

MORROW COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
(Audited)
FOR THE YEAR ENDED
DECEMBER 31, 2010

MARY M. HOLTREY, AUDITOR

MORROW COUNTY

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

TABLE OF CONTENTS

| | |
|--|---------|
| Independent Auditor’s Report | 1 - 2 |
| Management’s Discussion and Analysis | 3 - 14 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets | 15 |
| Statement of Activities | 16 - 17 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds..... | 18 - 19 |
| Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities..... | 20 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 21 - 22 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 23 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - | |
| General Fund | 24 |
| Emergency Squad Fund..... | 25 |
| Motor Vehicle and Gas Tax Fund | 26 |
| Public Assistance Fund | 27 |
| County Board of Developmental Disabilities Fund..... | 28 |
| Statement of Net Assets - Proprietary Funds | 29 |
| Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds | 30 |
| Statement of Cash Flows - Proprietary Funds | 31 - 32 |
| Statement of Fiduciary Net Assets - Fiduciary Fund | 33 |
| Notes to the Basic Financial Statements | 34 - 74 |
| Supplementary Data: | |
| Schedule of Expenditures of Federal Awards | 75 - 79 |
| Independent Accountants’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | 80 - 81 |
| Independent Accountants’ Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i> | 82 - 83 |
| Schedule of Findings and Responses <i>OMB Circular A-133 §.315 (b)</i> | 84 - 88 |
| Status of Prior Audit Findings <i>OMB Circular A-133 §.315 (b)</i> | 89 |



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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrow County, Ohio, as of and for the year ended December 31, 2010, which collectively comprise Morrow County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Morrow County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Morrow County Hospital, a major Enterprise Fund, which represents 98.80% of total assets, 98.34% of total net assets and 99.59% of total revenue of the business-type activities. We also did not audit the financial statements of Whetstone Industries, Inc. Morrow County's only discretely presented component unit. The financial statements of Morrow County Hospital and Whetstone Industries, Inc. were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Morrow County Hospital and Whetstone Industries, Inc., is based on the report of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrow County, Ohio, as of December 31, 2010 and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison for the General, Emergency Squad, Motor Vehicle and Gas Tax, Public Assistance, and County Board of Developmental Disabilities funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2011, on our consideration of Morrow County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Morrow County's basic financial statements taken as a whole. The Schedule of Expenditures of Federal Awards provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
August 24, 2011

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010 UNAUDITED

The management's discussion and analysis of Morrow County's (the "County") financial performance provides an overall review of the County's financial activities for the year ended December 31, 2010. The intent of this discussion and analysis is to look at the County's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the County's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- The total net assets of the County increased \$1,411,982. Net assets of governmental activities increased \$1,188,386 which represents a 3.20% increase from 2009. Net assets of business-type activities increased \$223,596 or 1.53% from 2009.
- General revenues accounted for \$10,513,287 or 37.88% of total governmental activities revenue. Program specific revenues accounted for \$17,237,719 or 62.12% of total governmental activities revenue.
- The County had \$26,562,620 in expenses related to governmental activities; \$17,237,719 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$10,513,287 were adequate to provide for these programs.
- The general fund, the County's most significant major governmental fund, had revenues of \$7,168,526 in 2010, an increase of \$573,783 or 8.70% from 2009 revenues. The general fund had expenditures and other financing uses of \$6,628,433 in 2010, a decrease of \$23,860 or 0.36% from 2009. The net increase in revenues contributed to the general fund balance increase of \$540,093 from 2009 to 2010.
- The emergency squad, a County major fund, had revenues of \$1,145,759 in 2010. The emergency squad fund, had expenditures of \$1,145,076 in 2010. The emergency squad fund balance increased \$683 from 2009 to 2010.
- The motor vehicle and gas tax, a County major fund, had revenues of \$4,409,247 in 2010. The motor vehicle and gas tax, had expenditures of \$3,971,323 in 2010. The motor vehicle and gas tax fund balance increased \$437,924 from 2009 to 2010.
- The public assistance fund, a County major fund, had revenues of \$4,510,604 in 2010. The public assistance fund, had expenditures of \$4,636,215 in 2010. The public assistance fund balance decreased \$125,611 from 2009 to 2010.
- The County board of developmental disabilities (DD) fund, a County major fund, had revenues and other financing sources of \$2,653,201 in 2010. The County board of DD fund, had expenditures of \$2,520,605 in 2010. The County board of DD fund balance increased \$132,596 from 2009 to 2010.
- Net assets for the business-type activities, which are made up of the Ketterman Project and Morrow County Hospital enterprise funds, increased in 2010 by \$223,596.
- In the general fund, the actual revenues and other financing sources came in \$1,056,232 higher than they were originally budgeted and actual expenditures and other financing sources were \$278,194 higher than the amount in the original budget. The County uses a conservative budgeting process.

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010 UNAUDITED

Using this Basic Financial Statements (BFS)

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

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

Reporting the County as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets and the statement of activities answer the question, "How did we do financially during 2010?" These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

The County's statement of net assets and statement of activities can be found on pages 15-17 of this report.

Reporting the County's Most Significant Funds

Fund Financial Statements

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

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010 UNAUDITED

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

Governmental Funds

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

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

The County maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the major funds. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental financial statements can be found on pages 18-28 of this report.

Proprietary Funds

The County maintains proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its Ketterman project and Morrow County Hospital operations. The basic proprietary fund financial statements can be found on pages 29-32 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statement can be found on page 33 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government wide and fund financial statements. These notes to the basic financial statements can be found on pages 34-74 of this report.

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED

Government-Wide Financial Analysis

The statement of net assets provides the perspective of the County as a whole. The table below provides a summary of the County's net assets at December 31, 2010 and December 31, 2009.

| | Net Assets | | | | | |
|---|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------|----------------------|
| | Governmental Activities | Business-type Activities | Governmental Activities | Business-type Activities | Total | Total |
| | <u>2010</u> | <u>2010</u> | <u>2009</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| <u>Assets</u> | | | | | | |
| Current and other assets | \$ 19,251,163 | \$ 11,523,910 | \$ 18,707,665 | \$ 12,379,430 | \$ 30,775,073 | \$ 31,087,095 |
| Capital assets, net | <u>31,401,683</u> | <u>9,343,797</u> | <u>31,370,655</u> | <u>9,133,434</u> | <u>40,745,480</u> | <u>40,504,089</u> |
| Total assets | <u>50,652,846</u> | <u>20,867,707</u> | <u>50,078,320</u> | <u>21,512,864</u> | <u>71,520,553</u> | <u>71,591,184</u> |
| <u>Liabilities</u> | | | | | | |
| Long-term liabilities outstanding | 7,560,483 | 2,137,972 | 7,547,564 | 2,315,140 | 9,698,455 | 9,862,704 |
| Other liabilities | <u>4,730,053</u> | <u>3,858,089</u> | <u>5,356,832</u> | <u>4,549,674</u> | <u>8,588,142</u> | <u>9,906,506</u> |
| Total liabilities | <u>12,290,536</u> | <u>5,996,061</u> | <u>12,904,396</u> | <u>6,864,814</u> | <u>18,286,597</u> | <u>19,769,210</u> |
| <u>Net Assets</u> | | | | | | |
| Invested in capital assets, net of related debt | 24,710,538 | 7,759,650 | 24,653,374 | 7,293,159 | 32,470,188 | 31,946,533 |
| Restricted | 11,676,658 | - | 11,081,856 | - | 11,676,658 | 11,081,856 |
| Unrestricted | <u>1,975,114</u> | <u>7,111,996</u> | <u>1,438,694</u> | <u>7,354,891</u> | <u>9,087,110</u> | <u>8,793,585</u> |
| Total net assets | <u>\$ 38,362,310</u> | <u>\$ 14,871,646</u> | <u>\$ 37,173,924</u> | <u>\$ 14,648,050</u> | <u>\$ 53,233,956</u> | <u>\$ 51,821,974</u> |

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2010, the County's assets exceeded liabilities by \$53,233,956. This amounts to \$38,362,310 in governmental activities and \$14,871,646 in business-type activities.

Capital assets reported on the government-wide statements represent the largest portion of the County's net assets. At year-end, capital assets represented 56.97% of total governmental and business-type assets. Capital assets include land, land improvements, buildings, buildings and improvements, furniture and equipment, vehicles, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2010, were \$32,470,188. These capital assets are used to provide services to citizens and are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2010, the County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the County's governmental activities net assets, \$11,676,658 or 30.44%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of governmental activities unrestricted net assets of \$1,975,114 may be used to meet the government's ongoing obligations to citizens and creditors. The table below shows the changes in net assets for 2010 and 2009.

MORROW COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED**

| | Change in Net Assets | | | | | |
|-------------------------------------|-----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Governmental | Business-type | Governmental | Business-type | Total | Total |
| | Activities | Activities | Activities | Activities | 2010 | 2009 |
| | <u>2010</u> | <u>2010</u> | <u>2009</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services and sales | \$ 2,889,155 | \$ 25,875,508 | \$ 2,447,672 | \$ 25,877,804 | \$ 28,764,663 | \$ 28,325,476 |
| Operating grants and contributions | 13,848,507 | - | 12,097,829 | - | 13,848,507 | 12,097,829 |
| Capital grants and contributions | <u>500,057</u> | <u>-</u> | <u>536,454</u> | <u>-</u> | <u>500,057</u> | <u>536,454</u> |
| Total program revenues | <u>17,237,719</u> | <u>25,875,508</u> | <u>15,081,955</u> | <u>25,877,804</u> | <u>43,113,227</u> | <u>40,959,759</u> |
| General revenues: | | | | | | |
| Property taxes | 4,153,751 | - | 3,998,064 | - | 4,153,751 | 3,998,064 |
| Sales tax | 2,692,984 | - | 2,305,777 | - | 2,692,984 | 2,305,777 |
| Unrestricted grants | 2,587,223 | - | 2,142,503 | - | 2,587,223 | 2,142,503 |
| Investment earnings | 107,499 | 28,309 | 137,458 | 56,368 | 135,808 | 193,826 |
| Other | <u>971,830</u> | <u>2,073,415</u> | <u>1,553,864</u> | <u>2,234,022</u> | <u>3,045,245</u> | <u>3,787,886</u> |
| Total general revenues | <u>10,513,287</u> | <u>2,101,724</u> | <u>10,137,666</u> | <u>2,290,390</u> | <u>12,615,011</u> | <u>12,428,056</u> |
| Total revenues | <u>27,751,006</u> | <u>27,977,232</u> | <u>25,219,621</u> | <u>28,168,194</u> | <u>55,728,238</u> | <u>53,387,815</u> |
| Expenses | | | | | | |
| Program expenses: | | | | | | |
| General government | | | | | | |
| Legislative and executive | 3,543,906 | - | 3,458,323 | - | 3,543,906 | 3,458,323 |
| Judicial | 1,358,132 | - | 1,500,944 | - | 1,358,132 | 1,500,944 |
| Public safety | 3,392,221 | - | 3,572,698 | - | 3,392,221 | 3,572,698 |
| Public works | 4,878,556 | - | 3,963,624 | - | 4,878,556 | 3,963,624 |
| Health | 2,770,941 | - | 2,490,643 | - | 2,770,941 | 2,490,643 |
| Human services | 7,703,410 | - | 7,961,679 | - | 7,703,410 | 7,961,679 |
| Economic development and assistance | 1,004,862 | - | 927,804 | - | 1,004,862 | 927,804 |
| Intergovernmental | 477,237 | - | 290,759 | - | 477,237 | 290,759 |
| Other | 1,132,593 | - | 869,264 | - | 1,132,593 | 869,264 |
| Interest and fiscal charges | 300,762 | - | 289,557 | - | 300,762 | 289,557 |
| Morrow County Hospital | - | 27,617,848 | - | 27,815,621 | 27,617,848 | 27,815,621 |
| Ketterman Project | <u>-</u> | <u>135,788</u> | <u>-</u> | <u>67,650</u> | <u>135,788</u> | <u>67,650</u> |
| Total expenses | <u>26,562,620</u> | <u>27,753,636</u> | <u>25,325,295</u> | <u>27,883,271</u> | <u>54,316,256</u> | <u>53,208,566</u> |
| Change in net assets | 1,188,386 | 223,596 | (105,674) | 284,923 | 1,411,982 | 179,249 |
| Net assets at beginning of year | <u>37,173,924</u> | <u>14,648,050</u> | <u>37,279,598</u> | <u>14,363,127</u> | <u>51,821,974</u> | <u>51,642,725</u> |
| Net assets at end of year | <u>\$ 38,362,310</u> | <u>\$ 14,871,646</u> | <u>\$ 37,173,924</u> | <u>\$ 14,648,050</u> | <u>\$ 53,233,956</u> | <u>\$ 51,821,974</u> |

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010 UNAUDITED

Governmental Activities

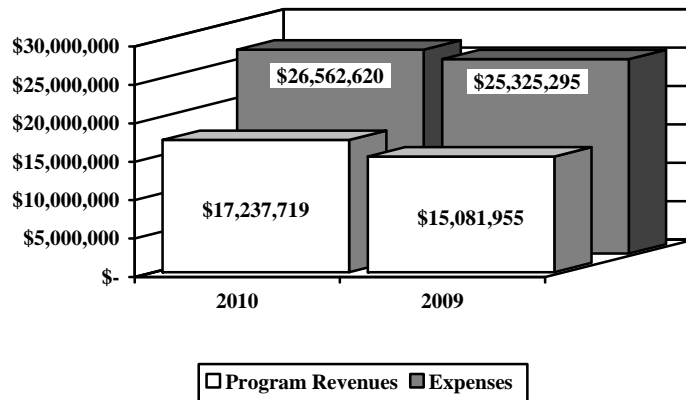
Governmental net assets increased by \$1,188,386 in 2010. Human services accounts for \$7,703,410 of expenses, or 29.00% of total governmental expenses of the County. These expenses were funded by \$511,883 in charges to users of services and \$6,549,233 in operating grants and contributions in 2010. General government, which includes legislative and executive and judicial programs, expenses totaled \$4,902,038 or 18.45% of total governmental expenses. General government expenses were covered by \$1,837,109 of direct charges to users and \$549,853 in operating grants and contributions in 2010.

The State and federal government contributed to the County revenues of \$13,848,507 in operating grants and contributions and \$500,057 in capital grants and contributions during 2010. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions \$6,549,233 or 47.29%, subsidized human services programs.

General revenues totaled \$10,513,287, and amounted to 37.88% of total revenues. These revenues primarily consist of property and sales tax revenue of \$6,846,735 or 65.12% of total general revenues in 2010. The other primary source of general revenues is grants and entitlements not restricted to specific programs, with local government and local government revenue assistance making up \$2,587,223, or 24.61% of the total.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2010 and 2009. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the County is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities.

Governmental Activities - Program Revenues vs. Total Expenses



MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED

| | Governmental Activities | | | |
|-------------------------------------|--------------------------------|----------------------------|-----------------------------|-----------------------------|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| | <u>2010</u> | <u>2010</u> | <u>2009</u> | <u>2009</u> |
| Program Expenses: | | | | |
| General government | | | | |
| Legislative and executive | \$ 3,543,906 | \$ 2,285,216 | \$ 3,458,323 | \$ 2,202,126 |
| Judicial | 1,358,132 | 229,860 | 1,500,944 | 569,485 |
| Public safety | 3,392,221 | 2,384,981 | 3,572,698 | 2,793,744 |
| Public works | 4,878,556 | 604,340 | 3,963,624 | 264,180 |
| Health | 2,770,941 | 2,516,579 | 2,490,643 | 1,824,862 |
| Human services | 7,703,410 | 642,294 | 7,961,679 | 1,206,931 |
| Economic development and assistance | 1,004,862 | (162,912) | 927,804 | 650,639 |
| Intergovernmental | 477,237 | 477,237 | 290,759 | 290,759 |
| Other | 1,132,593 | 46,544 | 869,264 | 151,057 |
| Interest and fiscal charges | <u>300,762</u> | <u>300,762</u> | <u>289,557</u> | <u>289,557</u> |
| Total | <u>\$ 26,562,620</u> | <u>\$ 9,324,901</u> | <u>\$ 25,325,295</u> | <u>\$ 10,243,340</u> |

The dependence upon general revenues for governmental activities is apparent, with 35.11% of expenses supported through taxes and other general revenues during 2010.

Business-Type Activities

The Morrow County Hospital and Ketterman Project are the County's only enterprise funds. These programs had revenues of \$27,977,232 and expenses of \$27,753,636 for 2010. The net assets of the enterprise funds increased \$223,596 or 1.53% during 2010.

Financial Analysis of the Government's Funds

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

Governmental Funds

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

The County's governmental funds (as presented on the balance sheet on pages 18 - 19 reported a combined fund balance of \$11,820,583, which is \$1,221,137 higher than last year's total of \$10,599,446.

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED

The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2010 for all major and non-major governmental funds.

| | <u>Fund Balance</u> <u>December 31, 2010</u> | <u>Fund Balance</u> <u>December 31, 2009</u> | <u>Increase/</u> <u>(Decrease)</u> |
|-----------------------------------|---|---|---------------------------------------|
| Major Funds: | | | |
| General | \$ 1,640,096 | \$ 1,100,003 | \$ 540,093 |
| Emergency Squad | 45,993 | 45,310 | 683 |
| Motor Vehicle and Gas Tax | 3,140,014 | 2,702,090 | 437,924 |
| Public Assistance | 586,576 | 712,187 | (125,611) |
| County Board of DD | 1,060,869 | 928,273 | 132,596 |
| Other Nonmajor Governmental Funds | <u>5,347,035</u> | <u>5,111,583</u> | <u>235,452</u> |
| Total | <u>\$ 11,820,583</u> | <u>\$ 10,599,446</u> | <u>\$ 1,221,137</u> |

General Fund

The County's general fund balance increased \$540,093. The table that follows assists in illustrating the revenues of the general fund.

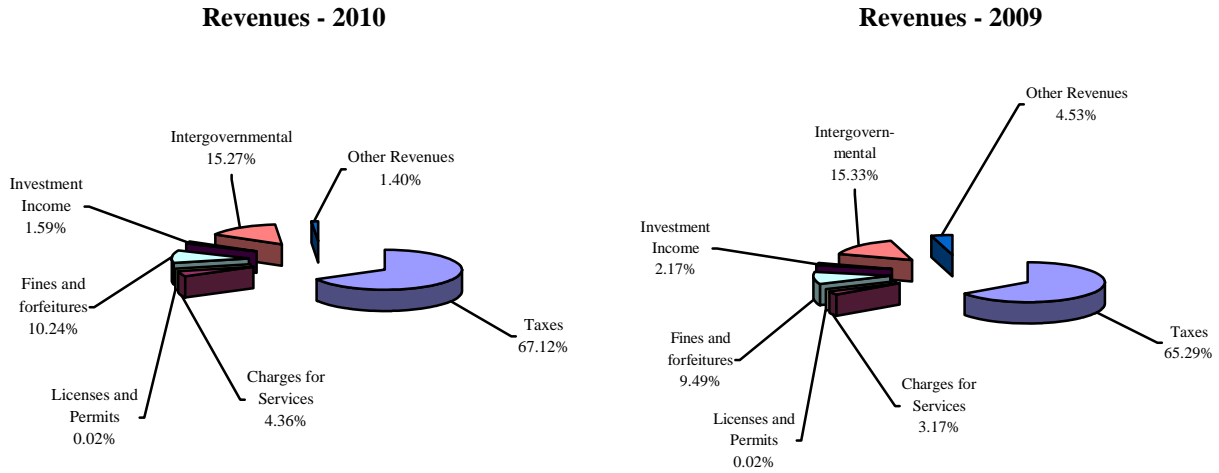
| | <u>2010</u> <u>Amount</u> | <u>2009</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|------------------------|------------------------------|------------------------------|------------------------------------|
| <u>Revenues</u> | | | |
| Taxes | \$ 4,811,532 | \$ 4,305,296 | 11.76 % |
| Charges for services | 312,611 | 208,469 | 49.96 % |
| Licenses and permits | 1,578 | 1,645 | (4.07) % |
| Fines and forfeitures | 734,258 | 626,088 | 17.28 % |
| Intergovernmental | 1,094,617 | 1,011,053 | 8.27 % |
| Investment income | 113,682 | 143,210 | (20.62) % |
| Other | <u>100,248</u> | <u>298,982</u> | (66.47) % |
| Total | <u>\$ 7,168,526</u> | <u>\$ 6,594,743</u> | 8.70 % |

Tax revenue represents 67.12% of all general fund revenue. Tax revenue increased by 11.76% due to an increase in sales taxes from the prior year. The decrease in investment income is due to lower interest rates throughout the year. The increase in intergovernmental revenues is due to an increase in funding from state and federal sources. The increase in charges for services and decrease in other revenue is caused by revenue reclassifications by the County. All other revenue remained comparable to 2009.

MORROW COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED**

The following graphs detail revenues by source for 2010 and 2009:



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

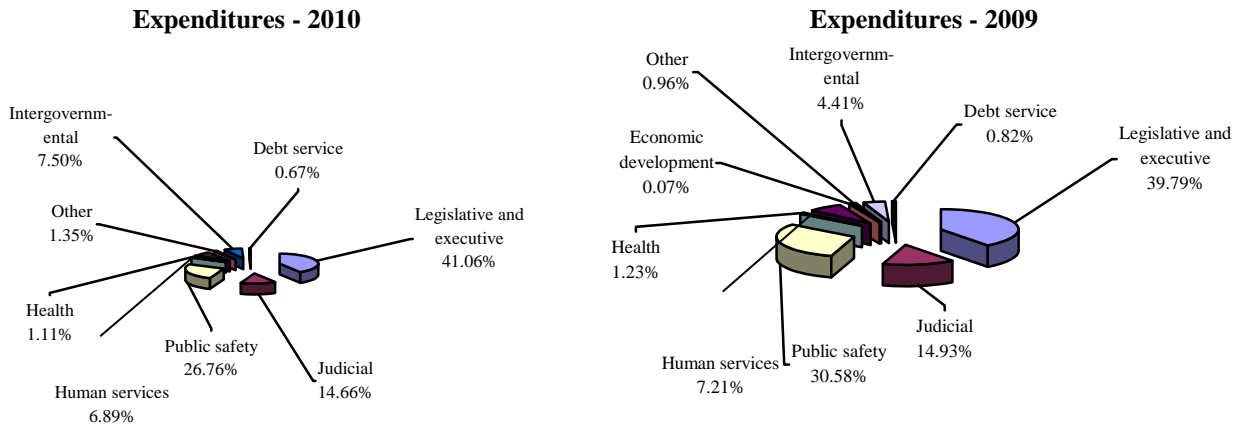
| | <u>2010</u> <u>Amount</u> | <u>2009</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|-------------------------------------|------------------------------|------------------------------|------------------------------------|
| <u>Expenditures</u> | | | |
| General government | | | |
| Legislative and executive | \$ 2,588,450 | \$ 2,574,619 | 0.54 % |
| Judicial | 923,564 | 966,387 | (4.43) % |
| Public safety | 1,686,385 | 1,979,293 | (14.80) % |
| Health | 69,858 | 79,342 | (11.95) % |
| Human services | 434,172 | 466,882 | (7.01) % |
| Economic development and assistance | - | 4,737 | (100.00) % |
| Other | 84,780 | 62,298 | 36.09 % |
| Intergovernmental | 472,639 | 285,145 | 65.75 % |
| Debt service | 42,057 | 52,997 | (20.64) % |
| Total | <u>\$ 6,301,905</u> | <u>\$ 6,471,700</u> | (2.62) % |

The largest expenditure line item, legislative and executive, did not increase significantly. Intergovernmental expenditures increased due to an increase in social services grants paid out the general fund. All other major expenditure line items decreased during the year as a result of budgetary controls.

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010 UNAUDITED

The graphs below detail expenditures by function for 2010 and 2009:



Emergency Squad Fund

The emergency squad, a County major fund, had revenues of \$1,145,759 in 2010. The emergency squad fund, had expenditures of \$1,145,076 in 2010. The emergency squad fund balance increased \$683 from 2009 to 2010.

Motor Vehicle and Gas Tax

The motor vehicle and gas tax, a County major fund, had revenues of \$4,409,247 in 2010. The motor vehicle and gas tax, had expenditures of \$3,971,323 in 2010. The motor vehicle and gas tax fund balance increased \$437,924 from 2009 to 2010.

Public Assistance Fund

The public assistance fund, a County major fund, had revenues of \$4,510,604 in 2010. The public assistance fund, had expenditures of \$4,636,215 in 2010. The public assistance fund balance decreased \$125,611 from 2009 to 2010.

County Board of DD

The County board of developmental disabilities (DD) fund, a County major fund, had revenues and other financing sources of \$2,653,201 in 2010. The County board of DD fund, had expenditures of \$2,520,605 in 2010. The County board of DD fund balance increased \$132,596 from 2009 to 2010.

Budgeting Highlights - General Fund

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

MORROW COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
UNAUDITED**

Budgetary information is presented for the general fund, emergency squad, motor vehicle license and gas tax, public assistance, and the County board of DD. In the general fund, actual revenues of \$7,097,552 exceeded final budgeted revenues of \$6,424,784 by \$672,768 or 10.47%. This increase is due to the County's conservative approach to budgeting. Original budgeted expenditures of \$6,597,690 were \$254,556 lower than final budgeted expenditures of \$6,852,246. Actual expenditures of \$6,875,884 were \$23,638 higher than final budgeted expenditures.

Proprietary Funds

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

Capital Assets and Debt Administration

Capital Assets

At the end of 2010, the County had \$40,745,480 (net of accumulated depreciation) invested in land, land improvements, buildings, buildings and improvements, equipment, vehicles, infrastructure and construction in progress. Of this total, \$31,401,683 was reported in governmental activities and \$9,343,797 was reported in business-type activities. The following table shows December 31, 2010 balances compared to December 31, 2009:

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

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|--------------------------|--------------------------------|----------------------|---------------------------------|---------------------|----------------------|----------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Land | \$ 736,057 | \$ 736,057 | \$ 191,995 | \$ 191,995 | \$ 928,052 | \$ 928,052 |
| Land Improvements | 12,253 | 14,138 | 73,056 | - | 85,309 | 14,138 |
| Buildings | 5,432,446 | 5,592,257 | 2,684,437 | 2,311,848 | 8,116,883 | 7,904,105 |
| Building Improvements | 2,029,957 | 273,598 | - | - | 2,029,957 | 273,598 |
| Equipment | 471,206 | 583,270 | 5,941,832 | 6,353,584 | 6,413,038 | 6,936,854 |
| Vehicles | 1,016,436 | 858,688 | - | - | 1,016,436 | 858,688 |
| Infrastructure | 19,696,308 | 20,039,103 | 189,719 | 194,846 | 19,886,027 | 20,233,949 |
| Construction in progress | <u>2,007,020</u> | <u>3,273,544</u> | <u>262,758</u> | <u>81,161</u> | <u>2,269,778</u> | <u>3,354,705</u> |
| Total | <u>\$ 31,401,683</u> | <u>\$ 31,370,655</u> | <u>\$ 9,343,797</u> | <u>\$ 9,133,434</u> | <u>\$ 40,745,480</u> | <u>\$ 40,504,089</u> |

Debt Administration

At December 31, 2010 the County had \$6,719,064 in general obligation bonds, notes, loans payable, OWDA loans, and capital leases outstanding in governmental activities. Of this total, \$403,746 is due within one year and \$6,315,318 is due within greater than one year. Business-type activities had \$1,578,001 in capital leases, and a master lease purchase agreement outstanding at December 31, 2010. See Note 14 to the basic financial statements for detail. The following table summarizes the bonds, notes and loan outstanding at December 31, 2010 and December 31, 2009.

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010 UNAUDITED

Outstanding Debt, at Year End

| | Governmental Activities | | Business-Type Activities | |
|-------------------------------------|-------------------------|---------------------|--------------------------|---------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Long-Term Obligations | | | | |
| General obligation bonds | \$ 5,425,000 | \$ 5,665,000 | \$ - | \$ - |
| Loans payable | 518,000 | 627,000 | - | - |
| OWDA loans | 672,686 | 365,443 | - | - |
| Capital leases | 103,378 | 88,971 | 424,270 | 69,700 |
| Master lease and purchase agreement | - | - | 1,153,731 | 1,761,195 |
| Total | <u>\$ 6,719,064</u> | <u>\$ 6,746,414</u> | <u>\$ 1,578,001</u> | <u>\$ 1,830,895</u> |

At December 31, 2010 the County's overall legal debt margin was \$9,931,120.

Economic Factors and Next Year's Budget

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

Location is also the key to Morrow County's future. Over 900 acres of industrial and commercial development opportunities are situated at the interchanges of Interstate 71 offering easy access for transportation of goods, materials and workers. There are three industrial based businesses opened in the facilities at State Route 61 and Interstate 71. While the County's 2010 overall unemployment rate 10.3% was just above the State's average of 10.1%, most of the County's major industrial companies increased employment levels.

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

Contacting the County's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mary Holtrey, County Auditor at 48 East Main Street, Mount Gilead, Ohio 43338.

**BASIC
FINANCIAL STATEMENTS**

MORROW COUNTY, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2010

| | Primary Government | | | Component Unit |
|---|-------------------------|--------------------------|---------------|----------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets: | | | | |
| Equity in pooled cash and cash equivalents | \$ 9,976,523 | \$ 60,237 | \$ 10,036,760 | \$ - |
| Cash and cash equivalents in segregated accounts . . . | - | 269,266 | 269,266 | 99,730 |
| Investments in segregated accounts. | - | 337,442 | 337,442 | - |
| Receivables (net of allowance for uncollectibles): | | | | |
| Sales taxes | 194,537 | - | 194,537 | - |
| Real and other taxes | 4,025,639 | 1,250,000 | 5,275,639 | - |
| Accounts. | 150,165 | 3,241,457 | 3,391,622 | 8,678 |
| Special assessments | 4,240 | - | 4,240 | - |
| Accrued interest | 25,830 | - | 25,830 | - |
| Estimated third-party payor settlements. | - | 57,563 | 57,563 | - |
| Physician advances. | - | 72,002 | 72,002 | - |
| Due from other governments. | 3,606,031 | - | 3,606,031 | - |
| Prepayments | 272,520 | 681,158 | 953,678 | - |
| Deposits | - | - | - | 332 |
| Materials and supplies inventory. | 113,564 | 616,433 | 729,997 | 18,022 |
| Loans receivable. | 765,158 | - | 765,158 | - |
| Unamortized bond issue costs | 116,956 | - | 116,956 | - |
| Restricted assets: | | | | |
| Cash and cash equivalents in segregated accounts. . . | - | 3,533,567 | 3,533,567 | - |
| Investments in segregated accounts. | - | 1,404,785 | 1,404,785 | - |
| Capital assets: | | | | |
| Land and construction in progress. | 2,743,077 | 454,753 | 3,197,830 | - |
| Depreciable capital assets, net. | 28,658,606 | 8,889,044 | 37,547,650 | 26,675 |
| Total capital assets, net. | 31,401,683 | 9,343,797 | 40,745,480 | 26,675 |
| Total assets | 50,652,846 | 20,867,707 | 71,520,553 | 153,437 |
| Liabilities: | | | | |
| Accounts payable. | 705,036 | 1,397,459 | 2,102,495 | 121 |
| Contracts payable. | 21,463 | - | 21,463 | - |
| Accrued wages and benefits | 417,419 | 1,009,217 | 1,426,636 | - |
| Due to other governments | 215,079 | 482 | 215,561 | - |
| Deferred revenue | - | 1,250,000 | 1,250,000 | - |
| Unearned revenue | 3,354,563 | - | 3,354,563 | - |
| Accrued interest payable | 16,493 | 6,145 | 22,638 | - |
| Other accrued liabilities | - | 194,786 | 194,786 | 2,414 |
| Long-term liabilities: | | | | |
| Due within one year | 619,357 | 1,311,456 | 1,930,813 | 4,099 |
| Due in more than one year. | 6,941,126 | 826,516 | 7,767,642 | 5,490 |
| Total liabilities | 12,290,536 | 5,996,061 | 18,286,597 | 12,124 |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | 24,710,538 | 7,759,650 | 32,470,188 | - |
| Restricted for: | | | | |
| Debt service | 252,539 | - | 252,539 | - |
| Capital projects | 797,039 | - | 797,039 | - |
| Public safety | 842,106 | - | 842,106 | - |
| Public works | 4,217,084 | - | 4,217,084 | - |
| Health. | 129,982 | - | 129,982 | - |
| Human services | 2,305,672 | - | 2,305,672 | - |
| Other purposes. | 3,132,236 | - | 3,132,236 | - |
| Unrestricted | 1,975,114 | 7,111,996 | 9,087,110 | 141,313 |
| Total net assets | \$ 38,362,310 | \$ 14,871,646 | \$ 53,233,956 | \$ 141,313 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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MORROW COUNTY, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

| | Expenses | Program Revenues | | |
|--|----------------------|--------------------------------|------------------------------------|----------------------------------|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government: | | | | |
| Governmental activities: | | | | |
| General government: | | | | |
| Legislative and executive | \$ 3,543,906 | \$ 1,216,617 | \$ 42,073 | \$ - |
| Judicial | 1,358,132 | 620,492 | 507,780 | - |
| Public safety | 3,392,221 | 205,509 | 801,731 | - |
| Public works | 4,878,556 | 331 | 3,830,641 | 443,244 |
| Health | 2,770,941 | 112,941 | 141,421 | - |
| Human services | 7,703,410 | 511,883 | 6,549,233 | - |
| Economic development and assistance. | 1,004,862 | 23,025 | 1,087,936 | 56,813 |
| Intergovernmental. | 477,237 | - | - | - |
| Other | 1,132,593 | 198,357 | 887,692 | - |
| Interest and fiscal charges. | 300,762 | - | - | - |
| Total governmental activities | <u>26,562,620</u> | <u>2,889,155</u> | <u>13,848,507</u> | <u>500,057</u> |
| Business-type activities: | | | | |
| Morrow County Hospital | 27,617,848 | 25,782,802 | - | - |
| Other business-type activities | 135,788 | 92,706 | - | - |
| Total business-type activities | <u>27,753,636</u> | <u>25,875,508</u> | <u>-</u> | <u>-</u> |
| Total primary government. | <u>\$ 54,316,256</u> | <u>\$ 28,764,663</u> | <u>\$ 13,848,507</u> | <u>\$ 500,057</u> |
| Component unit: | | | | |
| Whetstone Industries, inc. | <u>\$ 678,056</u> | <u>\$ 80,481</u> | <u>\$ 593,529</u> | <u>\$ -</u> |

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

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Changes in Net Assets**

| Primary Government | | | |
|------------------------------------|-------------------------------------|----------------|---------------------------|
| Governmental Activities | Business-type Activities | Total | Component Unit |
| \$ (2,285,216) | \$ - | \$ (2,285,216) | \$ - |
| (229,860) | - | (229,860) | - |
| (2,384,981) | - | (2,384,981) | - |
| (604,340) | - | (604,340) | - |
| (2,516,579) | - | (2,516,579) | - |
| (642,294) | - | (642,294) | - |
| 162,912 | - | 162,912 | - |
| (477,237) | - | (477,237) | - |
| (46,544) | - | (46,544) | - |
| (300,762) | - | (300,762) | - |
| (9,324,901) | - | (9,324,901) | - |
| - | (1,835,046) | (1,835,046) | - |
| - | (43,082) | (43,082) | - |
| - | (1,878,128) | (1,878,128) | - |
| (9,324,901) | (1,878,128) | (11,203,029) | - |
| - | - | - | (4,046) |
| 2,235,292 | - | 2,235,292 | - |
| 1,918,459 | - | 1,918,459 | - |
| 2,692,984 | - | 2,692,984 | - |
| 2,587,223 | - | 2,587,223 | - |
| 107,499 | 28,309 | 135,808 | - |
| 971,830 | 2,073,415 | 3,045,245 | 1,815 |
| 10,513,287 | 2,101,724 | 12,615,011 | 1,815 |
| 1,188,386 | 223,596 | 1,411,982 | (2,231) |
| 37,173,924 | 14,648,050 | 51,821,974 | 143,544 |
| \$ 38,362,310 | \$ 14,871,646 | \$ 53,233,956 | \$ 141,313 |

MORROW COUNTY, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

| | General | Emergency Squad | Motor Vehicle and Gas Tax | Public Assistance |
|---|---------------------|---------------------|------------------------------|----------------------|
| Assets: | | | | |
| Equity in pooled cash and cash equivalents | \$ 1,354,557 | \$ 45,993 | \$ 2,559,850 | \$ 388,038 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Sales taxes | 194,537 | - | - | - |
| Real and other taxes | 2,036,120 | 1,072,068 | - | - |
| Accounts | 69,582 | - | 24 | - |
| Special assessments | - | - | - | - |
| Accrued interest | 25,830 | - | - | - |
| Due from other funds | 33,809 | - | 2,245 | 4,439 |
| Due from other governments | 359,953 | 82,769 | 1,876,288 | 519,224 |
| Loans receivable | - | - | - | - |
| Prepayments | 122,297 | - | 24,436 | 67,209 |
| Materials and supplies inventory | 16,667 | - | 88,350 | 6,466 |
| Total assets | <u>\$ 4,213,352</u> | <u>\$ 1,200,830</u> | <u>\$ 4,551,193</u> | <u>\$ 985,376</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 88,156 | \$ - | \$ 65,531 | \$ 266,906 |
| Contracts payable | - | - | 21,463 | - |
| Accrued wages and benefits | 98,237 | - | 79,367 | 70,825 |
| Compensated absences payable | - | - | 28,752 | 18,038 |
| Due to other funds | 3,420 | - | 58 | - |
| Due to other governments | 67,488 | - | 32,231 | 43,031 |
| Deferred revenue | 600,409 | 283,056 | 1,183,777 | - |
| Unearned revenue | 1,715,546 | 871,781 | - | - |
| Total liabilities | <u>2,573,256</u> | <u>1,154,837</u> | <u>1,411,179</u> | <u>398,800</u> |
| Fund balances: | | | | |
| Reserved for encumbrances | 87,621 | - | 529,736 | 144,167 |
| Reserved for materials and supplies inventory | 16,667 | - | 88,350 | 6,466 |
| Reserved for debt service | - | - | 2,245 | 4,439 |
| Reserved for prepayments | 122,297 | - | 24,436 | 67,209 |
| Reserved for loans receivable | - | - | - | - |
| Reserved for unclaimed monies | 58,743 | - | - | - |
| Unreserved, undesignated, reported in: | | | | |
| General fund | 1,354,768 | - | - | - |
| Special revenue funds | - | 45,993 | 2,495,247 | 364,295 |
| Capital projects funds | - | - | - | - |
| Total fund balances | <u>1,640,096</u> | <u>45,993</u> | <u>3,140,014</u> | <u>586,576</u> |
| Total liabilities and fund balances | <u>\$ 4,213,352</u> | <u>\$ 1,200,830</u> | <u>\$ 4,551,193</u> | <u>\$ 985,376</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

| County Board of Developmental Disabilities | Other Governmental Funds | Total Governmental Funds |
|---|---|---|
| \$ 955,693 | \$ 4,672,392 | \$ 9,976,523 |
| - | - | 194,537 |
| 917,451 | - | 4,025,639 |
| 19,785 | 60,774 | 150,165 |
| - | 4,240 | 4,240 |
| - | - | 25,830 |
| 11,635 | - | 52,128 |
| 455,007 | 312,790 | 3,606,031 |
| - | 765,158 | 765,158 |
| 36,507 | 22,071 | 272,520 |
| 1,467 | 614 | 113,564 |
| <u>\$ 2,397,545</u> | <u>\$ 5,838,039</u> | <u>\$ 19,186,335</u> |
| | | |
| \$ 126,858 | \$ 157,585 | \$ 705,036 |
| - | - | 21,463 |
| 59,466 | 109,524 | 417,419 |
| 10,865 | - | 57,655 |
| 105 | 48,545 | 52,128 |
| 19,927 | 52,402 | 215,079 |
| 352,219 | 122,948 | 2,542,409 |
| 767,236 | - | 3,354,563 |
| <u>1,336,676</u> | <u>491,004</u> | <u>7,365,752</u> |
| | | |
| 101,504 | 742,484 | 1,605,512 |
| 1,467 | 614 | 113,564 |
| 11,635 | 180,549 | 198,868 |
| 36,507 | 22,071 | 272,520 |
| - | 765,158 | 765,158 |
| - | - | 58,743 |
| - | - | 1,354,768 |
| 909,756 | 2,841,975 | 6,657,266 |
| - | 794,184 | 794,184 |
| <u>1,060,869</u> | <u>5,347,035</u> | <u>11,820,583</u> |
| | | |
| <u>\$ 2,397,545</u> | <u>\$ 5,838,039</u> | <u>\$ 19,186,335</u> |

MORROW COUNTY, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010

| | | |
|--|-------------|----------------------|
| Total governmental fund balances | | \$ 11,820,583 |
| <i>Amounts reported for governmental activities on the statement of net assets are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 31,401,683 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | | |
| Real and other taxes receivable | \$ 671,076 | |
| Special assessments receivable | 4,240 | |
| Accrued interest receivable | 11,083 | |
| Intergovernmental receivable | 1,856,010 | |
| Total | 2,542,409 | 2,542,409 |
| Unamortized bond issue costs are not recognized in the funds. | | 116,956 |
| Unamortized bond discounts are not recognized in the funds. | | 27,919 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | | |
| Accrued interest payable | (16,493) | |
| General obligation bonds payable | (5,425,000) | |
| Loans payable | (1,190,686) | |
| Capital lease payable | (103,378) | |
| Compensated absences payable | (811,683) | |
| Total | (7,547,240) | (7,547,240) |
| Net assets of governmental activities | | \$ 38,362,310 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

| | <u>General</u> | <u>Emergency Squad</u> | <u>Motor Vehicle and Gas Tax</u> | <u>Public Assistance</u> |
|--|---------------------|----------------------------|--------------------------------------|------------------------------|
| Revenues: | | | | |
| Real and other taxes | \$ 2,199,620 | \$ 1,006,599 | \$ - | \$ - |
| Sales taxes | 2,611,912 | - | - | - |
| Charges for services | 312,611 | - | - | 166,419 |
| Licenses and permits | 1,578 | - | - | - |
| Fines and forfeitures | 734,258 | - | 331 | - |
| Intergovernmental | 1,094,617 | 139,160 | 4,347,205 | 4,216,377 |
| Investment income | 113,682 | - | 18,096 | - |
| Rental income | - | - | - | - |
| Other | 100,248 | - | 43,615 | 127,808 |
| Total revenues | <u>7,168,526</u> | <u>1,145,759</u> | <u>4,409,247</u> | <u>4,510,604</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government: | | | | |
| Legislative and executive | 2,588,450 | - | - | - |
| Judicial | 923,564 | - | - | - |
| Public safety | 1,686,385 | 1,145,076 | - | - |
| Public works | - | - | 3,855,755 | - |
| Health | 69,858 | - | - | - |
| Human services | 434,172 | - | - | 4,629,348 |
| Economic development and assistance | - | - | - | - |
| Other | 84,780 | - | - | - |
| Capital outlay | - | - | - | - |
| Intergovernmental | 472,639 | - | - | - |
| Debt service: | | | | |
| Principal retirement | 39,557 | - | 100,000 | 6,268 |
| Interest and fiscal charges | 2,500 | - | 15,568 | 599 |
| Total expenditures | <u>6,301,905</u> | <u>1,145,076</u> | <u>3,971,323</u> | <u>4,636,215</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>866,621</u> | <u>683</u> | <u>437,924</u> | <u>(125,611)</u> |
| Other financing sources (uses): | | | | |
| Capital lease transaction | - | - | - | - |
| OWDA loan issuance | - | - | - | - |
| Transfers in | - | - | - | - |
| Transfers (out) | (326,528) | - | - | - |
| Total other financing sources (uses) | <u>(326,528)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | 540,093 | 683 | 437,924 | (125,611) |
| Fund balances at beginning of year | <u>1,100,003</u> | <u>45,310</u> | <u>2,702,090</u> | <u>712,187</u> |
| Fund balances at end of year | <u>\$ 1,640,096</u> | <u>\$ 45,993</u> | <u>\$ 3,140,014</u> | <u>\$ 586,576</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

| County Board of Developmental Disabilities | Other Governmental Funds | Total Governmental Funds |
|---|---|---|
| \$ 873,418 | \$ - | \$ 4,079,637 |
| - | 81,072 | 2,692,984 |
| - | 1,101,673 | 1,580,703 |
| - | 96,912 | 98,490 |
| - | 71,793 | 806,382 |
| 1,229,375 | 5,970,689 | 16,997,423 |
| - | 19,139 | 150,917 |
| - | 345,464 | 345,464 |
| 474,616 | 348,330 | 1,094,617 |
| <u>2,577,409</u> | <u>8,035,072</u> | <u>27,846,617</u> |
| - | 817,901 | 3,406,351 |
| - | 410,549 | 1,334,113 |
| - | 432,883 | 3,264,344 |
| - | - | 3,855,755 |
| 2,396,571 | 293,290 | 2,759,719 |
| 29,555 | 2,445,732 | 7,538,807 |
| - | 1,292,925 | 1,292,925 |
| 160 | 1,098,146 | 1,183,086 |
| 75,792 | 1,109,100 | 1,184,892 |
| - | 4,598 | 477,237 |
| 15,560 | 265,420 | 426,805 |
| 2,967 | 279,267 | 300,901 |
| <u>2,520,605</u> | <u>8,449,811</u> | <u>27,024,935</u> |
| <u>56,804</u> | <u>(414,739)</u> | <u>821,682</u> |
| 75,792 | - | 75,792 |
| - | 323,663 | 323,663 |
| - | 326,528 | 326,528 |
| - | - | (326,528) |
| <u>75,792</u> | <u>650,191</u> | <u>399,455</u> |
| 132,596 | 235,452 | 1,221,137 |
| 928,273 | 5,111,583 | 10,599,446 |
| <u>\$ 1,060,869</u> | <u>\$ 5,347,035</u> | <u>\$ 11,820,583</u> |

MORROW COUNTY, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

| | | |
|--|--------------|------------------|
| Net change in fund balances - total governmental funds | \$ | 1,221,137 |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i> | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period. | | |
| Capital asset additions | \$ 1,983,108 | |
| Current year depreciation | (1,952,080) | |
| Total | | 31,028 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Real and other taxes | 74,114 | |
| Special assessments | (4,326) | |
| Intergovernmental revenues | (90,811) | |
| Interest revenues | (17,743) | |
| Other revenues | (56,845) | |
| Total | | (95,611) |
| Proceeds of loans and capital leases are reported as an other financing source in the governmental funds, however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. | | |
| | | (399,455) |
| Repayment of bond, loan and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. | | |
| | | 426,805 |
| In the statement of activities, interest is accrued on outstanding bonds, loans and notes, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in less interest being reported in the statement of activities. | | |
| Decrease in accrued interest payable | 6,438 | |
| Amortization of bond discounts | (1,214) | |
| Amortization of bond issue costs | (5,085) | |
| Total | | 139 |
| Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | |
| | | 4,343 |
| Change in net assets of governmental activities | \$ | 1,188,386 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2010

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|-------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Real and other taxes | \$ 1,829,983 | \$ 1,963,735 | \$ 2,198,397 | \$ 234,662 |
| Sales taxes | 2,181,493 | 2,319,960 | 2,562,893 | 242,933 |
| Charges for services. | 236,062 | 251,046 | 277,334 | 26,288 |
| Licenses and permits | 1,343 | 1,428 | 1,578 | 150 |
| Fines and forfeitures | 632,348 | 672,485 | 742,904 | 70,419 |
| Intergovernmental. | 975,263 | 1,019,569 | 1,097,303 | 77,734 |
| Investment income. | 85,020 | 90,417 | 99,885 | 9,468 |
| Other | 99,808 | 106,144 | 117,258 | 11,114 |
| Total revenues | <u>6,041,320</u> | <u>6,424,784</u> | <u>7,097,552</u> | <u>672,768</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government: | | | | |
| Legislative and executive | 2,819,844 | 2,884,882 | 2,740,758 | 144,124 |
| Judicial. | 787,918 | 823,806 | 933,722 | (109,916) |
| Public safety | 1,651,070 | 1,713,843 | 1,754,090 | (40,247) |
| Health | 67,693 | 67,359 | 69,197 | (1,838) |
| Human services | 491,749 | 496,013 | 496,013 | - |
| Other | 63,733 | 67,176 | 82,937 | (15,761) |
| Intergovernmental | 389,155 | 472,639 | 472,639 | - |
| Total expenditures | <u>6,271,162</u> | <u>6,525,718</u> | <u>6,549,356</u> | <u>(23,638)</u> |
| Excess (deficiency) of revenues over (under) expenditures. | <u>(229,842)</u> | <u>(100,934)</u> | <u>548,196</u> | <u>649,130</u> |
| Other financing (uses): | | | | |
| Transfers (out). | <u>(326,528)</u> | <u>(326,528)</u> | <u>(326,528)</u> | <u>-</u> |
| Total other financing (uses) | <u>(326,528)</u> | <u>(326,528)</u> | <u>(326,528)</u> | <u>-</u> |
| Net change in fund balances | (556,370) | (427,462) | 221,668 | 649,130 |
| Fund balances at beginning of year | 683,238 | 683,238 | 683,238 | - |
| Prior year encumbrances appropriated . . | 230,460 | 230,460 | 230,460 | - |
| Fund balance at end of year | <u>\$ 357,328</u> | <u>\$ 486,236</u> | <u>\$ 1,135,366</u> | <u>\$ 649,130</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 EMERGENCY SQUAD FUND
 FOR THE YEAR ENDED DECEMBER 31, 2010

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|--------------------|------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Real and other taxes. | \$ 1,016,560 | \$ 987,636 | \$ 987,636 | \$ - |
| Intergovernmental. | 157,440 | 157,440 | 157,440 | - |
| Total revenues | <u>1,174,000</u> | <u>1,145,076</u> | <u>1,145,076</u> | <u>-</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Public safety | 1,174,000 | 1,174,000 | 1,145,076 | 28,924 |
| Total expenditures | <u>1,174,000</u> | <u>1,174,000</u> | <u>1,145,076</u> | <u>28,924</u> |
| Net change in fund balances | - | (28,924) | - | 28,924 |
| Fund balances at beginning of year | - | - | - | - |
| Prior year encumbrances appropriated | - | - | - | - |
| Fund balance (deficit) at end of year. | <u>\$ -</u> | <u>\$ (28,924)</u> | <u>\$ -</u> | <u>\$ 28,924</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 MOTOR VEHICLE AND GAS TAX FUND
 FOR THE YEAR ENDED DECEMBER 31, 2010

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|-------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Fines and forfeitures | \$ 299 | \$ 299 | \$ 331 | \$ 32 |
| Intergovernmental. | 3,448,410 | 3,448,410 | 4,247,455 | 799,045 |
| Investment income. | 16,360 | 16,360 | 18,096 | 1,736 |
| Other | 39,431 | 39,431 | 43,615 | 4,184 |
| Total revenues | <u>3,504,500</u> | <u>3,504,500</u> | <u>4,309,497</u> | <u>804,997</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Public works | 5,151,350 | 5,218,318 | 4,520,597 | 697,721 |
| Total expenditures | <u>5,151,350</u> | <u>5,218,318</u> | <u>4,520,597</u> | <u>697,721</u> |
| Net change in fund balances | (1,646,850) | (1,713,818) | (211,100) | 1,502,718 |
| Fund balances at beginning of year | 1,588,138 | 1,588,138 | 1,588,138 | - |
| Prior year encumbrances appropriated . . . | 565,974 | 565,974 | 565,974 | - |
| Fund balance at end of year | <u>\$ 507,262</u> | <u>\$ 440,294</u> | <u>\$ 1,943,012</u> | <u>\$ 1,502,718</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 PUBLIC ASSISTANCE FUND
 FOR THE YEAR ENDED DECEMBER 31, 2010

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|------------------|---------------------|------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Charges for services | \$ 65,825 | \$ 171,663 | \$ 168,091 | \$ (3,572) |
| Intergovernmental | 4,572,052 | 4,318,792 | 4,070,724 | (248,068) |
| Other | 146,123 | 138,029 | 130,101 | (7,928) |
| Total revenues | <u>4,784,000</u> | <u>4,628,484</u> | <u>4,368,916</u> | <u>(259,568)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Human services | <u>5,355,621</u> | <u>5,465,105</u> | <u>4,914,723</u> | <u>550,382</u> |
| Total expenditures | <u>5,355,621</u> | <u>5,465,105</u> | <u>4,914,723</u> | <u>550,382</u> |
| Net change in fund balances | (571,621) | (836,621) | (545,807) | 290,814 |
| Fund balances at beginning of year | 60,586 | 60,586 | 60,586 | - |
| Prior year encumbrances appropriated | <u>511,786</u> | <u>511,786</u> | <u>511,786</u> | - |
| Fund balance (deficit) at end of year | <u>\$ 751</u> | <u>\$ (264,249)</u> | <u>\$ 26,565</u> | <u>\$ 290,814</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 COUNTY BOARD OF DEVELOPMENTAL DISABILITIES FUND
 FOR THE YEAR ENDED DECEMBER 31, 2010

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|-------------------|------------------|-------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Real and other taxes | \$ 634,226 | \$ 635,249 | \$ 872,907 | \$ 237,658 |
| Intergovernmental | 972,070 | 973,123 | 1,217,675 | 244,552 |
| Other | 346,704 | 347,152 | 451,232 | 104,080 |
| Total revenues | <u>1,953,000</u> | <u>1,955,524</u> | <u>2,541,814</u> | <u>586,290</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Health | 2,508,254 | 2,602,254 | 2,533,990 | 68,264 |
| Human services | 25,118 | 40,420 | 34,655 | 5,765 |
| Other | 314 | 314 | 160 | 154 |
| Total expenditures | <u>2,533,686</u> | <u>2,642,988</u> | <u>2,568,805</u> | <u>74,183</u> |
| Net change in fund balances | (580,686) | (687,464) | (26,991) | 660,473 |
| Fund balances at beginning of year | 586,796 | 586,796 | 586,796 | - |
| Prior year encumbrances appropriated | 134,233 | 134,233 | 134,233 | - |
| Fund balance at end of year | <u>\$ 140,343</u> | <u>\$ 33,565</u> | <u>\$ 694,038</u> | <u>\$ 660,473</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2010

| | Business-type Activities - Enterprise Funds | | |
|--|--|-------------------|----------------------|
| | Morrow County | | |
| | Hospital | Nonmajor | Total |
| Assets: | | | |
| Current assets: | | | |
| Equity in pooled cash and cash equivalents | \$ - | \$ 60,237 | \$ 60,237 |
| Cash and cash equivalents in segregated accounts | 269,266 | - | 269,266 |
| Receivables: | | | |
| Real and other taxes | 1,250,000 | - | 1,250,000 |
| Accounts | 3,241,457 | - | 3,241,457 |
| Estimated third-party payor settlements | 57,563 | - | 57,563 |
| Physician advances | 71,312 | - | 71,312 |
| Materials and supplies inventory | 616,433 | - | 616,433 |
| Prepayments | 681,133 | 25 | 681,158 |
| Total current assets | <u>6,187,164</u> | <u>60,262</u> | <u>6,247,426</u> |
| Noncurrent assets: | | | |
| Restricted assets: | | | |
| Cash and cash equivalents in segregated accounts | 3,533,567 | - | 3,533,567 |
| Investments in segregated accounts | 1,404,785 | - | 1,404,785 |
| Investments in segregated accounts | 337,442 | - | 337,442 |
| Physician advances | 690 | - | 690 |
| Capital assets: | | | |
| Land and construction in progress | 454,753 | - | 454,753 |
| Depreciable capital assets, net | 8,699,325 | 189,719 | 8,889,044 |
| Total capital assets, net | <u>9,154,078</u> | <u>189,719</u> | <u>9,343,797</u> |
| Total noncurrent assets | <u>14,430,562</u> | <u>189,719</u> | <u>14,620,281</u> |
| Total assets | <u>20,617,726</u> | <u>249,981</u> | <u>20,867,707</u> |
| Liabilities: | | | |
| Current liabilities: | | | |
| Accounts payable | 1,396,130 | 1,329 | 1,397,459 |
| Accrued wages and benefits | 1,008,330 | 887 | 1,009,217 |
| Due to other governments | - | 482 | 482 |
| Deferred revenue | 1,250,000 | - | 1,250,000 |
| Accrued interest payable | 6,145 | - | 6,145 |
| Other accrued liabilities | 194,786 | - | 194,786 |
| Compensated absences payable - current | 559,971 | - | 559,971 |
| Lease purchase agreement - current | 644,049 | - | 644,049 |
| Capital lease obligations payable - current | 107,436 | - | 107,436 |
| Total current liabilities | <u>5,166,847</u> | <u>2,698</u> | <u>5,169,545</u> |
| Long-term liabilities: | | | |
| Lease purchase agreement - current | 509,682 | - | 509,682 |
| Capital lease obligations payable - current | 316,834 | - | 316,834 |
| Total long-term liabilities | <u>826,516</u> | <u>-</u> | <u>826,516</u> |
| Total liabilities | <u>5,993,363</u> | <u>2,698</u> | <u>5,996,061</u> |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 7,569,931 | 189,719 | 7,759,650 |
| Unrestricted | 7,054,432 | 57,564 | 7,111,996 |
| Total net assets | <u>\$ 14,624,363</u> | <u>\$ 247,283</u> | <u>\$ 14,871,646</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

| | Business-type Activities - Enterprise Funds | | |
|--|--|-------------------|----------------------|
| | Morrow County Hospital | Nonmajor | Total |
| Operating revenues: | | | |
| Charges for services | \$ - | \$ 92,706 | \$ 92,706 |
| Patient service revenue, net. | 25,782,802 | - | 25,782,802 |
| Other operating revenues | 666,182 | 19,834 | 686,016 |
| Total operating revenues. | 26,448,984 | 112,540 | 26,561,524 |
| Operating expenses: | | | |
| Personal services | 13,186,477 | 26,914 | 13,213,391 |
| Contractual services. | 7,804,077 | 103,503 | 7,907,580 |
| Materials and supplies. | 4,577,210 | - | 4,577,210 |
| Depreciation. | 1,197,040 | 5,127 | 1,202,167 |
| Other | 756,834 | 244 | 757,078 |
| Total operating expenses. | 27,521,638 | 135,788 | 27,657,426 |
| Operating loss | (1,072,654) | (23,248) | (1,095,902) |
| Nonoperating revenues (expenses): | | | |
| Interest and fiscal charges | (96,210) | - | (96,210) |
| Real and other taxes. | 1,131,355 | - | 1,131,355 |
| Intergovernmental | 256,044 | - | 256,044 |
| Interest income. | 27,373 | 936 | 28,309 |
| Total nonoperating revenues (expenses). | 1,318,562 | 936 | 1,319,498 |
| Change in net assets | 245,908 | (22,312) | 223,596 |
| Net assets, January 1. | 14,378,455 | 269,595 | 14,648,050 |
| Net assets, December 31 | \$ 14,624,363 | \$ 247,283 | \$ 14,871,646 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2010

| | Business-type Activities - Enterprise Funds | | |
|--|--|------------------|---------------------|
| | Morrow County Hospital | Nonmajor | Total |
| Cash flows from operating activities: | | | |
| Cash received from customers. | \$ - | \$ 92,706 | \$ 92,706 |
| Cash received from patients and third-party payors. . . | 26,706,341 | - | 26,706,341 |
| Cash received from other operations. | 666,182 | 19,834 | 686,016 |
| Cash payments to suppliers for services and goods. . . | (14,176,012) | (102,174) | (14,278,186) |
| Cash payments to employees for services | (13,114,017) | (26,946) | (13,140,963) |
| Cash payments for other expenses | - | (244) | (244) |
| Net cash provided by (used in) operating activities | <u>82,494</u> | <u>(16,824)</u> | <u>65,670</u> |
| Cash flows from capital and related financing activities: | | | |
| Acquisition of capital assets | (1,012,830) | - | (1,012,830) |
| Property tax levy/intergovernmental revenue | 1,387,396 | - | 1,387,396 |
| Principal payments on long-term debt | (652,894) | - | (652,894) |
| Interest and fiscal charges | (99,445) | - | (99,445) |
| Net cash used in capital and related financing activities | <u>(377,773)</u> | <u>-</u> | <u>(377,773)</u> |
| Cash flows from investing activities: | | | |
| Interest received | 27,373 | 936 | 28,309 |
| Purchase of investments | (2,304,924) | - | (2,304,924) |
| Assets limited as to use | 577,311 | - | 577,311 |
| Proceeds from sale of investments | 4,225,864 | - | 4,225,864 |
| Net cash provided by investing activities | <u>2,525,624</u> | <u>936</u> | <u>2,526,560</u> |
| Net increase (decrease) in cash and cash equivalents | 2,230,345 | (15,888) | 2,214,457 |
| Cash and cash equivalents at beginning of year . . . | <u>1,909,930</u> | <u>76,125</u> | <u>1,986,055</u> |
| Cash and cash equivalents at end of year | <u>\$ 4,140,275</u> | <u>\$ 60,237</u> | <u>\$ 4,200,512</u> |

- - Continued

MORROW COUNTY, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2010

| | Business-type Activities - Enterprise Funds | | |
|---|--|-----------------|----------------|
| | Morrow County Hospital | Nonmajor | Total |
| Reconciliation of operating loss to net cash provided by (used in) operating activities: | | | |
| Operating loss | \$ (1,072,654) | \$ (23,248) | \$ (1,095,902) |
| Adjustments: | | | |
| Depreciation. | 1,197,040 | 5,127 | 1,202,167 |
| Provisions for bad debt | 2,537,977 | - | 2,537,977 |
| Forgiveness of physician advances. | 4,456 | - | 4,456 |
| Changes in assets and liabilities: | | | |
| (Increase) in materials and supplies inventory | (147,300) | - | (147,300) |
| (Increase) in prepayments | - | (25) | (25) |
| (Increase) in other current assets. | (216,012) | - | (216,012) |
| (Increase) in patient accounts receivable. | (1,549,797) | - | (1,549,797) |
| (Increase) in third party settlement receivables | (57,563) | - | (57,563) |
| Increase in accrued wages and benefits. | - | 88 | 88 |
| (Decrease) in due to other governments | - | (95) | (95) |
| (Decrease) in third party settlements payable. | (7,077) | - | (7,077) |
| Increase (decrease) in accounts payable. | (357,678) | 1,329 | (356,349) |
| (Decrease) in accrued expenses. | (248,898) | - | (248,898) |
| Net cash provided by (used in) operating activities | \$ 82,494 | \$ (16,824) | \$ 65,670 |

Non-cash transactions:

During 2010, the Hospital purchased capital assets through a capital lease obligation in the amount of \$400,000.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2010

| | <u>Agency</u> |
|---|----------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents | \$ 3,188,820 |
| Cash and cash equivalents in segregated accounts. . . . | 1,150,383 |
| Receivables (net of allowance for uncollectibles): | |
| Real and other taxes | 27,658,724 |
| Accounts. | 6,530 |
| Special assessments | 4,240 |
| Due from other governments | <u>1,458,022</u> |
| Total assets | <u>\$ 33,466,719</u> |
| Liabilities: | |
| Accounts payable. | \$ 45,220 |
| Due to other governments | 4,998,981 |
| Undistributed assets | <u>28,422,518</u> |
| Total liabilities. | <u>\$ 33,466,719</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 1 - DESCRIPTION OF THE COUNTY

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

Based on the foregoing criteria, the financial activities of the following PCU's have been reflected in the accompanying basic financial statements as follows:

DISCRETELY PRESENTED COMPONENT UNIT

Whetstone Industries, Inc. - Whetstone Industries, Inc. (the "Workshop") is a legally separate, not-for-profit corporation, served by a self-appointing Board of Trustees. The Workshop, under a contractual agreement with the DD Board, provides sheltered, transitional, and outside employment for the developmentally disabled and handicapped adults in Morrow County. The County Board of DD provides the Workshop with available resources and staff for operation of the Workshop. Based on the significant resources and services provided by the County to the Workshop and the Workshop's sole purpose of providing assistance to developmentally disabled and handicapped adults of the County, the Workshop is reflected as a discretely presented component unit of the County. It is reported separately to emphasize that it is legally separate from the County. Separately issued financial statements can be obtained from Whetstone Industries, Inc., Mt. Gilead, Ohio 43338. See Note 23 for more information of the Workshop's accounting policies.

EXCLUDED POTENTIAL COMPONENT UNITS

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

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

Morrow County Soil and Water Conservation District

Morrow County Disaster Services

Morrow County Law Library

Morrow County General Health District

Morrow County Air Facility

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

JOINTLY GOVERNED ORGANIZATIONS

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

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

JOINT VENTURE WITHOUT EQUITY INTEREST

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

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

B. Basis of Presentation

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the County that are governmental and those that are considered business-type activities.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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

The statement of net assets presents the financial condition of the governmental and business-type activities of the County at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the County's governmental activities and for the business-type activities of the County. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. The policy of the County is to not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the County.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activities of the proprietary funds. For the County, these revenues are primarily patient service revenue for the Hospital, and charges for services for the Ketterman project. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

C. Fund Accounting

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

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

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

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

Motor vehicle and gas tax - This fund accounts for monies received by the County for State gasoline tax and vehicle registration fees used for County road and bridge maintenance, construction and improvements.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

County board of developmental disabilities (County Board of DD) - This fund accounts for the operation of a school and the costs of administering a workshop for the developmentally disabled. Revenue sources include a countywide property tax levy and federal and State grants.

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

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

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

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

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

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the County under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the County's own programs. The County has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The County's fiduciary funds are agency funds which are used to account for property taxes, special assessments, and other "pass through" monies to be distributed to local governments other than the County.

COMPONENT UNIT

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

D. Measurement Focus

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

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

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

E. Basis of Accounting

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

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

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2010, but which were levied to finance year 2011 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as unearned revenue. Special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2010, are recorded as deferred revenue on the governmental fund financial statements.

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

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

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

F. Budgetary Data

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

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

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

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31. Further amendments may be made during the year if the County Auditor determines that revenue to be collected will be greater than or less than the prior estimates and the Budget Commission finds the revised estimates to be reasonable. The amounts set forth in the budgetary statements represent estimates from the first (original budget) and final (final budget) amended certificates issued during 2010.

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

The allocation of appropriations among departments and objects within a fund (the legal level of budgetary control) may be modified during the year by a resolution of the County Commissioners. Several supplemental appropriation resolutions were legally enacted by the County Commissioners during the year. In the budgetary statements, the original budgeted amounts represent the original budgeted appropriations that covered the entire year of 2010. The final budgeted figures reflect the original budgeted amounts plus all budgetary amendments and supplemental appropriations that were legally enacted during 2010.

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

G. Cash and Investments

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

During 2010, investments were limited to U.S Government bonds, negotiable and nonnegotiable certificates of deposit, a U.S. Government money market mutual fund and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

The County has invested funds in STAR Ohio during 2010. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities Exchange Commission (SEC) as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on December 31, 2010.

Under existing Ohio Statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during 2010 amounted to \$113,682 which includes \$100,506 assigned from other County funds.

The County reports segregated bank accounts and investments for monies held separately from the County's internal investment pool. These interest-bearing depository accounts and investments are presented on the financial statements as "cash and cash equivalents in segregated accounts" and "investments in segregated accounts" since they are not required to be deposited into the County treasury. Cash, cash equivalents and investments in segregated accounts include monies held, in a fiduciary capacity, in separate depository accounts outside of the internal investment pool by the County (reported as agency funds), monies held by the Hospital in separate depository and investment accounts, and monies held by the Workshop (discretely presented component unit) in separate depository accounts.

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

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

H. Inventories of Materials and Supplies

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

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

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

I. Capital Assets

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

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

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

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

J. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for compensatory time is accrued by those employees that are exempt from overtime. A liability for sick leave is based on the sick leave accumulated at December 31, 2010, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. Sick leave benefits are accrued using the "Vesting" method. The County records a liability for accumulated unused vested sick leave for employees with at last fifteen years of service with the County or who are over fifty-five years of age.

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

The total liability for vacation, compensatory time and sick leave payments has been calculated using pay rates in effect at December 31, 2010 and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments.

County employees earn vacation at varying rates ranging from two to five weeks per year. Sick leave is accumulated at the rate of 4.6 hours per 80 hours worked for the sheriff's office and at the rate of 2.62 hours per 80 hours worked for all other county employees. Vacation and sick leave are accumulated on an hours worked basis. Vacation pay is vested after one year and sick pay upon eligibility for retirement. Accumulated vacation cannot exceed three times the annual accumulation rate for an employee.

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

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

K. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2010, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

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

L. Accrued Liabilities and Long-term Obligations

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

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

M. Interfund Transactions

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

Outstanding balances between funds for goods and services rendered are reported as “due from/to other funds.” These amounts are eliminated in the statement of net assets, except for any residual balances outstanding between the governmental activities and business-type activities, which are reported in the government-wide financial statements as “internal balances”. The County did not have any internal balances at December 31, 2010.

N. Fund Balance Reserves

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

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

O. Bond Issuance Costs and Bond Discounts

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Bond issuance costs are recorded as “unamortized bond issuance costs” on the statement of net assets.

Bond discounts are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond discounts are presented as a reduction to the face amount of the bonds. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 14.A.

On the governmental fund financial statements, bond and note issue costs are recognized in the current period.

P. Net Assets

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

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the County Commissioners and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2010.

R. Estimates

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

S. Patient Accounts Receivable

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

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

| | |
|---------------------------------------|---------------------|
| | <u>2010</u> |
| Patient accounts receivable | \$ 7,525,379 |
| Less: | |
| Allowance for uncollectible accounts | (1,422,745) |
| Allowance for contractual adjustments | <u>(2,861,177)</u> |
| Net accounts receivable | <u>\$ 3,241,457</u> |

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

| | |
|--------------------------------|----------------|
| | <u>2010</u> |
| Medicare | 48.00% |
| Medicaid | 15.00% |
| Commercial insurance and HMO's | 30.00% |
| Self-pay | <u>7.00%</u> |
| Total | <u>100.00%</u> |

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

T. Assets Limited as to Use

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

U. Net Patient Service Revenue

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

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

V. Contributions

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

W. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. During 2010, the Hospital provided charity care of approximately \$997,000.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

Fund balances at December 31, 2010 included the following individual fund deficits:

| <u>Nonmajor governmental funds</u> | <u>Deficits</u> |
|------------------------------------|-----------------|
| Clerk of courts CSEA contract | \$ 181 |
| DOJ/WMD equipment | 13,064 |

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

These funds complied with Ohio State law, which does not permit cash basis deficits at year end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances in these nonmajor governmental funds are the result of recording adjustments for accrued liabilities. These deficit balances will be eliminated as resources become available to liquidate the accrued liabilities.

B. Change in Accounting Principles

For 2010, the County has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the County.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the County.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the County.

C. Compliance

- i.* The County did not certify the permanent appropriations until January 27, 2010, which is in noncompliance with Ohio Revised Code Section 5705.38(A).
- ii.* The County is in noncompliance with Ohio Revised Code Sections 5705.36 and 5705.39 for appropriations exceeding estimated resources at year end and throughout the year.
- iii.* The County is in noncompliance with Ohio Revised Code Sections 5705.40 and 5705.41(B) for expenditures exceeding appropriations at year end and throughout the year.
- iv.* The County is in noncompliance with Ohio Revised Code Section 5705.41(D) for purchase orders drawn prior to adopted appropriations.
- v.* The County is in noncompliance with Ohio Revised Code 5705.36(A)(4) for appropriations exceeding actual resources at year end.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS

Primary Government

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 demand 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 in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in items 1 or 2 above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
9. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the County, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash, Cash Equivalents, and Investments in Segregated Accounts

Cash, cash equivalents and investments in segregated accounts (both restricted and unrestricted) consist of funds maintained by the Morrow County Hospital that are held outside of the County’s internal investment pool and funds maintained by the County in outside depository accounts separate from the County’s internal investment pool. These amounts are included in “Deposits with Financial Institutions” and “Investments” below.

B. Deposits with Financial Institutions

At December 31, 2010, the carrying amount of all County deposits was \$16,991,141. As of December 31, 2010, \$11,280,147 of the County’s bank balance of \$17,547,902 was exposed to custodial risk as discussed below, while \$6,267,755 was covered by the FDIC.

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

C. Investments

As of December 31, 2010, the County had the following investments and maturities:

| <u>Investment type</u> | <u>Fair Value</u> | <u>Investment Maturities</u> | |
|--|---------------------|------------------------------|-----------------------|
| | | <u>6 months or less</u> | <u>7 to 12 months</u> |
| U.S. Government bonds | \$ 1,404,785 | \$ - | \$ 1,404,785 |
| Negotiable certificates of deposit | 1,175,000 | 750,000 | 425,000 |
| U.S. Government money market mutual fund | 3,458 | 3,458 | - |
| STAR Ohio | <u>346,639</u> | <u>346,639</u> | <u>-</u> |
| Total | <u>\$ 2,929,882</u> | <u>\$ 1,100,097</u> | <u>\$ 1,829,785</u> |

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

The weighted average maturity of investments is 0.61 years.

Interest Rate Risk: The Ohio Revised Code general limits security purchases to those that mature within five years of the settlement date. Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The County's investment policy addresses interest rate risk by requiring the consideration of market conditions and cash flow requirements in determining the term of an investment.

Credit Risk: STAR Ohio and the U.S. government money market mutual fund carry a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The County's investments in U.S. government bonds carry a rating of AAA by Standard & Poor's and Aaa by Moody's. The County's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. government bonds are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the County's name. The County has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The County's investment policy addresses concentration of credit risk by requiring investments to be diversified to reduce the risk of loss resulting from over concentration of assets in a specific issue or specific class of securities. The following table includes the percentage of each investment type held by the County at December 31, 2010:

| <u>Investment type</u> | <u>Fair Value</u> | <u>% of Total</u> |
|---|---------------------|-------------------|
| U.S. Government bonds | \$ 1,404,785 | 47.95 |
| Negotiable certificates of deposit | 1,175,000 | 40.10 |
| U.S. Government money market mutual fund | 3,458 | 0.12 |
| STAR Ohio | <u>346,639</u> | <u>11.83</u> |
| Total | <u>\$ 2,929,882</u> | <u>100.00</u> |

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of December 31, 2010:

| | |
|--------------------------------------|----------------------|
| <u>Cash and investments per note</u> | |
| Carrying amount of deposits | \$ 16,991,141 |
| Investments | <u>2,929,882</u> |
| Total | <u>\$ 19,921,023</u> |

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

| | |
|---|----------------------|
| <u>Cash and investments per statement of net assets</u> | |
| Governmental activities | \$ 9,976,523 |
| Business-type activities | 5,605,297 |
| Agency funds | <u>4,339,203</u> |
| Total | <u>\$ 19,921,023</u> |

E. Component Unit

At December 31, 2010, the carrying amount of the component unit's demand deposits was \$99,730 and the bank balance was \$99,730. The entire bank balance was covered by FDIC. See Note 23 for more information on the component unit's depository accounts. The component units cash balance at December 31, 2010 is reported as "cash and cash equivalents in segregated accounts" on the statement of net assets.

NOTE 5 - INTERFUND TRANSACTIONS

- A. Due from/to other funds consisted of the following at December 31, 2010, as reported on the fund financial statements:

| | Due from | | | | Total Due to |
|-------------------------|-----------------|-------------------------------|--------------------------|-----------------------------------|------------------|
| | General | Motor Vehicle & Gas Tax | County Board of DD | Nonmajor governmental funds | |
| <u>Due to</u> | | | | | |
| General | \$ - | \$ 58 | \$ 105 | \$ 33,646 | \$ 33,809 |
| Motor vehicle & gas tax | 2,245 | - | - | - | 2,245 |
| Public assistance | 1,175 | - | - | 3,264 | 4,439 |
| County Board of DD | <u>-</u> | <u>-</u> | <u>-</u> | <u>11,635</u> | <u>11,635</u> |
| Total due to | <u>\$ 3,420</u> | <u>\$ 58</u> | <u>\$ 105</u> | <u>\$ 48,545</u> | <u>\$ 52,128</u> |

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

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

- B. Interfund transfers for the year ended December 31, 2010, consisted of the following, as reported on the fund financial statements:

| | |
|---------------------------------|------------|
| Transfers from general fund to: | |
| Nonmajor governmental funds | \$ 326,528 |

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfers were made during 2010 to make debt payments out of the appropriate funds.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

Transfers between governmental funds are eliminated on the government-wide financial statements.

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

NOTE 6 - PROPERTY TAX

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2010 public utility property taxes became a lien December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County. The County Auditor periodically remits to the taxing districts their portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, tangible personal property taxes and outstanding delinquencies which are measurable as of December 31, 2010 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2010 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 6 - PROPERTY TAX - (Continued)

The full tax rate for all County operations for the year ended December 31, 2010 was \$11.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

| | |
|---------------------------------------|-----------------------|
| <u>Real Property</u> | |
| Residential/Agricultural | \$ 597,048,980 |
| Commercial/Industrial/Mineral/Utility | 48,360,120 |
| Personal Public Utility | <u>21,613,750</u> |
| Total Assessed Value | <u>\$ 667,022,850</u> |

NOTE 7 - PERMISSIVE SALES AND USE TAX

The County Commissioners by resolution imposed a 1.5 percent tax on all retail sales made in the County, except sales of motor vehicles, and on the storage, use, or consumption of tangible personal property in the County, including motor vehicles, not subject to the sales tax. Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies to the State Office of Budget and Management the amount of the tax to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of the month of collection. The State Office of Budget and Management then has five days in which to draw the warrant payable to the County.

Proceeds of the tax are credited entirely to the general fund. A receivable is recognized at year-end for amounts that will be received from sales which occurred during 2010 and amounts that are measurable and available at year end are accrued as revenue. Amounts received outside the available period are recorded as deferred revenue on the fund financial statements and as revenue on the government-wide financial statements. Sales and use tax revenue for 2010 amounted to \$2,692,984 on the governmental fund financial statements.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2010, consisted of taxes, accounts (billings for user charged services), special assessments, accrued interest, loans and intergovernmental receivables arising from grants, notes entitlements and shared revenue. All intergovernmental receivables have been classified as "due from other governments" on the financial statements. Receivables have been recorded to the extent that they are measurable at December 31, 2010. A summary of the principal items of receivables reported on the statement of net assets follows:

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 8 - RECEIVABLES - (Continued)

Governmental activities:

| | |
|----------------------------|------------|
| Sales taxes | \$ 194,537 |
| Real and other local taxes | 4,025,639 |
| Accounts | 150,165 |
| Special assessments | 4,240 |
| Accrued interest | 25,830 |
| Due from other governments | 3,606,031 |
| Loans | 765,158 |

Business-type activities:

| | |
|----------------------------|-----------|
| Real and other local taxes | 1,250,000 |
| Accounts | 3,241,457 |

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

NOTE 9 - LOANS RECEIVABLE

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

| | Balance 12/31/09 | Loans Issued | Principal Received | Balance 12/31/10 |
|--|---------------------|-----------------|-----------------------|---------------------|
| <u>Special Revenue Funds</u> | | | | |
| Community block and HOME Investments partnerships program grants commercial loans | \$ 624,573 | \$ 25,000 | \$ (44,830) | \$ 604,743 |
| Water/sewer revolving loans | 56,676 | 18,611 | (10,690) | 64,597 |
| Rural hardship revolving loans | 83,192 | 37,759 | (25,133) | 95,818 |
| Total | \$ 764,441 | \$ 81,370 | \$ (80,653) | \$ 765,158 |

NOTE 10 - RESTRICTED ASSETS

The Hospital has assets whose use is limited consisting of invested funds securing bank debt and invested funds designated by the Hospital's Board of Trustees for the replacement, improvement and expansion of the Hospital's facilities. Investments consist principally of U.S. Government securities and are recorded at fair value. The composition of assets whose use is limited at December 31, 2010, is set forth in the following table:

| | |
|--|--------------|
| Board restricted for capital improvements: | |
| Cash and cash equivalents in segregated accounts | \$ 3,533,567 |
| Investments in segregated accounts | 1,404,785 |
| Total | \$ 4,938,352 |

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 11 - CAPITAL ASSETS

- A. A summary of the business-type activities capital assets for the year ended December 31, 2010 is as follows:

| <u>Business-type activities:</u> | <u>Balance</u> <u>12/31/09</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance</u> <u>12/31/10</u> |
|---|-----------------------------------|--------------------|---------------------|-----------------------------------|
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 191,995 | \$ - | \$ - | \$ 191,995 |
| Construction in progress | 81,161 | 874,086 | (692,489) | 262,758 |
| <i>Total capital assets, not being depreciated</i> | <u>273,156</u> | <u>874,086</u> | <u>(692,489)</u> | <u>454,753</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 396,090 | 103,118 | - | 499,208 |
| Buildings | 5,350,477 | 600,456 | - | 5,950,933 |
| Equipment | 16,087,779 | 527,359 | (865,199) | 15,749,939 |
| Infrastructure | 256,370 | - | - | 256,370 |
| <i>Total capital assets, being depreciated</i> | <u>22,090,716</u> | <u>1,230,933</u> | <u>(865,199)</u> | <u>22,456,450</u> |
| Less: accumulated depreciation: | | | | |
| Land and improvements | (396,090) | (30,062) | - | (426,152) |
| Buildings | (3,038,629) | (227,867) | - | (3,266,496) |
| Equipment | (9,734,195) | (939,111) | 865,199 | (9,808,107) |
| Infrastructure | (61,524) | (5,127) | - | (66,651) |
| <i>Total accumulated depreciation</i> | <u>(13,230,438)</u> | <u>(1,202,167)</u> | <u>865,199</u> | <u>(13,567,406)</u> |
| <i>Total capital assets, being depreciated, net</i> | <u>8,860,278</u> | <u>28,766</u> | <u>-</u> | <u>8,889,044</u> |
| <i>Business-type activities capital assets, net</i> | <u>\$ 9,133,434</u> | <u>\$ 902,852</u> | <u>\$ (692,489)</u> | <u>\$ 9,343,797</u> |

Construction in progress primarily consists of hospital facility improvements.

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

| | |
|---|---------------------|
| <u>Business-type activities:</u> | |
| Morrow County Hospital | \$ 1,197,040 |
| Ketterman Project | 5,127 |
| Total depreciation expense - business-type activities | <u>\$ 1,202,167</u> |

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 11 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the governmental activities for the year ended December 31, 2010, was as follows:

| <u>Governmental activities:</u> | <u>Balance</u> <u>12/31/09</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance</u> <u>12/31/10</u> |
|---|-----------------------------------|---------------------|-----------------------|-----------------------------------|
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 736,057 | \$ - | \$ - | \$ 736,057 |
| Construction in progress | <u>3,273,544</u> | <u>1,038,566</u> | <u>(2,305,090)</u> | <u>2,007,020</u> |
| Total capital assets, not being depreciated | <u>4,009,601</u> | <u>1,038,566</u> | <u>(2,305,090)</u> | <u>2,743,077</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 164,548 | - | - | 164,548 |
| Buildings | 8,642,145 | - | - | 8,642,145 |
| Building improvements | 956,066 | 1,815,411 | - | 2,771,477 |
| Equipment | 1,944,338 | 89,018 | - | 2,033,356 |
| Vehicles | 5,065,106 | 354,970 | (150,510) | 5,269,566 |
| Infrastructure | <u>42,003,418</u> | <u>990,233</u> | <u>-</u> | <u>42,993,651</u> |
| Total capital assets, being depreciated | <u>58,775,621</u> | <u>3,249,632</u> | <u>(150,510)</u> | <u>61,874,743</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Land improvements | (150,410) | (1,885) | - | (152,295) |
| Buildings | (3,049,888) | (159,811) | - | (3,209,699) |
| Building improvements | (682,468) | (59,052) | - | (741,520) |
| Equipment | (1,361,068) | (201,082) | - | (1,562,150) |
| Vehicles | (4,206,418) | (197,222) | 150,510 | (4,253,130) |
| Infrastructure | <u>(21,964,315)</u> | <u>(1,333,028)</u> | <u>-</u> | <u>(23,297,343)</u> |
| Total accumulated depreciation | <u>(31,414,567)</u> | <u>(1,952,080)</u> | <u>150,510</u> | <u>(33,216,137)</u> |
| Total capital assets being depreciated, net | <u>27,361,054</u> | <u>1,297,552</u> | <u>-</u> | <u>28,658,606</u> |
| Governmental activities capital assets, net | <u>\$ 31,370,655</u> | <u>\$ 2,336,118</u> | <u>\$ (2,305,090)</u> | <u>\$ 31,401,683</u> |

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

| | |
|--|---------------------|
| <u>Governmental activities:</u> | |
| Legislative and executive | \$ 128,826 |
| Judicial | 22,848 |
| Public safety | 131,599 |
| Public works | 1,451,871 |
| Health | 3,580 |
| Human services | 212,312 |
| Other | <u>1,044</u> |
| Total depreciation expense - governmental activities | <u>\$ 1,952,080</u> |

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE

- A.** During prior years, the County entered into capital leases for the acquisition of a telephone system, copier equipment and a scanner. In the current year, the County entered into a capital lease for the acquisition of printers and scanners. These leases meet the criteria of a capital lease as defined by generally accepted accounting principles which defines a capital lease as one which transfers benefits and risks of ownership to the lessee.

Capital assets consisting of a telephone system, copier equipment, scanners and printers have been capitalized in the amount of \$375,842. This amount represents the present value at the minimum lease payments at the time of acquisition. A corresponding liability is recorded on the government-wide financial statements. Accumulated depreciation as of December 31, 2010, was \$214,631 leaving a current book value of \$161,211. Principal payments in 2010 totaled \$39,557, \$6,268 and \$15,560 made out of the general fund, public assistance fund and the County Board of DD fund, respectively. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2010:

| <u>Year Ending</u> <u>December 31,</u> | <u>Amount</u> |
|---|-------------------|
| 2011 | \$ 45,647 |
| 2012 | 22,755 |
| 2013 | 18,442 |
| 2014 | 18,442 |
| 2015 | <u>15,367</u> |
| Total future minimum lease payments | 120,653 |
| Less: amount representing interest | <u>(17,275)</u> |
| Present value of net minimum lease payments | <u>\$ 103,378</u> |

- B.** At December 31, 2010, the Hospital has capital leases for medical and office equipment and furniture and fixtures. The lease agreements require the Hospital to pay insurance and maintenance costs. These capital leases are due in monthly installments including interest at rates ranging from 8.53 percent to 9.06 percent annually. The leases expire at various dates through 2015, and are collateralized by the leased equipment. Capitalized costs and accumulated depreciation of the leased equipment at December 31, 2010 were \$528,000 and \$104,000, respectively. The liability for the obligation under capital lease at December 31, 2010 was \$424,270.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2010:

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|---|-------------------|
| 2011 | \$ 122,052 |
| 2012 | 111,703 |
| 2013 | 92,856 |
| 2014 | 92,856 |
| 2015 | <u>66,827</u> |
| Total future minimum lease payments | 486,294 |
| Less: amount representing interest | <u>(62,024)</u> |
| Present value of net minimum lease payments | <u>\$ 424,270</u> |

NOTE 13 - COMPENSATED ABSENCES

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

County employees earn vacation at varying rates ranging from two to five weeks per year. Vacation is to be taken within one year of the employee's anniversary date. In certain cases, vacation can accumulate up to three times the annual vacation rate for an employee. All accumulated, unused vacation time is paid upon separation from the County. Compensatory time is time accrued by employees that are exempt from overtime. Such employees can accrue compensatory time up to, but not exceed an 80 hour limit. Sick leave is accumulated at the rate of .0575/hour for every hour worked. Upon retirement, employees with ten years of service are entitled to 25 percent of their accumulated sick leave up to a maximum of 30 days. At December 31, 2010 vested benefits for vacation leave and compensatory time for governmental fund employees totaled \$631,823 and vested benefits for sick leave totaled \$179,860. In accordance with GASB Statement No. 16, an additional liability of \$57,655 was accrued to record termination (severance) payments expected to become eligible to retire in the future for the governmental fund type employees. The total liability for governmental fund employees was \$869,338. Of this total, \$215,611 is due within one year and \$653,727 is due in greater than one year.

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 14 - LONG-TERM OBLIGATIONS

A. Governmental Activities Long-Term Obligations

During 2010, the following changes occurred in the County's governmental activities long-term obligations:

| | <u>Maturity Date</u> | <u>Interest Rate</u> | <u>Balance 12/31/09</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 12/31/10</u> | <u>Amount Due in One Year</u> |
|-------------------------------------|--------------------------|--------------------------|-----------------------------|-------------------|---------------------|---|---------------------------------------|
| <u>General obligation bonds:</u> | | | | | | | |
| Board of DD building bonds | 2011 | 6.2-7.95% | \$ 80,000 | \$ - | \$ (40,000) | \$ 40,000 | \$ 40,000 |
| County services building bonds | 2022 | 1.5-4.8% | 1,685,000 | - | (100,000) | 1,585,000 | 105,000 |
| Various purpose bonds | 2033 | 3.00-5.375% | <u>3,900,000</u> | - | (100,000) | <u>3,800,000</u> | <u>100,000</u> |
| Total general obligation bonds | | | <u>5,665,000</u> | - | (240,000) | <u>5,425,000</u> | <u>245,000</u> |
| <u>Loans payable:</u> | | | | | | | |
| JFS service garage | 2026 | 4.55% | 227,000 | - | (9,000) | 218,000 | 10,000 |
| Engineer loan 12-N | 2013 | 4.25% | <u>400,000</u> | - | (100,000) | <u>300,000</u> | <u>100,000</u> |
| Total loans payable | | | <u>627,000</u> | - | (109,000) | <u>518,000</u> | <u>110,000</u> |
| <u>OWDA loans payable:</u> | | | | | | | |
| OWDA loan payable | | | 295,586 | 323,663 | - | 619,249 | - |
| OWDA loan payable | 2011 | 7.50% | 19,232 | - | (12,670) | 6,562 | 6,562 |
| OWDA loan payable | 2023 | 0.00% | <u>50,625</u> | - | (3,750) | <u>46,875</u> | <u>3,750</u> |
| Total OWDA loans payable | | | <u>365,443</u> | <u>323,663</u> | <u>(16,420)</u> | <u>672,686</u> | <u>10,312</u> |
| <u>Other long-term obligations:</u> | | | | | | | |
| Compensated absences payable | | | 830,283 | 574,439 | (535,384) | 869,338 | 215,611 |
| Capital lease payable | | | <u>88,971</u> | <u>75,792</u> | <u>(61,385)</u> | <u>103,378</u> | <u>38,434</u> |
| Total other long-term obligations | | | <u>919,254</u> | <u>650,231</u> | <u>(596,769)</u> | <u>972,716</u> | <u>254,045</u> |
| Total long-term obligations | | | <u>\$ 7,576,697</u> | <u>\$ 973,894</u> | <u>\$ (962,189)</u> | 7,588,402 | <u>\$ 619,357</u> |
| | | | | | | Less: unamortized discount on bonds | <u>(27,919)</u> |
| | | | | | | Total reported on statement of net assets | <u>\$ 7,560,483</u> |

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

General Obligation Bonds: The general obligation bonds are supported by the full faith and credit of the County. The Board of DD building bonds were issued to provide resources for building renovations and improvements including energy conservation measures. The Board of DD building bonds bear an interest rate ranging from 6.2% to 7.95% and are scheduled to mature in 2011. The County services building bonds were issued to provide for building renovation and improvements. The County services building bonds bear an interest rate ranging from 1.5% to 4.8% and are scheduled to mature in 2022. On December 16, 2008, the County issued bonds in the amount of \$4,000,000 to retire previously issued bond anticipation notes that were issued to finance various construction and renovation projects undertaken by the County. The bonds bear an interest rate ranging from 3.00% to 5.375% and are scheduled to mature in 2033. These bonds are being retired through rental charges and other County operating sources; however, repayment is backed by the full faith and credit of the County.

During 2010, a principal payment of \$40,000 on the Board of DD building general obligation bonds was made from the Board of DD bond retirement fund (a nonmajor governmental fund), a principal payment of \$100,000 on the County services building general obligation bonds was made from the social services bond retirement fund (a nonmajor governmental fund) and a principal payment of \$100,000 on various purpose bonds was made from the social services bond retirement fund (a nonmajor governmental fund).

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

The County has received a 7.50% loan from the Ohio Water Development Authority (OWDA) for the construction of a sanitary sewer from the City of Galion to the Ketterman Subdivision. During 2010, the County made principal payments of \$12,670 on this loan leaving a balance at December 31, 2010 of \$6,562. This OWDA loan is being retired from the Ketterman debt service fund (a nonmajor governmental fund). This loan matures in 2011.

The County has received a zero percent interest rate loan from the OWDA for the purpose of financing septic system replacements. During 2010, the County made principal payments of \$3,750 on this loan leaving a balance at December 31, 2010 of \$46,875. This loan is being retired from the community development block grant fund (a nonmajor governmental fund). This loan matures in 2023.

During 2009, the County was approved for a loan from the OWDA for the purpose of financing the Johnsville wastewater treatment plant project. The loan was not closed out as of December 31, 2010 and future debt service principal and interest requirements for the loan are not available. Proceeds of \$323,663 were received during 2010. The loan has a balance of \$619,249 at December 31, 2010.

In 2007, the County entered into a loan agreement to finance a service garage for JFS in the amount of \$253,000. This loan bears an interest rate of 4.55% and is scheduled to mature in 2026. During 2010, the County made principal payments of \$9,000 on this loan leaving a balance of \$218,000 at December 31, 2010. This loan is being retired from the JFS service garage fund (a nonmajor governmental fund).

In 2008, the County issued a loan through a line of credit to purchase various maintenance vehicles for the Morrow County Engineers Division in the amount of \$500,000. This loan bears an interest rate of 4.25% and is scheduled to mature in 2013. During 2010, the County made principal payments of \$100,000 on this loan leaving a balance of \$300,000 at December 31, 2010. This loan will be retired from the motor vehicle and gas tax fund.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

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

Capital Leases Payable: Capital lease principal and interest payments are being made from the general fund, County board of DD fund and public assistance fund. See Note 12.A. for further detail on the capital lease obligations.

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

| Year Ended December 31, | General Obligation Bonds | | | Engineer Loan 12-N | | |
|----------------------------|--------------------------|---------------------|---------------------|--------------------|------------------|-------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2011 | \$ 245,000 | \$ 246,457 | \$ 491,457 | \$ 100,000 | \$ 11,318 | \$ 111,318 |
| 2012 | 215,000 | 239,572 | 454,572 | 100,000 | 7,091 | 107,091 |
| 2013 | 220,000 | 204,978 | 424,978 | 100,000 | 2,818 | 102,818 |
| 2014 | 230,000 | 223,839 | 453,839 | - | - | - |
| 2015 | 240,000 | 214,914 | 454,914 | - | - | - |
| 2016 - 2020 | 1,345,000 | 917,296 | 2,262,296 | - | - | - |
| 2021 - 2025 | 1,145,000 | 607,302 | 1,752,302 | - | - | - |
| 2026 - 2030 | 1,030,000 | 364,826 | 1,394,826 | - | - | - |
| 2031 - 2033 | 755,000 | 82,087 | 837,087 | - | - | - |
| Total | <u>\$ 5,425,000</u> | <u>\$ 3,101,271</u> | <u>\$ 8,526,271</u> | <u>\$ 300,000</u> | <u>\$ 21,227</u> | <u>\$ 321,227</u> |

| Year Ended December 31, | JFS Service Garage Loan | | | OWDA Loans | | |
|----------------------------|-------------------------|------------------|-------------------|------------------|---------------|------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2010 | \$ 10,000 | \$ 9,578 | \$ 19,578 | \$ 10,312 | \$ 492 | \$ 10,804 |
| 2011 | 10,000 | 9,118 | 19,118 | 3,750 | - | 3,750 |
| 2012 | 11,000 | 8,611 | 19,611 | 3,750 | - | 3,750 |
| 2013 | 11,000 | 8,105 | 19,105 | 3,750 | - | 3,750 |
| 2014 | 11,000 | 8,105 | 19,105 | 3,750 | - | 3,750 |
| 2016 - 2020 | 66,000 | 32,143 | 98,143 | 18,750 | - | 18,750 |
| 2021 - 2025 | 81,000 | 15,703 | 96,703 | 9,375 | - | 9,375 |
| 2026 | 18,000 | 829 | 18,829 | - | - | - |
| Total | <u>\$ 218,000</u> | <u>\$ 92,192</u> | <u>\$ 310,192</u> | <u>\$ 53,437</u> | <u>\$ 492</u> | <u>\$ 53,929</u> |

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

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

The Code further provides that the total voted and unvoted net debt of the County, less the same exempt debt, shall never exceed a sum equal to three percent of the first \$100,000,000 of the assessed valuation, plus one and one-half percent of such valuation in excess of \$100,000,000 and not in excess of \$300,000,000, plus two and one-half percent of such valuation in excess of \$300,000,000. The assessed valuation used in determining the County's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the County's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. Based on this calculation, the County's voted legal debt margin was \$9,931,120 at December 31, 2010 and the unvoted legal debt margin was \$1,425,778 at December 31, 2010.

C. Business-Type Activities Long-Term Obligations

During 2010, the following changes occurred in the County's business-type activities long-term obligations:

| | Interest | Balance | | | Balance | Amount |
|--|----------|---------------------|---------------------|-----------------------|---------------------|---------------------|
| | Rate | 12/31/09 | Additions | Reductions | 12/31/10 | Due in |
| | | | | | | One Year |
| Capital lease payable | | \$ 69,700 | \$ 400,000 | \$ (45,430) | \$ 424,270 | \$ 107,436 |
| Master lease and purchase agreement | 5.89% | 1,761,195 | - | (607,464) | 1,153,731 | 644,049 |
| Compensated absences payable | | <u>484,245</u> | <u>834,690</u> | <u>(758,964)</u> | <u>559,971</u> | <u>559,971</u> |
| Total business-type activities long-term obligations | | <u>\$ 2,315,140</u> | <u>\$ 1,234,690</u> | <u>\$ (1,411,858)</u> | <u>\$ 2,137,972</u> | <u>\$ 1,311,456</u> |

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

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

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

| Year Ending December 31, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|---------------------|------------------|---------------------|
| 2011 | \$ 644,049 | \$ 53,871 | \$ 697,920 |
| 2012 | <u>509,682</u> | <u>15,120</u> | <u>524,802</u> |
| Total | <u>\$ 1,153,731</u> | <u>\$ 68,991</u> | <u>\$ 1,222,722</u> |

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

NOTE 15 - NET PATIENT SERVICE REVENUE

The Hospital provides services to certain patients covered by various third party payer arrangements that provide for payments to the Hospital at amounts different than its established rates. Net patient service revenue for 2010 recorded in the Hospital enterprise fund was \$25,782,802.

NOTE 16 - RISK MANAGEMENT

A. Property and Liability Insurance

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2010, the County contracted with the County Risk Sharing Authority, Inc. (CORSA) for liability, property, automotive, and crime insurance. The CORSA program has a \$2,500 deductible. Coverage provided by CORSA is as follows:

| | <u>Amount</u> |
|--|-------------------|
| General Liability (per occurrence) | \$ 1,000,000 |
| Law Enforcement Liability (per occurrence) | 1,000,000 |
| Automobile Liability and Physical Damage Liability (per occurrence) | 1,000,000 |
| Medical Payments | |
| Per Person | 5,000 |
| Per Occurrence | 50,000 |
| Uninsured/Underinsured Motorists (per person) | 250,000 |
| Physical Damage | Actual Cost |
| Flood and Earthquake (pool limit) | 100,000,000 |
| Property | 96,061,933 |
| Other Property Insurance: | |
| Extra Expense | 1,000,000 |
| Contractors' Equipment | Actual Cash Value |
| Valuable Papers and Records | 1,000,000 |
| Inland Marine | Actual Cash Value |
| Automatic Acquisition | 5,000,000 |

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 16 - RISK MANAGEMENT - (Continued)

| | |
|--|--------------|
| Crime Insurance: | |
| Faithful Performance | \$ 1,000,000 |
| Money and Securities (inside and outside) | 1,000,000 |
| Depositor's Forgery | 1,000,000 |
| Money Orders and Counterfeit Paper Currency | 1,000,000 |
| Attorney Disciplinary Proceedings (per occurrence) | 25,000 |
| | |
| Boiler and Machinery | 100,000,000 |
| Public Officials (per occurrence) | 1,000,000 |
| Umbrella (per occurrence) | 4,000,000 |
| Medical Professional Liability | 5,000,000 |

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

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

B. Health, Prescription Drug, Dental and Vision Insurance

The County has entered into a participation agreement with the County Employee Benefit Consortium of Ohio, Inc (CEBCO) to obtain employee health insurance and benefits and administrative services relating to an employee health benefit plan. The County will contract with CEBCO to provide medical, prescription drug, dental, vision, and life insurance coverage. The County will pay 75% of the monthly premium and employees will pay 25%.

The Hospital is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$125,000 per employee and provides up to a maximum benefits of \$875,000 per person. Claims, charged to operations when incurred, were approximately \$1,649,000 for the year ended December 31, 2010.

A reconciliation of accrued health insurance for the Hospital at December 31, 2010 consists of the following:

| | |
|------------------------------|--------------------|
| Balance at January 1, 2010 | \$ 320,542 |
| Health insurance expense | 1,649,423 |
| Payments made | <u>(1,652,738)</u> |
| Balance at December 31, 2010 | <u>\$ 317,227</u> |

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 17 - PENSION PLANS

A. Ohio Public Employees Retirement System

Plan Description - The County participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, member and contribution rates were consistent across all three plans. While members in the State and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Plan. The 2010 member contribution rates were 10.00% for members in State and local classifications. Public safety and law enforcement members contributed 10.5% and 11.1%, respectively. The County's contribution rate for 2010 was 14.00%, except for those plan members in law enforcement or public safety, for whom the County's contribution was 17.87% of covered payroll.

The County's contribution rate for pension benefits for members in the Traditional Plan for 2010 was 8.50% from January 1 through February 28, 2010 and 9.00% from March 1 through December 31, 2010. The County's contribution rate for pension benefits for members in the Combined Plan for 2010 was 9.27% from January 1 through February 28, 2010 and 9.77% from March 1 through December 31, 2010. For those plan members in law enforcement and public safety pension contributions were 12.37% from January 1 through February 28, 2010 and 12.87% from March 1 through December 31, 2010. The County's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2010, 2009, and 2008 were \$1,652,014, \$1,516,025 and \$1,413,501, respectively; 95.80% has been contributed for 2010 and 100% has been contributed for 2009 and 2008. Contributions to the member-directed plan for 2010 were \$23,340 made by the County and \$16,672 made by the plan members.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 17 - PENSION PLANS - (Continued)

B. State Teachers Retirement System

Plan Description - Certified teachers, employed by the school for Mental Retardation and Developmental Disabilities, participate in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code. A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For 2010, plan members were required to contribute 10.00% of their annual covered salaries. The County was required to contribute 14.00%; 13.00% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The County's required contributions for pension obligations to STRS Ohio for the years ended December 31, 2010, 2009, and 2008 were \$7,358, \$7,144 and \$6,862, respectively; 100% has been contributed for 2010, 2009 and 2008.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 18 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement

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

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

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administrated in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2010, local government employers contributed 14.00% of covered payroll (17.87% for public safety and law enforcement). Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2010 was 5.50% from January 1 through February 28, 2010 and 5.00% from March 1 through December 31, 2010. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2010 was 4.73% from January 1 through February 28, 2010 and 4.23% from March 1 through December 31, 2010.

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

The County's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2010, 2009, and 2008 were \$939,775, \$1,072,870 and \$1,370,984, respectively; 95.80% has been contributed for 2010 and 100% has been contributed for 2009 and 2008.

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

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 18 - POSTRETIREMENT BENEFIT PLANS - (Continued)

B. State Teachers Retirement System

Plan Description - The County contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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. 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 or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the 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 2010, STRS Ohio allocated employer contributions equal to 1.00% of covered payroll to the Health Care Stabilization Fund. The County's contributions for health care for the fiscal years ended December 31, 2010, 2009, and 2008 were \$566, \$550 and \$528, respectively; 100% has been contributed for 2010, 2009 and 2008.

NOTE 19 - BUDGETARY BASIS OF ACCOUNTING

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

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 19 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balances

| | Governmental Fund Types | | | | |
|--|-------------------------|-----------------|---------------------------|---------------------|--------------------|
| | General | Emergency Squad | Motor Vehicle and Gas Tax | Public Assistance | County Board of DD |
| Budget basis | \$ 221,668 | \$ - | \$ (211,100) | \$ (545,807) | \$ (26,991) |
| Net adjustment for revenue accruals | 70,974 | 683 | 99,750 | 141,688 | 35,595 |
| Net adjustment for expenditure accruals | 101,875 | - | (67,564) | (82,965) | (178,961) |
| Net adjustment for other financing sources/(uses) accruals | - | - | - | - | 75,792 |
| Encumbrances (budget basis) | 145,576 | - | 616,838 | 361,473 | 227,161 |
| GAAP basis | <u>\$ 540,093</u> | <u>\$ 683</u> | <u>\$ 437,924</u> | <u>\$ (125,611)</u> | <u>\$ 132,596</u> |

NOTE 20 - CONTINGENCIES

A. Grants

The County receives significant assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements included herein or on the overall position of the County at December 31, 2010.

B. Medical Malpractice Claims

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

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

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

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

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 20 - CONTINGENCIES - (Continued)

C. Litigation

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

NOTE 21 - RELATED PARTY TRANSACTION

Whetstone Industries, Inc. (the "Workshop"), a discretely presented component unit of the County, received contributions from the County for certain personnel and salaries. The contributions are reflected as revenues in the statement of activities for the Workshop. For the year ended December 31, 2010, the County's contributions totaled \$593,529.

NOTE 22 - FEDERAL TRANSACTIONS

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

NOTE 23 - WHETSTONE INDUSTRIES, INC. - COMPONENT UNIT

A. Reporting Entity

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

B. Summary of Significant Accounting Policies

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

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

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

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

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

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

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

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

C. Cash and Cash Equivalents

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

| <u>Depository</u> | <u>Description</u> | Balance <u>12/31/10</u> |
|--------------------------|-------------------------|----------------------------|
| First Knox National Bank | Operating account | \$ 38,514 |
| First Knox National Bank | Payroll account | 1,090 |
| First Knox National Bank | Certificates of Deposit | 59,871 |
| Cash on hand | Operations | <u>255</u> |
| Total | | <u>\$ 99,730</u> |

The Workshop has three certificates of deposit at December 31, 2010. These certificates of deposit are recorded at cost, with maturities of nine to twenty-four months. These certificates of deposit earn interest at rates of 0.65% to 2.13%.

D. Contracts and Support

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

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

E. Related Party Transactions

The Morrow County Board of DD provides the management and administrative personnel, at no charge, to the Workshop. In addition, land and facilities, utilities and certain other general and administrative costs are provided by the Morrow County Board of DD to the Workshop. The Morrow County Board of DD has estimated the value of this support to be \$593,529 for the year ending December 31, 2010. The Workshop has recognized this support in the statement of activities.

F. Concentration of Risk

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

G. Capital Assets

The following is a summary of the Workshop's capital assets activity for 2010:

| | Balance 12/31/09 | Additions | Reductions | Balance 12/31/10 |
|--------------------------|---------------------|------------|------------|---------------------|
| Property and equipment | \$ 55,457 | \$ - | \$ - | \$ 55,457 |
| Accumulated depreciation | (23,874) | (4,908) | - | (28,782) |
| Total | \$ 31,583 | \$ (4,908) | \$ - | \$ 26,675 |

H. Capital Lease

The Workshop has entered into a capital lease for a forklift with a cost of \$16,000. The lease has an interest rate of 8.25% over 48 months. Monthly lease payments are \$395.

NOTE 24 - AFFILIATION

The Hospital contracts with OhioHealth for management, information technology, and other support services. OhioHealth employs the Hospital's chief executive officer and chief financial officers and also appoints one representative to the Hospital's Board of Directors. Fees for services amounted to approximately \$462,000 for the year ended December 31, 2010. Amounts due to OhioHealth for services amounted to approximately \$68,000 at December 31, 2010 and has been included in accounts payable of the Hospital on the financial statements.

NOTE 25 - COST REPORT SETTLEMENTS

Approximately 63 percent of the Hospital's revenues from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under these reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 25 - COST REPORT SETTLEMENTS - (Continued)

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

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

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

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

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

NOTE 26 - SUBSEQUENT EVENTS

A. Bond Anticipation Notes

On January 26, 2011, the County issued \$2,000,000 in bond anticipation notes to finance the County courthouse roof project. The notes have an interest rate of 2.00% and mature on January 25, 2012.

B. Hospital

During 2010, the Hospital signed a letter of intent to purchase an electronic health record system from Medical Information Technology, Inc (MEDITECH). On November 16, 2010, the Hospital's Board approved the payment of a deposit of \$179,210 in order to secure a place in MEDITECH's installation queue. On February 4, 2011, the Hospital signed a final purchase agreement with MEDITECH.

The system is expected to cost approximately \$3.1 million. The American Recovery and Reinvestment Act (ARRA) will provide financial incentives to hospitals achieving electronic health records by 2015. The Hospital expects to receive approximately \$1.8 million of ARRA reimbursements after the new electronic health record system is fully implemented in 2013.

SUPPLEMENTARY DATA

**MORROW COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE | CFDA NUMBER | PASS-THROUGH GRANT NUMBER | (A),(B) CASH FEDERAL DISBURSEMENTS |
|---|------------------------|--|---|
| U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF JOBS AND FAMILY SERVICES | | | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | G-1011-11-5089 | \$ 343,139 |
| ARRA - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | G-1011-11-5089 | 11,553 |
| Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | | | 354,692 |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | N/A | 159,249 |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | N/A | 610,000 |
| Total Water and Waste Disposal Systems for Rural Communities | | | 769,249 |
| Total U.S. Department of Agriculture | | | 1,123,941 |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASSED THROUGH THE OHIO DEPARTMENT OF DEVELOPMENT OFFICE OF HOUSING AND COMMUNITY PARTNERSHIP | | | |
| Community Development Block Grants/State's Program | 14.228 | B-F-07-054-1 | 209 |
| Community Development Block Grants/State's Program | 14.228 | B-W-07-1CB-1 | 109,500 |
| Community Development Block Grants/State's Program | 14.228 | B-C-08-1CB-1 | 31,581 |
| Community Development Block Grants/State's Program | 14.228 | B-F-08-054-1 | 816 |
| Community Development Block Grants/State's Program | 14.228 | B-F-09-1CB-1 | 80,690 |
| Community Development Block Grants/State's Program | 14.228 | B-Z-08-1CB-1 | 716,544 |
| (C) Community Development Block Grants/State's Program | 14.228 | N/A | 4,554 |
| (D) Community Development Block Grants/State's Program | 14.228 | N/A | 833 |
| Total Community Development Block Grants/State's Programs | | | 944,727 |
| Home Investment Partnerships Program | 14.239 | B-C-08-1CB-2 | 171,472 |
| (E) Home Investment Partnerships Program | 14.239 | N/A | 1,155 |
| Total Home Investment Partnerships Program | | | 172,627 |
| Total U.S. Department of Housing and Urban Development | | | 1,117,354 |
| U.S. DEPARTMENT OF JUSTICE PASSED THROUGH THE OFFICE OF CRIMINAL JUSTICE SERVICES | | | |
| Edward Byrne Memorial Formula Grant Program | 16.579 | 2010-SAGENE069 | 19,883 |
| Edward Byrne Memorial Formula Grant Program | 16.579 | 2011-SAGENE069 | 11,597 |
| Total Edward Byrne Memorial Formula Grant Program | | | 31,480 |
| Edward Byrne Justice Assistance Cluster: | | | |
| (F) Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 2009-JG-C01-6620 | 39,405 |
| (F) Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 2009-JG-D01-6626 | 58,909 |
| Total Edward Byrne Memorial Justice Assistance Grant Program | | | 98,314 |
| (F) ARRA - Recovery Act - Edward Byrne Memorial Competitive Grant Program | 16.808 | 99-5901-ARRA-T-11-1104 | 28,627 |
| Total Edward Byrne Justice Assistance Cluster: | | | 126,941 |
| Total U.S. Department of Justice | | | 158,421 |

**MORROW COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE | CFDA NUMBER | PASS-THROUGH GRANT NUMBER | (A) CASH FEDERAL DISBURSEMENTS |
|--|----------------|---------------------------------|---|
| U.S. DEPARTMENT OF LABOR PASSED THROUGH THE OHIO DEPARTMENT OF JOBS AND FAMILY SERVICES AND AREA 7 WORKFORCE INVESTMENT BOARD | | | |
| Employment Service/Wagner-Peyser Funded Activities | 17.207 | 2009-7259-1/2010-7259-1 | \$ 997 |
| Workforce Investment Act (WIA) Cluster: | | | |
| (G) WIA Adult Program | 17.258 | 2009-7259-1/2010-7259-1 | 46,981 |
| (G) WIA Adult Program - Adult Administration | 17.258 | 2009-7259-1/2010-7259-1 | 440 |
| (G) ARRA WIA Adult Program - Adult Administration | 17.258 | 2009-7259-1/2010-7259-1 | 2,450 |
| (G) ARRA WIA Adult Program | 17.258 | 2009-7259-1/2010-7259-1 | 13,886 |
| Total Workforce Investment Act - Adult | | | <u>63,757</u> |
| (G) WIA Youth Activities | 17.259 | 2009-7259-1/2010-7259-1 | 56,946 |
| (G) ARRA WIA Youth Activities - Youth Administration | 17.259 | 2009-7259-1/2010-7259-1 | 568 |
| (G) ARRA WIA Youth Activities | 17.259 | 2009-7259-1/2010-7259-1 | 76,394 |
| Total Workforce Investment Act - Youth Activities | | | <u>133,908</u> |
| (G) WIA Dislocated Workers | 17.260 | 2009-7259-1/2010-7259-1 | 82,201 |
| (G) WIA Dislocated Workers - Dislocated Workers Administration | 17.260 | 2009-7259-1/2010-7259-1 | 1,653 |
| (G) ARRA WIA Dislocated Workers - Dislocated Workers Administration | 17.260 | 2009-7259-1/2010-7259-1 | 3,815 |
| (G) ARRA WIA Dislocated Workers | 17.260 | 2009-7259-1/2010-7259-1 | 85,928 |
| Total Workforce Investment Act - Dislocated Workers | | | <u>173,597</u> |
| (G) WIA Dislocated Worker Formula Grants | 17.278 | 2009-7259-1/2010-7259-1 | 8,300 |
| Total Workforce Investment Act (WIA) Cluster | | | <u>379,562</u> |
| Disabled Veterans' Outreach Program | 17.801 | 2009-7259-1/2010-7259-1 | 243 |
| Local Veterans' Employment Representative Program | 17.804 | 2009-7259-1/2010-7259-1 | 26 |
| Total U.S. Department of Labor | | | <u>380,828</u> |
| U.S. DEPARTMENT OF TRANSPORTATION PASSED THROUGH THE OHIO DEPARTMENT OF TRANSPORTATION | | | |
| Transit Services Program Cluster: | | | |
| (H) Capital Assistance Program for Elderly Persons and Persons with Disabilities | 20.513 | CRD-0059-002091 | 119,304 |
| (H) Capital Assistance Program for Elderly Persons and Persons with Disabilities | 20.513 | PNP-0059-002131 | 25,816 |
| (H) Capital Assistance Program for Elderly Persons and Persons with Disabilities | 20.513 | PNP-0059-002197 | 27,304 |
| (H) Capital Assistance Program for Elderly Persons and Persons with Disabilities | 20.513 | PNP-0059-002199 | 34,470 |
| (H) Capital Assistance Program for Elderly Persons and Persons with Disabilities | 20.513 | PNP-0059-002201 | 2,350 |
| Total Capital Assistance Program for Elderly Persons and Persons with Disabilities | | | <u>209,244</u> |
| (H) Job Access Reverse Commute | 20.516 | JARC-0059-071092 | 34,476 |
| (H) Job Access Reverse Commute | 20.516 | JARC-4059-071091 | 41,830 |
| Total Job Access Reverse Commute | | | <u>76,306</u> |
| Total U.S. Department of Transportation and Transit Services Program Cluster | | | <u>285,550</u> |

**MORROW COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE | CFDA NUMBER | PASS-THROUGH GRANT NUMBER | (A) CASH FEDERAL DISBURSEMENTS |
|--|----------------|---------------------------------|---|
| U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF HEALTH | | | |
| Special Education Cluster: | | | |
| (I) Special Education-Grants for Infants and Families | 84.181 | 59-1-002-1-HG-02-09 | 29,869 |
| (I) ARRA Special Education - Grants for Infants and Families, Recovery Act | 84.393 | 59-1-002-1-HA-01-10 | 29,324 |
| Total U.S. Department of Education and Special Education Cluster | | | 59,193 |
| U.S. ELECTION ASSISTANCE COMMISSION PASSED THROUGH THE OHIO SECRETARY OF STATE | | | |
| Help America Vote Act Requirements Payments | 90.401 | 09-SOS-HAVA-59 | 341 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF JOBS AND FAMILY SERVICES | | | |
| Promoting Safe and Stable Families | 93.556 | G-1011-11-5089/G-89-20-1119 | \$ 25,717 |
| Promoting Safe and Stable Families | 93.556 | 5AU-10-100-22-57 | 6,053 |
| Promoting Safe and Stable Families | 93.556 | 5AU-11-100-22-070 | 2,627 |
| Total Promoting Safe and Stable Families | | | 34,397 |
| Temporary Assistance for Needy Families Cluster: | | | |
| Temporary Assistance for Needy Families | 93.558 | G-1011-11-5089/G-89-20-1119 | 661,586 |
| ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program | 93.714 | G-1011-11-5089/G-89-20-1119 | 13,726 |
| Total Temporary Assistance for Needy Families Cluster | | | 675,312 |
| Child Support Enforcement | 93.563 | G-1011-11-5089/G-89-20-1119 | 266,202 |
| ARRA - Child Support Enforcement | 93.563 | G-1011-11-5089/G-89-20-1119 | 186,933 |
| Total Child Support Enforcement | | | 453,135 |
| Chafee Foster Care Independence Program | 93.674 | G-1011-11-5089/G-89-20-1119 | 1,433 |
| Child Care and Development Cluster: | | | |
| (J) Child Care and Development Block Grant | 93.575 | G-1011-11-5089/G-89-20-1119 | 845 |
| (J) Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | G-1011-11-5089/G-89-20-1119 | 61,209 |
| Total Child Care and Development Cluster | | | 62,054 |
| Child Welfare Services_State Grants | 93.645 | G-1011-11-5089/G-89-20-1119 | 36,399 |

-continued

**MORROW COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE | CFDA NUMBER | PASS-THROUGH GRANT NUMBER | (A) CASH FEDERAL DISBURSEMENTS |
|---|------------------------|--|---|
| Foster Care_ Title IV-E | 93.658 | G-1011-11-5089/G-89-20-1119 | <u>806</u> |
| Adoption Assistance | 93.659 | G-1011-11-5089/G-89-20-1119 | <u>5,096</u> |
| Social Services Block Grant | 93.667 | G-1011-11-5089/G-89-20-1119 | 462,356 |
| (K) (L) Social Services Block Grant | 93.667 | N/A | <u>24,266</u> |
| Total Social Services Block Grant | | | <u>486,622</u> |
| Child Abuse and Neglect State Grants | 93.669 | G-1011-11-5089/G-89-20-1119 | <u>1,011</u> |
| Medical Assistance Program | 93.778 | G-1011-11-5089/G-89-20-1119 | 660,951 |
| (K) (L) Medical Assistance Program - Enhanced Federal Match | 93.778 | N/A | 100,054 |
| (K) (L) Medical Assistance Program - Medicaid Administration | 93.778 | N/A | <u>53,224</u> |
| Total Medical Assistance Program | | | <u>814,229</u> |
| Total U.S. Department of Health and Human Services | | | <u>2,570,494</u> |
| U.S. DEPARTMENT OF HOMELAND SECURITY PASSED THROUGH THE OHIO EMERGENCY MANAGEMENT AGENCY | | | |
| Emergency Management Performance Grants | 97.042 | 2009-EP-E9-0061 | 20,039 |
| Emergency Management Performance Grants | 97.042 | 2010-EP-00-0003 | <u>7,295</u> |
| Total Emergency Management Performance Grants | | | <u>27,334</u> |
| Homeland Security Grant Program | 97.067 | 2009-SS-T9-0089 | <u>29,109</u> |
| Total U.S. Department of Homeland Security | | | <u>56,443</u> |
| Total Federal Financial Assistance | | | <u>\$ 5,752,565</u> |

-continued

**MORROW COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Notes to the Schedule of Expenditures of Federal Awards:

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

(B) Certain federal programs require that the County contribute non-federal funds (matching funds) to support the federally funded programs. The County has complied with the matching requirements. The expenditure of non-federal matching funds are not included on the schedule.

(C) The County has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the County passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on this schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the schedule. These loans are collateralized by mortgages on the property. The County incurred \$4,554 in administrative and other costs during 2010.

Activity in the Community Development Block Grant revolving loan fund during 2010 is as follows:

| | |
|--|-------------------|
| Beginning loans receivable balance as of January 1, 2010 | \$ 490,613 |
| Loans Disbursed | 25,000 |
| Loan Repayments | <u>(18,446)</u> |
| Ending loans receivable balance as of December 31, 2010 | <u>\$ 497,167</u> |
| Cash balance on hand as of December 31, 2010 | \$ 264,635 |
| Delinquent amounts due as of December 31, 2010 | \$ 459,596 |

(D) The County has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the County passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on this schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the schedule. These loans are collateralized by mortgages on the property. The County incurred \$833 in administrative and other costs during 2010.

Activity in the Community Development Block Grant revolving loan fund during 2010 is as follows:

| | |
|--|------------------|
| Beginning loans receivable balance as of January 1, 2010 | \$ 56,676 |
| Loans Disbursed | 18,611 |
| Loan Repayments | <u>(10,690)</u> |
| Ending loans receivable balance as of December 31, 2010 | <u>\$ 64,597</u> |
| Cash balance on hand as of December 31, 2010 | \$ 37,547 |
| Delinquent amounts due as of December 31, 2010 | \$ - |

(E) The County has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the County passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on this schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the schedule. These loans are collateralized by mortgages on the property. The County incurred \$1,155 in administrative or other costs during 2010.

Activity in the Home Investment Partnership Program revolving loan fund during 2010 is as follows:

| | |
|--|-------------------|
| Beginning loans receivable balance as of January 1, 2010 | \$ 133,960 |
| Loans Disbursed | - |
| Loan Repayments | <u>(26,384)</u> |
| Ending loans receivable balance as of December 31, 2010 | <u>\$ 107,576</u> |
| Cash balance on hand as of December 31, 2010 | \$ 10,444 |
| Delinquent amounts due as of December 31, 2010 | \$ - |

(F) Included as part of the "Edward Byrne Justice Assistance Cluster" in determining major programs.

(G) Included as part of the "Workforce Investment Act (WIA) Cluster" in determining major programs.

(H) Included as part of the "Transit Services Program Cluster" in determining major programs.

(I) Included as part of the "Special Education Cluster" in determining major programs.

(J) Included as part of the "Child Care and Development Cluster" in determining major programs.

(K) Pass-through numbers were unable to be obtained for these grants.

(L) This portion of the grant was passed through Ohio Department of Developmental Disabilities.

Note: The County has an additional revolving loan fund cash balance of \$1,981 for CDBG Housing program which is subject to compliance requirements set forth by the awarding agency at December 31, 2010. The County incurred no administrative or other costs during 2010.



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

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrow County, Ohio, as of and for the year ended December 31, 2010, which collectively comprise Morrow County's basic financial statements and have issued our report thereon dated August 24, 2011. We did not audit the financial statements of the Morrow County Hospital, a major Enterprise Fund, which represents 98.80% of total assets, 98.34% of total net assets and 99.59% of total revenue of the business-type activities. We also did not audit the financial statements of Whetstone Industries, Inc. Morrow County's only discretely presented component unit. The financial statements of Morrow County Hospital and Whetstone Industries, Inc. were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Morrow County Hospital and Whetstone Industries, Inc., is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of Morrow County's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Board of Commissioners
Morrow County

Compliance and Other Matters

As part of reasonably assuring whether Morrow County's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express an opinion. The results of our tests disclosed seven instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and responses as items 2010-MC-001 through 2010-MC-007.

We also noted certain matters not requiring inclusion in this report that we reported to Morrow County's management in separate letter dated August 24, 2011.

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

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

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

Julian & Grube, Inc.
August 24, 2011



Julian & Grube, Inc.
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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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

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

Compliance

We have audited the compliance of Morrow County, Ohio, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of Morrow County's major federal programs for the year ended December 31, 2010. The summary of auditor's results section of the accompanying schedule of findings and responses identifies Morrow County's major federal programs. Morrow County's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on Morrow County's compliance based on our audit.

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

In our opinion, Morrow County complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Morrow County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Morrow County's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of Morrow County's internal control over compliance.

Board of Commissioners
Morrow County

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. 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 federal program compliance requirement will not be prevented, or timely detected and corrected.

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

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

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

Julian & Grube, Inc.
August 24, 2011

MORROW COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
 OMB CIRCULAR A-133 § .505
 DECEMBER 31, 2010

| 1. SUMMARY OF AUDITOR'S RESULTS | | |
|--|---|---|
| (d)(1)(i) | <i>Type of Financial Statement Opinion</i> | Unqualified |
| (d)(1)(ii) | <i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i> | No |
| (d)(1)(ii) | <i>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i> | No |
| (d)(1)(iii) | <i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i> | Yes |
| (d)(1)(iv) | <i>Were there any material internal control weaknesses reported for major federal programs?</i> | No |
| (d)(1)(iv) | <i>Were there any significant deficiencies in internal control reported for major federal programs?</i> | No |
| (d)(1)(v) | <i>Type of Major Programs' Compliance Opinion</i> | Unqualified |
| (d)(1)(vi) | <i>Are there any reportable findings under §.510(a)?</i> | No |
| (d)(1)(vii) | <i>Major Programs (listed):</i> | State Administrative Matching Grants for the Supplemental Nutrition Program, CFDA #10.561; Water and Waste Disposal Systems for Rural Communities, CFDA #10.760; Community Development Block Grants/State's Program, CFDA #14.228; Workforce Investment Act (WIA) Cluster: WIA Adult Program, CFDA #17.258; WIA Youth Activities, CFDA #17.259; WIA Dislocated Workers, CFDA #17.260; and WIA Dislocated Workers, CFDA #17.278; and Child Support Enforcement, CFDA #93.563 |
| (d)(1)(viii) | <i>Dollar Threshold: Type A/B Programs</i> | Type A: >\$300,000 Type B: all others |
| (d)(1)(ix) | <i>Low Risk Auditee?</i> | Yes |

MORROW COUNTY

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2010**

| 2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS | |
|---|-------------|
| Finding Number | 2010-MC-001 |

Ohio Revised Code Section 5705.38(A) requires the annual appropriation measure to be passed on or about the first day of each year. Temporary appropriations may be adopted until April 1 if the taxing authority wishes to postpone the passage of the annual appropriation measure until the County approves the amended certificate based on year end balances.

The County did not pass temporary appropriations until January 27, 2010.

The County is not effectively budgeting for expenditures. By incurring expenditures prior to the passage of a temporary or permanent appropriation measure, the County is in non-compliance.

We recommend the County adopt procedures for approving the appropriation measures and include these procedures in an accounting policies and procedures manual. We recommend that the Auditor develop a tickler file including all significant due dates of the budgeting process. The temporary or permanent appropriation measures should be passed prior to incurring expenditures.

Client Response: We will strive to meet the filing deadlines in the future and are aware of the dates.

| | |
|----------------|-------------|
| Finding Number | 2010-MC-002 |
|----------------|-------------|

Ohio Revised Code Section 5705.39 in part requires that total appropriations from each fund should not exceed total estimated resources.

The County had appropriations in excess of estimated resources at December 31, in the following funds:

| | Estimated Resources | Appropriations | Excess |
|-------------------------------|------------------------|----------------|------------|
| <u>Special Revenue Funds:</u> | | | |
| Public Assistance | \$ 5,200,856 | \$ 5,465,105 | \$ 264,249 |
| Emergency Squad | 1,145,076 | 1,174,000 | 28,924 |

With appropriations exceeding estimated resources, the County is appropriating monies that are not in the Treasury or in the process of collection that have been certified with the County Auditor. Thus, over appropriating may cause disbursements to increase and cause a deficit fund balance.

We recommend the County comply with the Ohio Revised Code by monitoring appropriations so they do not exceed estimated resources. This may be achieved by monitoring the budget more closely on a continual basis and amending estimated resources or appropriations as necessary.

Client Response: The County Auditor will attempt to update estimated revenues on a more timely basis.

MORROW COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2010

**2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)**

| | |
|----------------|-------------|
| Finding Number | 2010-MC-003 |
|----------------|-------------|

Ohio Revised Code Sections 5705.36, in part, requires Fiscal Officers to certify to the County Auditor the total amount from all sources which are available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year.

During the year ended December 31, 2010, the County's appropriations exceeded its estimated resources.

The County had appropriations exceeding its resources which could lead to spending monies not collected or expected to be collected, and thus could lead to a negative fund balance.

We recommend the County first evaluate its certified estimated resources prior to modifying/approving appropriations to ensure appropriations are less than or equal to certified estimated resources.

Client Response: The County will attempt to monitor its estimated revenues and appropriations more closely and will request amended certificates as needed.

| | |
|----------------|-------------|
| Finding Number | 2010-MC-004 |
|----------------|-------------|

Ohio Revised Code Section 5705.40 outlines the requirements for amending and supplementing appropriations. This section requires that any amendments to an appropriation measure be made by Board resolution and comply with the same provisions of the law as used in making the original appropriations.

The County did not timely modify its appropriations throughout 2010.

When appropriations are not modified by the Board of Commissioners in a timely manner, it may cause expenditures to exceed appropriations. This may also result in unnecessary or unwanted purchases and may result in overspending which may lead to a deficit fund balance.

We recommend that the County comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by keeping more accurate appropriations records and amending the appropriations prior to year end. In addition, the County should monitor its budgetary process on a regular basis.

Client Response: The County Auditor will attempt to amend appropriations as needed throughout the year in an effort to more closely monitor the County's budget.

MORROW COUNTY

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2010**

| 2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued) | |
|---|-------------|
| Finding Number | 2010-MC-005 |

Ohio Revised Code Section 5705.41(B) requires in part that no subdivision is to expend monies unless it has been appropriated.

The County had expenditures exceeding appropriations at December 31, 2010. The funds which had expenditures exceeding appropriations were as follows:

| <u>Major Fund/Function</u> | <u>Appropriations</u> | <u>Expenditures</u> | <u>Excess</u> |
|----------------------------|-----------------------|---------------------|---------------|
| General Fund | | | |
| Judicial | \$ 823,806 | \$ 933,722 | \$ 109,916 |
| Public Safety | 1,713,843 | 1,754,090 | 40,247 |
| Health | 67,359 | 69,197 | 1,838 |
| Other | 67,176 | 82,937 | 15,761 |

Disclosure is presented at the fund/function level rather than at the department and item level within the fund due to the impracticality of determining these values. In addition, the County had expenditures in excess of appropriations for all weeks up to January 27 during 2010 due to no annual appropriation ordinances being passed until such date.

With expenditures exceeding appropriations, the County is expending monies that have not been lawfully appropriated and approved by the Board of Commissioners. This may result in unnecessary purchases or overspending which may lead to a fund deficit.

We recommend that the County comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by monitoring its budgetary process on a regular basis and approving amendments as necessary. We recommend that the Board adopt accounting policies for amending appropriations (and include these policies in the Board's accounting policies and procedures manual), consider reviewing estimated resources and appropriations and expenditures versus appropriations on a monthly basis, and certify amendments to the Board of Commissioners as necessary. We recommend the Board utilize its accounting software or a spreadsheet to help monitor the budget.

Client Response: The County Auditor will attempt to pass amended appropriations in a timely manner in accordance with the Ohio Revised Code.

| | |
|----------------|-------------|
| Finding Number | 2010-MC-006 |
|----------------|-------------|

Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the disbursement of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The County issued Purchase Orders; however, appropriations from which they were drawn were not passed until January 27, 2010.

Without evidence of approved appropriations of which such certifications were drawn on, the County may expend more funds than available in the treasury, in the process of collection or than funds appropriated by the Board of Commissioners, which could potentially lead to negative fund balances. In addition, the County may make unnecessary purchases.

MORROW COUNTY

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2010**

| | |
|---|--|
| 2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued) | |
|---|--|

| | |
|----------------|---------------------------|
| Finding Number | 2010-MC-006 - (Continued) |
|----------------|---------------------------|

We recommend that the County certify its disbursements based on approved appropriations, to ensure all monies expended are lawfully appropriated and available in the treasury or in the process of collection.

Client Response: The County Auditor will attempt to certify Purchase Orders in a more timely manner based on approved appropriations.

| | |
|----------------|-------------|
| Finding Number | 2010-MC-007 |
|----------------|-------------|

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

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

| <u>Major Governmental Fund</u> | <u>Resources</u> | <u>Appropriations</u> | <u>Excess</u> |
|--------------------------------|------------------|-----------------------|---------------|
| Public Assistance | \$ 4,941,288 | \$ 5,465,105 | \$ 523,817 |

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

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

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

| |
|--|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
|--|

None

MORROW COUNTY

STATUS OF PRIOR AUDIT FINDINGS

OMB CIRCULAR A-133 § .505

DECEMBER 31, 2010

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|---------------------------|---|-----------------------------|---|
| 2009-MC-001 | Ohio Revised Code Section 5705.38(A) requires the annual appropriation measure to be passed on or about the first day of each year. | No | Repeated as finding 2010-MC-001 |
| 2009-MC-002 | Ohio Revised Code Section 5705.40 outlines the requirements for amending and supplementing appropriations. | No | Repeated as finding 2010-MC-005 |
| 2009-MC-003 | Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated. | No | Repeated as finding 2010-MC-006 |