	154,711	11,460
2009 OPWC Lakeside WWTP Repair Loan	0.00%	50,939	0	3,513	47,426	3,513
2015 OPWC Rocky Fork Lake						
Wastewater System Improvements Loan	0.00%	181,412	0	3,024	178,388	6,047
Total OPWC Loans		<u>493,268</u>	<u>0</u>	<u>40,104</u>	<u>453,164</u>	<u>43,127</u>
<u>Long-Term Notes:</u>						
Bond Anticipation Note						
Geographic Information System	4.21%	277,925	0	22,000	255,925	23,000
Bond Anticipation Note						
Real Estate Acquisition	4.21%	92,000	0	8,000	84,000	8,000
Bond Anticipation Note						
Airport Improvement	6.00%	702,000	0	58,000	644,000	60,000
Bond Anticipation Note						
Juvenile Detention Center	3.40%	405,000	0	30,000	375,000	35,000
Bond Anticipation Note						
Various Purpose	4.07%	152,000	0	20,000	132,000	21,000
Total Long-Term Notes		<u>1,628,925</u>	<u>0</u>	<u>138,000</u>	<u>1,490,925</u>	<u>147,000</u>

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	Interest Rate	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Due Within One Year
<u>OWDA Loans:</u>						
1998 OWDA Rocky Fork Water Pollution Control Loan	2.20%	2,111,567	0	451,436	1,660,131	461,423
2004 OWDA Highland-Leesburg Sewer Loan	3.98%	620,809	0	20,073	600,736	20,880
2006 OWDA Mowrystown Sewer Loan	3.92%	1,767,646	0	50,151	1,717,495	52,136
2009 OWDA Babington Sewer Loan	4.75%	308,946	0	7,121	301,825	7,463
2014 OWDA Pump Station Upgrade Loan	3.34%	462,756	0	18,144	444,612	0
Total OWDA Loans		<u>5,271,724</u>	<u>0</u>	<u>546,925</u>	<u>4,724,799</u>	<u>541,902</u>
<u>Other Long-Term Obligations:</u>						
1994 Special Assessment Bonds Series A Madison Township	4.50%	551,600	0	19,000	532,600	19,800
2014 Merchants National Bank Bonds	2.62%	2,138,900	0	305,600	1,833,300	1,833,300
2015 First State Bank Loan	2.25%	48,648	0	15,857	32,791	16,212
2016 Refunding Bonds	1.90%	0	1,883,000	0	1,883,000	299,000
Total Other Long-Term Obligations		<u>2,739,148</u>	<u>1,883,000</u>	<u>340,457</u>	<u>4,281,691</u>	<u>2,168,312</u>
Total Long-Term Liabilities		<u>\$11,295,765</u>	<u>\$2,883,000</u>	<u>\$1,290,186</u>	<u>\$12,888,579</u>	<u>\$3,044,341</u>

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. During 2016, the County made a final payment of \$104,500. The debt was 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. During 2016, the County made a final payment of \$38,200. The debt was paid from the Tec-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.

2016 Energy Conservation General Obligation Bonds

On December 28, 2016, the County issued \$1,000,000 in general obligation bonds for the purpose of acquiring and constructing energy conservation improvements in county buildings and facilities. The bonds mature in 2031, and will be paid from the Energy Efficiency Debt Retirement Fund.

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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.

2015 Ohio Public Works Commission Rocky Fork Lake Wastewater System Improvements Loan

In 2015, the County entered into a \$181,412 loan agreement with the Ohio Public Works Commission for the Rocky Fork Lake Wastewater System Improvements project. The loan matures in 2043 and payments will be paid from the Rocky Fork Lake Debt Retirement Fund.

Bond Anticipation Note - Geographic Information System

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

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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 Regional Juvenile Detention Center. The note will be paid from the SCRJDC 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.

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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.

2014 Ohio Water Development Authority Pump Station Upgrade Loan

In 2014, the County entered into a loan agreement with the Ohio Water Development Authority for the pump station upgrade. Due to the project not being finalized, no amortization schedule is included. The final payment on the loan is due in 2036 and payments will be made from the Rocky Fork Lake 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.

2014 Merchants National Bank Bonds

On January 15, 2014, the County issued refunding bonds with Merchants National Bank for the purpose of retiring the 2002 Correctional Facilities General Obligations. The bonds will be paid from the Justice Center Debt Retirement Fund in 2017.

2015 First State Bank Loan

On February 5, 2015, the County entered into a loan agreement with First State Bank for the purchase of vehicles for the sheriff. The loan will be paid from the General Fund.

2016 Refunding Bonds

On December 28, 2016, the County issued \$1,883,000 in current refunding bonds with First State Bank for the purpose of retiring the 2014 Merchants National Bank Bonds in order to take advantage of lower interest rates. Though refunding bonds were issued in 2016, the 2014 Merchants National Bank Bonds will not be paid until 2017.

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

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Year	General Obligation Bonds		OPWC Loans	Long-Term Notes	
	Principal	Interest	Principal	Principal	Interest
2017	\$144,000	\$61,610	\$43,127	\$147,000	\$63,457
2018	150,000	57,567	43,127	139,000	57,034
2019	155,000	51,872	43,127	145,000	50,653
2020	161,000	45,945	23,127	153,000	44,498
2021	165,000	39,766	23,127	158,000	36,942
2022-2026	799,000	99,836	107,207	735,925	71,125
2027-2031	364,000	19,342	82,641	13,000	549
2032-2036	0	0	30,235	0	0
2037-2041	0	0	30,235	0	0
2042-2046	0	0	27,211	0	0
<b>Total</b>	<b>\$1,938,000</b>	<b>\$375,938</b>	<b>\$453,164</b>	<b>\$1,490,925</b>	<b>\$324,258</b>

Year	OWDA Loans		Special Assessment Bonds		Merchants National Bank Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$541,902	\$138,771	\$19,800	\$23,967	\$1,833,300	\$7,494
2018	555,371	125,303	20,700	23,076	0	0
2019	569,198	111,475	21,700	22,144	0	0
2020	335,683	97,279	22,600	21,168	0	0
2021	94,344	90,908	23,700	20,151	0	0
2022-2026	532,318	393,940	135,200	83,795	0	0
2027-2031	649,457	276,798	168,500	50,504	0	0
2032-2036	770,205	134,761	120,400	10,993	0	0
2037-2038	231,709	12,261	0	0	0	0
<b>Total</b>	<b>\$4,280,187</b>	<b>\$1,381,496</b>	<b>\$532,600</b>	<b>\$255,798</b>	<b>\$1,833,300</b>	<b>\$7,494</b>

Year	First State Bank Loan		Refunding Bonds	
	Principal	Interest	Principal	Interest
2017	\$16,212	\$739	\$299,000	\$31,678
2018	16,579	373	305,000	28,652
2019	0	0	311,000	22,829
2020	0	0	316,000	16,901
2021	0	0	323,000	10,858
2022	0	0	329,000	4,693
<b>Total</b>	<b>\$32,791</b>	<b>\$1,112</b>	<b>\$1,883,000</b>	<b>\$115,611</b>

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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 \$4,820,969 at December 31, 2016.

**Note 12 - Interfund Activity**

**Interfund Transfers**

During 2016, the following transfers were made:

		Transfer From				
		Board of				
		Public	Developmental	Nonmajor		
		Assistance	Disabilities	Governmental		
Transfer To	General	Fund	Fund	Funds	Total	
General Fund	\$0	\$0	\$0	\$18,138	\$18,138	
Children Services Fund	800,000	0	0	0	800,000	
Justice Center Debt Retirement Fund	455,000	0	0	0	455,000	
Nonmajor Governmental Funds	1,021,710	5,859	581,000	0	1,608,569	
Sewer Enterprise Fund	49,000	0	0	0	49,000	
<b>Total All Funds</b>	<b>\$2,325,710</b>	<b>\$5,859</b>	<b>\$581,000</b>	<b>\$18,138</b>	<b>\$2,930,707</b>	

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. Transfers from enterprise funds were made for annual debt payments.

**Interfund Advances**

During 2016, the following advances were made:

		Advances Out		
		General	Nonmajor	
		Fund	Governmental	Total
		Fund	Funds	Total
Advances In	General Fund	\$0	\$98,044	\$98,044
	Nonmajor Governmental Funds	162,407	99,000	261,407
	Sewer Enterprise Fund	100,000	0	100,000
	<b>Total All Funds</b>	<b>\$262,407</b>	<b>\$197,044</b>	<b>\$459,451</b>

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 13 - 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 14 - 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 2016. The Board of Directors consists of 12 members, the three County Commissioners of each of the four counties. The Board exercises total control over the operations including budgeting, appropriating, contracting, and designing management. Each participant's degree of control is limited to its representation on the Board. 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. The Board exercises total control over the operations including budgeting, appropriating, contracting and designing management. Each participant's degree of control is limited to its representation on the Board.

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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.

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 Board exercises total control over the operations including budgeting, appropriating, contracting and designing management. Each participant's degree of control is limited to its representation on the Board.

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. The Board exercises total control over the operations including budgeting, appropriating, contracting and designing management. Each participant's degree of control is limited to its representation on the Board. 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 15 - 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 39 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.

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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. The County's payment to CORSA for insurance in 2016 was \$171,211.

County Commissioners' Association of Ohio Service Corporation

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

**Note 16 - 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.

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016

Fund Balances	General Fund	Public Assistance Fund	Repair MVL Fund	Board of Developmental Disabilities Fund	Children Services Fund	Justice Center Debt Retirement Fund
<u>Nonspendable:</u>						
Unclaimed Monies	\$245,899	\$0	\$0	\$0	\$0	\$0
<u>Restricted for:</u>						
General Government	0	0	0	0	0	0
Public Safety	0	0	0	0	0	0
Public Works	0	0	225,042	0	0	0
Health	0	0	0	6,186,258	0	0
Human Services	0	195,389	0	0	706,186	0
Capital Improvements	0	0	0	0	0	0
Debt Service Payments	0	0	0	0	0	1,883,000
<i>Total Restricted</i>	<u>0</u>	<u>195,389</u>	<u>225,042</u>	<u>6,186,258</u>	<u>706,186</u>	<u>1,883,000</u>
<u>Committed to:</u>						
Other purposes	1,000,000	0	0	0	0	0
<u>Assigned to:</u>						
Debt Service Payments	0	0	0	0	0	1,393,918
<u>Unassigned (Deficit)</u>	<u>1,163,051</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Total Fund Balances</u>	<u>\$2,408,950</u>	<u>\$195,389</u>	<u>\$225,042</u>	<u>\$6,186,258</u>	<u>\$706,186</u>	<u>\$3,276,918</u>

(continued)

Fund Balances	Nonmajor Governmental Funds	Total
<u>Nonspendable:</u>		
Unclaimed Monies	\$0	\$245,899
<u>Restricted for:</u>		
General Government	1,407,040	1,407,040
Public Safety	994,574	994,574
Public Works	58,702	283,744
Health	218,062	6,404,320
Human Services	790,662	1,692,237
Capital Improvements	1,005,215	1,005,215
Debt Service Payments	339,503	2,222,503
<i>Total Restricted</i>	<u>4,813,758</u>	<u>14,009,633</u>
<u>Committed to:</u>		
Other purposes	3,273	1,003,273
<u>Assigned to:</u>		
Debt Service Payments	2,903,693	4,297,611
<u>Unassigned (Deficit)</u>	<u>(18,209)</u>	<u>1,144,842</u>
<u>Total Fund Balances</u>	<u>\$7,702,515</u>	<u>\$20,701,258</u>

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016

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**Note 17 – Restatement of Beginning Fund Balance**

During 2016, the County discovered that a fund it created in the prior year should have been included in the General Fund for financial reporting purposes and made the necessary corrections to properly reflect that fund. These corrections had the following effect on beginning fund balances.

	General Fund	Nonmajor Governmental Funds
As Reported, December 31, 2015	\$1,198,193	\$7,717,533
Restatement	600,000	(600,000)
As Restated, January 1, 2016	\$1,798,193	\$7,117,533

**Note 18 – Subsequent Event**

In 2016 the County issued refunding bonds with the intent to refund the 2014 Merchants National Bank Bonds. These bonds were paid off on January 26, 2017.

**Note 19 – New Accounting Principle**

For the year ended December 31, 2016, the County has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application.”

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the County; however, certain additional footnote disclosures were made.

**Note 20 - 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 for their integrity and objectivity.

**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.

Highland County, Ohio  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2016

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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, 2016 was \$40,780. 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, 2016*

Federal Grantor Pass-Through Grantor Program/Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>United States Department of Agriculture</b>				
<i>Passed Through Ohio Department of Job and Family Services:</i>				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	G-1617-11-5527	\$0	\$233,082
<b>Total United States Department of Agriculture</b>			<b>0</b>	<b>233,082</b>
<b>United States Department of Housing and Urban Development</b>				
<i>Passed Through Ohio Development Services Agency:</i>				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	B-C-15-1BG-1	0	165,393
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	B-E-15-1BG-1	0	500,000
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	B-F-15-1BG-1	0	191,919
Total Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii			0	857,312
Home Investment Partnerships Program	14.239	B-C-15-1BG-2	0	113,675
<b>Total United States Department of Housing and Urban Development</b>			<b>0</b>	<b>970,987</b>
<b>United States Department of Justice</b>				
<i>Passed through State of Ohio Attorney General:</i>				
Crime Victim Assistance	16.575	2016VAGENE025	0	50,351
Crime Victim Assistance	16.575	2017-VOCA-43559030	0	18,433
Total Crime Victim Assistance			0	68,784
<i>Passed through Office of Criminal Justice:</i>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-JG-D01-6071	0	13,242
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-JG-LLE-5867	0	6,591
Total Edward Byrne Justice Assistance Grant Formula Programs			0	19,833
<i>Direct:</i>				
Byrne Criminal Justice Innovation Program	16.817	N	0	32,022
<b>Total United States Department of Justice</b>			<b>0</b>	<b>120,639</b>
<b>United States Department of Labor</b>				
<i>Passed Through Area 7 Workforce Investment Board:</i>				
Workforce Investment Act (WIA)/Workforce Innovation and Opportunity Act (WIOA) Cluster:				
WIA/WIOA Adult Program	17.258	N/A	78,036	78,036
WIA/WIOA Youth Activities-Administration	17.259	N/A	543	543
WIA/WIOA Youth Activities	17.259	N/A	54,470	54,470
WIA/WIOA Youth Activities-CCMEP	17.259	N/A	30,974	30,974
WIA/WIOA Dislocated Worker Formula Grants	17.278	N/A	29,714	29,714
Total Workforce Investment Act (WIA)/Workforce Innovation and Opportunity Act (WIOA) Cluster:			193,737	193,737
<b>Total United States Department of Labor</b>			<b>193,737</b>	<b>193,737</b>

(continued)

**Highland County**  
*Schedule of Federal Awards Expenditures*  
*For the Year Ended December 31, 2016*

Federal Grantor Pass-Through Grantor Program/Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<b>United States Department of Transportation</b>				
<i>Passed Through Federal Aviation Administration:</i>				
Airport Improvement Program	20.106	N	\$0	\$150
<i>Passed Through Ohio Department of Transportation:</i>				
Highway Planning and Construction	20.205	92789	0	87,650
<i>Passed Through Ohio Department of Public Safety:</i>				
State and Community Highway Safety	20.600	STEP-2016-36-00-00-00502-00	0	9,269
National Priority Safety Programs	20.616	IDEP-2016-36-00-00-00395-00	0	12,569
<b>Total United States Department of Transportation</b>			<b>0</b>	<b>109,638</b>
<b>United States Department of Education</b>				
<i>Passed Through Ohio Department of Health:</i>				
Special Education-Grants for Infants and Families	84.181	03610021HG0716	0	56,426
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education_Grants to States	84.027	3M20	0	12,117
Special Education_Preschool Grants	84.173	3C50	0	5,478
Total Special Education Cluster			<u>0</u>	<u>17,595</u>
<b>Total United States Department of Education</b>			<b>0</b>	<b>74,021</b>
<b>United States Department of Health and Human Services</b>				
<i>Passed Through Ohio Department of Developmental Disabilities:</i>				
Social Services Block Grant	93.667	3250	0	30,312
<i>Passed Through Ohio Department of Job and Family Services:</i>				
Social Services Block Grant	93.667	G-1617-11-5527	0	574,275
Total Social Services Block Grant			<u>0</u>	<u>604,587</u>
<i>Passed Through Ohio Department of Developmental Disabilities:</i>				
Medical Assistance Program	93.778	3G60	0	128,644
<i>Passed Through Ohio Department of Job and Family Services:</i>				
Medical Assistance Program	93.778	G-1617-11-5527	0	1,019,952
Total Medical Assistance Program			<u>0</u>	<u>1,148,596</u>
<i>Passed Through Ohio Department of Job and Family Services:</i>				
Temporary Assistance for Needy Families	93.558	G-1617-11-5527	0	832,936
<i>Passed Through Area 7 Workforce Investment Board:</i>				
Temporary Assistance for Needy Families	93.558	N/A	0	30,869
Total Temporary Assistance for Needy Families			<u>0</u>	<u>863,805</u>

(continued)

**Highland County**  
*Schedule of Federal Awards Expenditures*  
*For the Year Ended December 31, 2016*

Federal Grantor Pass-Through Grantor Program/Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<i>Passed Through Ohio Department of Job and Family Services:</i>				
Promoting Safe and Stable Families	93.556	G-1617-11-5527	\$0	\$11,304
Child Support Enforcement	93.563	G-1617-11-5527	0	358,891
Foster Care-Title IV-E	93.658	G-1617-11-5527	0	892,561
Stephanie Tubbs Jones Child Welfare Services Program	93.645	G-1617-11-5527	0	8,999
Adoption Assistance	93.659	G-1617-11-5527	0	106,404
Chafee Foster Care Independence Program	93.674	G-1617-11-5527	0	240
Child Care and Development Block Grant	93.575	G-1617-11-5527	0	33,624
<b>Total United States Department of Health and Human Services</b>			<b>0</b>	<b>4,029,011</b>
<b>United States Department of Homeland Security</b>				
<i>Passed Through Ohio Emergency Management Agency:</i>				
Emergency Management Performance Grants	97.042	EMC-2016-EP-00003-S01	0	20,158
<b>Total United States Department of Homeland Security</b>			<b>0</b>	<b>20,158</b>
<b>Total Federal Awards Expenditures</b>			<b>\$193,737</b>	<b>\$5,751,273</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, 2016*

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**Note 1 – Basis of Presentation**

The accompanying schedule of federal awards expenditures (the schedule) includes the federal grant activity of Highland County (the County) under programs of the federal government for the year ended December 31, 2016. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in financial position, or cash flows, where applicable, of the County.

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

Expenditures reported on the schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The County has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 3 – Subrecipients**

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

As a subrecipient, the County has certain compliance responsibilities, such as monitoring its subrecipients to help assure that they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

**Note 4 – Matching Requirements**

Certain federal programs require the County to contribute non-federal funds (matching funds) to support the federally-funded programs. The County has met its matching requirements. The schedule does not include the expenditure of non-federal matching funds.

**Note 5 – Transfer Between Federal Programs**

During 2016, the County made allowable transfers of \$374,554 from the Temporary Assistance for Needy Families (93.558) program to the Social Services Block Grant (93.667) program. The amount reported for the Temporary Assistance for Needy Families program on the Supplementary Schedule excludes the amount transferred to the Social Services Block Grant program. The amount transferred to Social Services Block Grant program is included in the federal program expenditures for these programs. The following table shows the gross amount drawn for the Temporary Assistance for Needy Families program during 2016 and the amount transferred to the Social Services Block Grant program.

Temporary Assistance for Needy Families	\$1,207,490
Social Services Block Grant	<u>(374,554)</u>
Total Temporary Assistance for Needy Families	<u>\$ 832,936</u>

**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 discretely presented component unit, each major fund, and the aggregate remaining fund information of Highland County, Ohio (the County) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 29, 2017, wherein we noted the County followed the cash basis of accounting rather than accounting principles generally accepted in the United States of America.

**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.

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 a 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. A significant deficiency is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs as items 2016-002 and 2016-003, that we consider to be material weaknesses.

### **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 one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2016-001.

### **County's Responses to Findings**

The County's responses to the findings identified in our audit are described in the accompanying corrective action plan. 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, CITP  
President/Owner  
Millhuff-Stang, CPA, Inc.  
Portsmouth, Ohio

September 29, 2017

**Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance  
Required by the Uniform Guidance**

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, (the County) compliance with the types of compliance requirements described in the *OMB 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 qualified opinions on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

**Basis for Qualified Opinion on Community Development Block Grant/States Program, Foster Care, and Medical Assistance Program**

As described in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding CFDA 14.228 Community Development Block Grant/States Program as described in finding number 2016-004 for Cash Management and CFDA 93.658 Foster Care (Title IV-E) and CFDA 93.778 Medical Assistance Program as described in finding number 2016-006 for Activities Allowed and Unallowed. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

**Qualified Opinion on Community Development Block Grant/States Program, Foster Care, and Medical Assistance Program**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Community Development Block Grant/States Program, Foster Care, and Medical Assistance Program for the year ended December 31, 2016.

**Other Matters**

The County's responses to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. 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 the Uniform Guidance, 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.

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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Highland County, Ohio  
Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the  
Uniform Guidance  
Page 3

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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 have not been identified. We have identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-004, 2016-005, and 2016-006 that we consider to be material weaknesses.

The County's responses to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. 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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Natalie Millhuff-Stang, CPA, CITP  
President/Owner  
Millhuff-Stang, CPA, Inc.  
Portsmouth, Ohio

September 29, 2017

**Highland County**  
*Schedule of Findings and Questioned Costs*  
*For the Year Ended December 31, 2016*

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

<i>Financial Statements</i>	
Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified (Cash Basis)
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
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?	No
Type of auditor’s report issued on compliance for major federal programs:	Qualified for Community Development Block Grant/States Program (CFDA #14.228) Medical Assistance Program (CFDA #93.778), Foster Care (Title IV-E) (CFDA #93.658)
Any auditing findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes
Identification of major program(s):	Community Development Block Grant/States Program (CFDA #14.228), Medical Assistance Program (CFDA #93.778), Foster Care (Title IV-E) (CFDA #93.658)
Dollar threshold used to distinguish between type A and type B programs:	Type A: >\$750,000 Type B: all others
Auditee qualified as low-risk auditee?	No

**Section II – Financial Statement Findings**

**Finding 2016-001**

**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*  
*For the Year Ended December 31, 2016*

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**Finding 2016-001 (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:**

See corrective action plan

**Finding 2016-002**

**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 the financial statements. 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:**

See corrective action plan.

**Finding 2016-003**

**Material Weakness – Treasurer's Reconciliation**

Having sound internal control procedures in place over the reconciliation process is essential to ensure the County cash balances are accurate. The County Treasurer's reconciliation should be updated at the current status as of the last day of the audit period when such day is a business day. When testing the reconciliation, we found outstanding checks totaling \$367,677 that cleared in 2016, and therefore should not have been included on the outstanding check listing. We also found additional unreconciled/unexplained variances. We noted the County has contracted an outside consultant to aid in the reconciliation process. The County is working to resolve the issue. The County should implement procedures to ensure all cleared checks are excluded from the outstanding check list and ensure all unreconciled variances are timely resolved.

**Client's Response:**

See corrective action plan.

**Highland County**  
*Schedule of Findings and Questioned Costs*  
*For the Year Ended December 31, 2016*

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

<b>CFDA Title and Number</b>	Community Development Block Grants/State’s Program, CFDA #14.228		
<b>Federal Award Number and Year</b>	2015		
<b>Federal Agency</b>	US Department of Housing and Urban Development		
<b>Pass-Through Entity</b>	Ohio Development Services Agency		
<b>Repeat Finding from Prior Audit?</b>	Yes	<b>Finding Number (if repeat)</b>	2015-004

**Finding 2016-004**

**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 and 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 subgrantee may keep interest amounts up to \$100 per year for administrative expenses. According to the State of Ohio Development Services Agency, 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 Thirty Day Rule relating to prompt disbursement of funds. This rule states that fund draws 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 thirty days of receipt of any funds. Lump sum draws are not permitted.

The County did not disburse the balance of draws selected for testing to a balance of less than \$5,000 within thirty days.

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

**Client’s Response:**

See corrective action plan.

<b>CFDA Title and Number</b>	Foster Care (Title IV-E) CFDA# 93.658		
<b>Federal Award Number and Year</b>	2016		
<b>Federal Agency</b>	US Department of Health and Human Services		
<b>Pass-Through Entity</b>	Ohio Department of Job and Family Services		
<b>Repeat Finding from Prior Audit?</b>	No	<b>Finding Number (if repeat)</b>	N/A

**Finding 2016-005**

**Material Weakness - Eligibility**

Having a sound internal control environment is paramount to a properly functioning organization. The Department increased the potential risk of error by not having proper checks and balances within the control environment. Information is entered into SACWIS for eligibility determination. We found that for ninety percent of the sample tested, the information entered into SACWIS was not reviewed for accuracy or completeness prior to submission.

The County should implement procedures to ensure that a review is being conducted. If the Director performs the initial determination, a lower ranking employee can still perform a review.

**Highland County**  
*Schedule of Findings and Questioned Costs*  
*For the Year Ended December 31, 2016*

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**Client’s Response:**

See corrective action plan.

<b>CFDA Title and Number</b>	Foster Care (Title IV-E) CFDA# 93.658, Medical Assistance Program CFDA# 93.778		
<b>Federal Award Number and Year</b>	2016		
<b>Federal Agency</b>	US Department of Health and Human Services		
<b>Pass-Through Entity</b>	Ohio Department of Job and Family Services		
<b>Repeat Finding from Prior Audit?</b>	No	<b>Finding Number (if repeat)</b>	N/A

**Finding 2016-006**

**Noncompliance/Material Weakness – Activities Allowed and Unallowed**

45 CFR Section 95.507(a)(2) requires cost allocation plans conform to the accounting principles and standards in Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, 2 CFR Part 200. Furthermore, 2 CFR 200.416 states, program costs must be identified and assigned to the benefitted activities on a reasonable and consistent basis. Additionally, 2 CFR 200.430 indicates, random moment sampling may be used to allocate salaries and wages to a Federal award, but such systems must “meet acceptable statistical sampling standards”.

The Ohio Department of Job and Family Services has implemented a cost allocation plan approved by the US Department of Health and Human services and has communicated time sampling requirements for said plan to county agencies. Ohio Administrative Code 5101:9-7-23 Section (E)(2)(b) directs an employee completing the RMS observation moment to complete the comment section. Comments must demonstrate that the activity codes support the work being performed by the assigned position at the time of the observation.

When RMS forms are completed:

- i. Observation should include a case number or other identifier.
- ii. Observation should include the activity, where applicable.
- iii. Documentation should exist to substantiate the claimed program and/or activity on the RMS sample observation.
- iv. Employee must respond to the observation within 24 business hours.
- v. The RMS Coordinator must review and approved all observation moment responses within 48 hours. If the observation had been flagged as part of the quality assurance control group, the supervisor/supervisor designee should validate the response within the same twenty-four-hour response period that is available to the employee. Also it should be approved by the supervisor/supervisor designee, and the response should be accepted by the RMS coordinator.
- vi. No unauthorized or vacant positions should be included.

When testing RMS, we noted 8% of our sample tested either had no supporting documentation or had improper supporting documentation. In addition we noted instances in 4% of our sample where the caseworker did not fill out the RMS hit, it was instead filled out by the Coordinator.

The County should ensure proper supporting documentation is obtained and maintained for all RMS hits. In addition caseworkers should be completing their own RMS hits.

**Client’s Response:**

See corrective action plan.

**Highland County**  
*Corrective Action Plan*  
*For the Year Ended December 31, 2016*

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	The County continues to believe the benefits of converting to GAAP do not offset the cost of such a conversion.	No completion date established	County Auditor
2016-002	The County will continue to work with the entity that completes the financial report.	No completion date established	County Auditor
2016-003	The Treasurer's office is continuing to make improvements and corrections. New procedures have been put in place a new balancing format is being used. There are still corrections to be made to ensure the office is running as efficiently as possible.	No completion date established	County Treasurer
2016-004	The County will attempt to comply with the 30-day rule by reducing the amount of drawdown requests.	June 6, 2017	Board of Commissioners
2016-005	Highland county JFS has incorporated the following processes for reviewing IV-E determinations. The initial determination is completed by the Account Clerk and routed to the Director for review and approval.	July 2016	JFS Director
2016-006	Highland County JFS has incorporated the following processed for RMS review. Each participant working in the Ohio Benefits, CCIDS, APS, and SETS will provide a printout to the RMS coordinator verifying RMS sample completion. RMS coordinator will review CHRIS-E and SACWIS to verify RMS entry. All will be completed daily or as samples are received/reviewed.	July 2016	JFS Director

**Highland County**  
*Schedule of Prior Audit Findings*  
*For the Year Ended December 31, 2016*

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 2015-001	Noncompliance with ORC Section 117.38/OAC Section 117-2-03(B) – Annual Financial Reports	No	Reissued as Finding 2016-001
Finding 2015-002	Noncompliance with ORC Section 5705.39 – Appropriations in excess of estimated resources	No	Reissued as verbal comment
Finding 2015-003	Material Weakness – Financial Reporting	No	Reissued as Finding 2016-002
Finding 2015-004	Noncompliance/Material Weakness with 24 C.F.R. Section 85.21 – Cash Management – CDBG	No	Reissued as Finding 2016-004
Finding 2015-005	Noncompliance/Material Weakness – Reporting – CDBG	Yes	
Finding 2015-006	Noncompliance/Material Weakness with OMB Circular A-87 – Activities Allowed and Unallowed – Medical Assistance Program	Yes	



# Dave Yost • Auditor of State

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  
OCTOBER 19, 2017