

MORROW COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
(Audited)

FOR THE YEAR ENDED
DECEMBER 31, 2011

MARY M. HOLTREY, AUDITOR



Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' Report* of Morrow County, prepared by Julian & Grube, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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Dave Yost
Auditor of State

September 12, 2012

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MORROW COUNTY

BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Accountants' Report

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

To the Board of Commissioners:

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, 2011, 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 90.92%, 89.86%, and 99.08%, respectively, of the assets, net assets, and revenues 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 the Morrow County Hospital and Whetstone Industries, Inc. were each audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for the Morrow County Hospital and Whetstone Industries, Inc., is based on the reports 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. The other auditors audited the financial statements of Whetstone Industries, Inc. in accordance with auditing standards generally accepted in the United States of America and not in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the 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, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund and Major Special Revenue Funds: Emergency Squad, Motor Vehicle and Gas Tax, Public Assistance, and County Board of Developmental Disabilities, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3.A, during the year ended December 31, 2011, Morrow County adopted the provisions of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

As described in Note 3.B, governmental activities, business-type activities, and nonmajor enterprise fund net assets were restated as of December 31, 2010 to properly present the Johnsville Sewer project.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2012, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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 and the other auditors 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 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 additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, 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.



Julian & Grube, Inc.
August 27, 2012

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011. 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 2011 are as follows:

- The total net assets of the County decreased \$1,775,035. Net assets of governmental activities decreased \$967,346, which represents a 2.60% decrease from 2010. Net assets of business-type activities decreased \$807,689 or 5.03% from 2010.
- General revenues accounted for \$9,862,388 or 35.50% of total governmental activities revenue. Program specific revenues accounted for \$17,916,333 or 64.50% of total governmental activities revenue.
- The County had \$28,746,067 in expenses related to governmental activities; \$17,916,333 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$9,862,388 were not adequate to provide for these programs.
- The general fund, the County's most significant major governmental fund, had revenues of \$7,328,952 in 2011, an increase of \$160,426 or 2.24% from 2010 revenues. The general fund had expenditures and other financing uses of \$7,390,792 in 2011, an increase of \$762,359, or 11.50% from 2010. The net increase in expenditures and other financing uses contributed to the general fund balance decrease of \$61,840 from 2010 to 2011.
- The emergency squad, a County major fund, had revenues of \$1,351,159 in 2011. The emergency squad fund, had expenditures of \$1,356,542 in 2011. The emergency squad fund balance decreased \$5,383 from 2010 to 2011.
- The motor vehicle and gas tax, a County major fund, had revenues of \$3,896,615 in 2011. The motor vehicle and gas tax, had expenditures of \$4,402,626 in 2011. The motor vehicle and gas tax fund balance decreased \$506,011 from 2010 to 2011.
- The public assistance fund, a County major fund, had revenues of \$4,029,837 in 2011. The public assistance fund, had expenditures of \$4,149,071 in 2011. The public assistance fund balance decreased \$119,234 from 2010 to 2011.
- The County board of developmental disabilities (DD) fund, a County major fund, had revenues of \$2,435,908 in 2011. The County board of DD fund, had expenditures of \$2,699,955 in 2011. The County board of DD fund balance decreased \$264,047 from 2010 to 2011.
- Net assets for the business-type activities, which are made up of the Ketterman, Johnsville Sewer Project and Morrow County Hospital enterprise funds, decreased in 2011 by \$807,689.
- In the general fund, the actual revenues came in \$917,869 higher than they were originally budgeted and actual expenditures and other financing uses were \$229,620 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, 2011

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 2011?" 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, 2011

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 and Johnsville Sewer projects 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 34-78 of this report.

MORROW COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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, 2011 and December 31, 2010. The net assets at December 31, 2010 have been restated as described in Note 3.B.

			Net Assets			
	Governmental	Business-type	Restated	Restated		
	Activities	Activities	Governmental	Business-type	Total	Total
	<u>2011</u>	<u>2011</u>	<u>2010</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<u>Assets</u>						
Current and other assets	\$ 20,628,581	\$ 11,463,045	\$ 19,239,157	\$ 11,535,916	\$ 32,091,626	\$ 30,775,073
Capital assets, net	<u>29,342,866</u>	<u>12,409,840</u>	<u>29,613,149</u>	<u>11,132,331</u>	<u>41,752,706</u>	<u>40,745,480</u>
Total assets	<u>49,971,447</u>	<u>23,872,885</u>	<u>48,852,306</u>	<u>22,668,247</u>	<u>73,844,332</u>	<u>71,520,553</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	8,569,167	3,382,616	7,560,483	2,137,972	11,951,783	9,698,455
Other liabilities	<u>5,188,607</u>	<u>5,245,021</u>	<u>4,110,804</u>	<u>4,477,338</u>	<u>10,433,628</u>	<u>8,588,142</u>
Total liabilities	<u>13,757,774</u>	<u>8,627,637</u>	<u>11,671,287</u>	<u>6,615,310</u>	<u>22,385,411</u>	<u>18,286,597</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	22,519,071	9,569,867	23,541,253	8,928,935	32,088,938	32,470,188
Restricted	11,469,741	-	11,664,652	-	11,469,741	11,664,652
Unrestricted	<u>2,224,861</u>	<u>5,675,381</u>	<u>1,975,114</u>	<u>7,124,002</u>	<u>7,900,242</u>	<u>9,099,116</u>
Total net assets	<u>\$ 36,213,673</u>	<u>\$ 15,245,248</u>	<u>\$ 37,181,019</u>	<u>\$ 16,052,937</u>	<u>\$ 51,458,921</u>	<u>\$ 53,233,956</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2011, the County's assets exceeded liabilities by \$51,458,921. This amounts to \$36,213,673 in governmental activities and \$15,245,248 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 56.54% 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, 2011, were \$32,088,938. 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, 2011, the County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the County's net assets, \$11,469,741 or 22.29%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net assets of \$2,224,861 may be used to meet the government's ongoing obligations to citizens and creditors.

MORROW COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

The table below shows the changes in net assets for 2011 and 2010. The beginning net assets at December 31, 2010 have been restated as described in Note 3.B.

	Change in Net Assets					
			Restated			
	Governmental Activities <u>2011</u>	Business-type Activities <u>2011</u>	Governmental Activities <u>2010</u>	Business-type Activities <u>2010</u>	Total <u>2011</u>	Total <u>2010</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 5,559,327	\$ 24,155,005	\$ 2,889,155	\$ 25,875,508	\$ 29,714,332	\$ 28,764,663
Operating grants and contributions	12,335,084	-	13,848,507	-	12,335,084	13,848,507
Capital grants and contributions	<u>21,922</u>	<u>132,166</u>	<u>500,057</u>	<u>-</u>	<u>154,088</u>	<u>500,057</u>
Total program revenues	<u>17,916,333</u>	<u>24,287,171</u>	<u>17,237,719</u>	<u>25,875,508</u>	<u>42,203,504</u>	<u>43,113,227</u>
General revenues:						
Property taxes	4,108,060	-	4,153,751	-	4,108,060	4,153,751
Sales tax	3,055,023	-	2,692,984	-	3,055,023	2,692,984
Unrestricted grants	1,748,059	-	2,587,223	-	1,748,059	2,587,223
Investment earnings	44,788	28,536	107,499	28,309	73,324	135,808
Other	<u>906,458</u>	<u>2,014,625</u>	<u>971,830</u>	<u>2,073,415</u>	<u>2,921,083</u>	<u>3,045,245</u>
Total general revenues	<u>9,862,388</u>	<u>2,043,161</u>	<u>10,513,287</u>	<u>2,101,724</u>	<u>11,905,549</u>	<u>12,615,011</u>
Total revenues	<u>27,778,721</u>	<u>26,330,332</u>	<u>27,751,006</u>	<u>27,977,232</u>	<u>54,109,053</u>	<u>55,728,238</u>
Expenses						
Program expenses:						
General government						
Legislative and executive	3,891,673	-	3,543,906	-	3,891,673	3,543,906
Judicial	1,750,324	-	1,358,132	-	1,750,324	1,358,132
Public safety	3,763,664	-	3,392,221	-	3,763,664	3,392,221
Public works	5,705,792	-	4,878,556	-	5,705,792	4,878,556
Health	2,875,112	-	2,770,941	-	2,875,112	2,770,941
Human services	7,940,773	-	7,703,410	-	7,940,773	7,703,410
Economic development and assistance	199,626	-	1,004,862	-	199,626	1,004,862
Intergovernmental	339,423	-	477,237	-	339,423	477,237
Other	1,954,649	-	1,132,593	-	1,954,649	1,132,593
Interest and fiscal charges	325,031	-	300,762	-	325,031	300,762
Morrow County Hospital	-	27,012,964	-	27,617,848	27,012,964	27,617,848
Ketterman Project	<u>-</u>	<u>125,057</u>	<u>-</u>	<u>135,788</u>	<u>125,057</u>	<u>135,788</u>
Total expenses	<u>28,746,067</u>	<u>27,138,021</u>	<u>26,562,620</u>	<u>27,753,636</u>	<u>55,884,088</u>	<u>54,316,256</u>
Change in net assets	(967,346)	(807,689)	1,188,386	223,596	(1,775,035)	1,411,982
Net assets at beginning of year (restated)	<u>37,181,019</u>	<u>16,052,937</u>	<u>35,992,633</u>	<u>15,829,341</u>	<u>53,233,956</u>	<u>51,821,974</u>
Net assets at end of year	<u>\$ 36,213,673</u>	<u>\$ 15,245,248</u>	<u>\$ 37,181,019</u>	<u>\$ 16,052,937</u>	<u>\$ 51,458,921</u>	<u>\$ 53,233,956</u>

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011

Governmental Activities

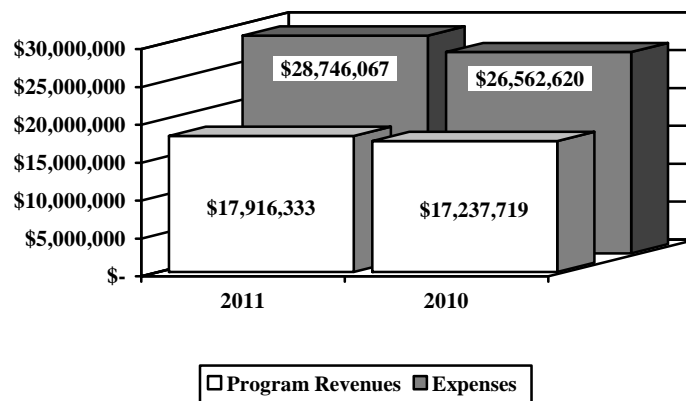
Governmental net assets decreased by \$967,346 in 2011. Human services accounts for \$7,940,773 of expenses, or 27.62% of total governmental expenses of the County. These expenses were funded by \$1,722,830 in charges to users of services and \$5,693,806 in operating grants and contributions in 2011. General government, which includes legislative and executive and judicial programs, expenses totaled \$5,641,997 or 19.63% of total governmental expenses. General government expenses were covered by \$2,202,677 of direct charges to users and \$628,489 in operating grants and contributions in 2011.

The State and federal government contributed to the County revenues of \$12,335,084 in operating grants and contributions and \$21,922 in capital grants and contributions during 2011. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions \$5,693,806 or 46.16%, subsidized human services programs.

General revenues totaled \$9,862,388, and amounted to 35.50% of total revenues. These revenues primarily consist of property and sales tax revenue of \$7,163,083 or 72.63% of total general revenues in 2011. 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 \$1,748,059, or 17.72% 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 2011 and 2010. 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, 2011

Governmental Activities

	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>
Program Expenses:				
General government				
Legislative and executive	\$ 3,891,673	\$ 1,585,000	\$ 3,543,906	\$ 2,285,216
Judicial	1,750,324	1,225,831	1,358,132	229,860
Public safety	3,763,664	2,919,239	3,392,221	2,384,981
Public works	5,705,792	1,766,601	4,878,556	604,340
Health	2,875,112	2,078,238	2,770,941	2,516,579
Human services	7,940,773	524,137	7,703,410	642,294
Economic development and assistance	199,626	(358,746)	1,004,862	(162,912)
Intergovernmental	339,423	339,423	477,237	477,237
Other	1,954,649	424,980	1,132,593	46,544
Interest and fiscal charges	<u>325,031</u>	<u>325,031</u>	<u>300,762</u>	<u>300,762</u>
Total	<u>\$ 28,746,067</u>	<u>\$ 10,829,734</u>	<u>\$ 26,562,620</u>	<u>\$ 9,324,901</u>

The dependence upon general revenues for governmental activities is apparent, with 37.67% of expenses supported through taxes and other general revenues during 2011.

Business-Type Activities

The Morrow County Hospital, Johnsville Sewer Project and Ketterman Project are the County's only enterprise funds. These programs had revenues of \$26,330,332 and expenses of \$27,138,021 for 2011. The net assets of the enterprise funds decreased \$807,689 or 5.03% during 2011.

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, unassigned 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 \$11,889,023, which is \$80,446 higher than last year's restated total of \$11,808,577.

MORROW COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2011 and December 31, 2010 for all major and non-major governmental funds. The fund balances at December 31, 2010 have been restated as described in Note 3.B.

	Fund Balance December 31, 2011	Restated Fund Balance December 31, 2010	Increase/ (Decrease)
Major Funds:			
General	\$ 1,691,922	\$ 1,753,762	\$ (61,840)
Emergency Squad	40,610	45,993	(5,383)
Motor Vehicle and Gas Tax	2,634,003	3,140,014	(506,011)
Public Assistance	467,342	586,576	(119,234)
County Board of DD	796,822	1,060,869	(264,047)
Other Nonmajor Governmental Funds	<u>6,258,324</u>	<u>5,221,363</u>	<u>1,036,961</u>
 Total	 <u>\$ 11,889,023</u>	 <u>\$ 11,808,577</u>	 <u>\$ 80,446</u>

General Fund

The County's general fund balance decreased \$61,840. The table that follows assists in illustrating the revenues of the general fund:

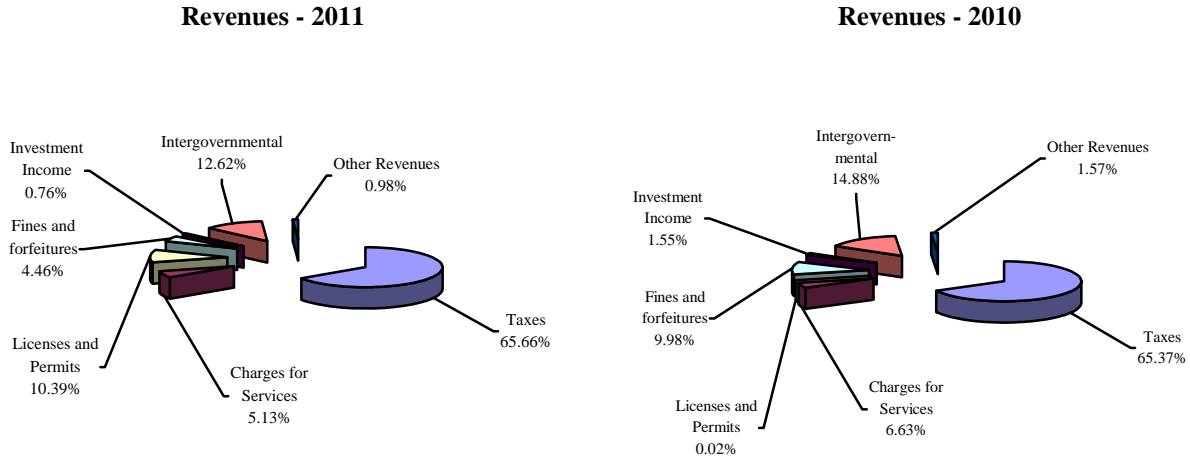
	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Percentage <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 4,812,500	\$ 4,811,532	0.02 %
Charges for services	375,162	488,150	(23.15) %
Licenses and permits	761,750	1,578	481.73 %
Fines and forfeitures	326,710	734,258	(55.50) %
Intergovernmental	925,191	1,095,350	(15.53) %
Investment income	55,786	114,143	(51.13) %
Other	<u>71,853</u>	<u>115,471</u>	(37.77) %
 Total	 <u>\$ 7,328,952</u>	 <u>\$ 7,360,482</u>	 (0.43) %

Tax revenue represents 65.66% of all general fund revenue. Tax revenue increased by .02% 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 licenses and permits and decrease in fines and forfeitures is due to reclassification entries from amounts incorrectly posted. All other revenue remained comparable to 2010.

MORROW COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

The following graphs detail revenues by source for 2011 and 2010:



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

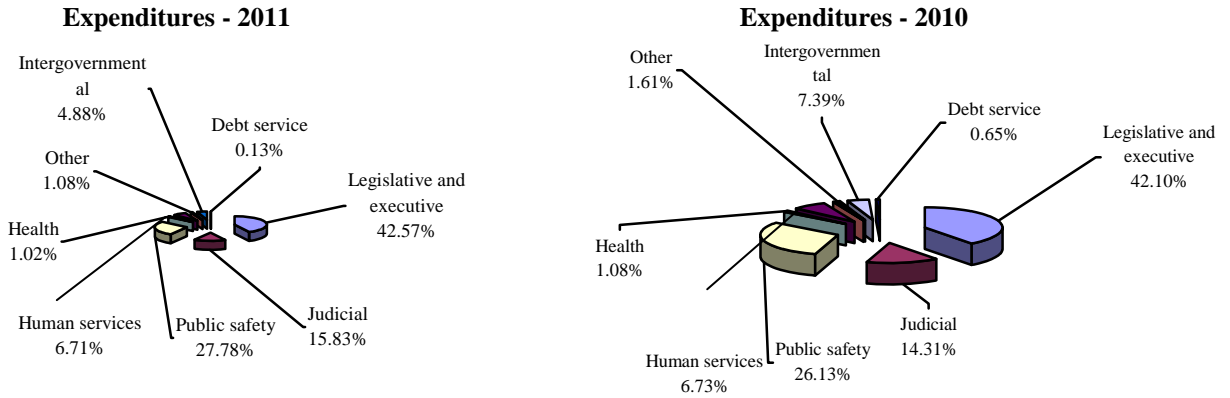
	2011 Amount	Restated 2010 Amount	Percentage Change
<u>Expenditures</u>			
General government			
Legislative and executive	\$ 2,962,218	\$ 2,717,586	9.00 %
Judicial	1,101,253	923,564	19.24 %
Public safety	1,932,864	1,686,385	14.62 %
Health	70,798	69,858	1.35 %
Human services	467,055	434,172	7.57 %
Other	75,353	104,016	(27.56) %
Intergovernmental	339,423	477,237	(28.88) %
Debt service	9,144	42,057	(78.26) %
Total	<u>\$ 6,958,108</u>	<u>\$ 6,454,875</u>	7.80 %

Legislative and executive, judicial and public safety increased due to an increase in wages and other employee fringe benefits. Intergovernmental expenditures decreased due to a decrease 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, 2011**

The graphs below detail expenditures by function for 2011 and 2010:



Emergency Squad Fund

The emergency squad, a County major fund, had revenues of \$1,351,159 in 2011. The emergency squad fund had expenditures of \$1,356,542 in 2011. The emergency squad fund balance decreased \$5,383 from 2010 to 2011.

Motor Vehicle and Gas Tax

The motor vehicle and gas tax, a County major fund, had revenues of \$3,896,615 in 2011. The motor vehicle and gas tax, had expenditures of \$4,402,626 in 2011. The motor vehicle and gas tax fund balance decreased \$506,011 from 2010 to 2011.

Public Assistance Fund

The public assistance fund, a County major fund, had revenues of \$4,029,837 in 2011. The public assistance fund had expenditures of \$4,149,071 in 2011. The public assistance fund balance decreased \$119,234 from 2010 to 2011.

County Board of DD

The County board of developmental disabilities (DD) fund, a County major fund, had revenues of \$2,435,908 in 2011. The County board of DD fund had expenditures of \$2,699,955 in 2011. The County board of DD fund balance decreased \$264,047 from 2010 to 2011.

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, 2011**

Budgetary information is presented for the general fund, emergency squad, motor vehicle and gas tax, public assistance, and the County board of DD. In the general fund, actual revenues of \$7,077,869 exceeded final budgeted revenues of \$6,451,398 by \$626,471 or 9.71%. This increase is due to the County's conservative approach to budgeting. Original budgeted expenditures and other financing uses of \$7,203,528 were \$277,446 lower than final budgeted expenditures and other financing uses of \$7,480,974. Actual expenditures and other financing uses of \$7,433,148 were \$47,826 lower 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 2011, the County had \$41,752,706 (net of accumulated depreciation) invested in land, land improvements, buildings, buildings and improvements, equipment, vehicles, infrastructure and construction in progress. Of this total, \$29,342,866 was reported in governmental activities and \$12,409,840 was reported in business-type activities. The following table shows December 31, 2011 balances compared to December 31, 2010. The 2010 construction in progress balance for governmental and business-type activities has been restated as described in Note 3.B.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	Restated		Restated		Restated	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 736,057	\$ 736,057	\$ 233,315	\$ 191,995	\$ 969,372	\$ 928,052
Land Improvements	10,368	12,253	84,128	73,056	94,496	85,309
Buildings	5,272,635	5,432,446	2,971,729	2,684,437	8,244,364	8,116,883
Building Improvements	1,940,171	2,029,957	-	-	1,940,171	2,029,957
Equipment	410,623	471,206	5,292,490	5,941,832	5,703,113	6,413,038
Vehicles	988,952	1,016,436	-	-	988,952	1,016,436
Infrastructure	18,837,093	19,696,308	1,503,174	189,719	20,340,267	19,886,027
Construction in progress	<u>1,146,967</u>	<u>218,486</u>	<u>2,325,004</u>	<u>2,051,292</u>	<u>3,471,971</u>	<u>2,269,778</u>
Total	<u>\$ 29,342,866</u>	<u>\$ 29,613,149</u>	<u>\$ 12,409,840</u>	<u>\$ 11,132,331</u>	<u>\$ 41,752,706</u>	<u>\$ 40,745,480</u>

Debt Administration

At December 31, 2011 the County had \$7,726,258 in general obligation bonds, revenue bonds, loans payable, OWDA loans, and capital leases outstanding in governmental activities. Of this total, \$2,352,300 is due within one year and \$5,373,958 is due within greater than one year. Business-type activities had \$2,839,976 in revenue bonds, capital leases, and a master lease purchase agreement outstanding at December 31, 2011. See Note 14 to the basic financial statements for detail.

MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011

The following table summarizes the bonds, notes and loan outstanding at December 31, 2011. The 2010 long-term obligations for governmental and business-type activities has been restated as described in Note 3.B.

Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities	
	Restated		Restated	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Long-Term Obligations				
General obligation bonds	\$ 7,180,000	\$ 5,425,000	\$ -	\$ -
Revenue bonds	-	-	610,000	-
Loans payable	408,000	518,000	-	-
OWDA loans	43,125	53,437	-	619,249
Capital leases	95,133	103,378	327,332	424,269
Master lease and purchase agreement	-	-	509,682	1,153,731
Hospital facilities revenue bonds	<u>-</u>	<u>-</u>	<u>1,392,962</u>	<u>-</u>
Total	<u>\$ 7,726,258</u>	<u>\$ 6,099,815</u>	<u>\$ 2,839,976</u>	<u>\$ 2,197,249</u>

At December 31, 2011 the County's overall legal debt margin was \$8,036,607.

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 2011 overall unemployment rate 7.5% was just above the State's average of 7.3%, 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.

MORROW COUNTY, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets:				
Equity in pooled cash and cash equivalents	\$ 10,393,348	\$ 75,341	\$ 10,468,689	\$ -
Cash and cash equivalents in segregated accounts . . .	-	114,108	114,108	102,167
Investments in segregated accounts.	-	338,899	338,899	-
Investments.	-	349,848	349,848	-
Receivables:				
Sales taxes	531,960	-	531,960	-
Real and other taxes	4,272,974	1,350,000	5,622,974	-
Accounts.	508,569	3,996,128	4,504,697	6,923
Special assessments	4,408	-	4,408	-
Accrued interest	12,347	-	12,347	-
Estimated third-party payor settlements.	136,323	24,844	161,167	-
Physician advances.	-	57,827	57,827	-
Due from other governments.	3,484,888	-	3,484,888	-
Prepayments	166,628	540,584	707,212	-
Deposits	-	-	-	336
Materials and supplies inventory.	144,937	545,638	690,575	15,569
Loans receivable.	769,546	-	769,546	-
Unamortized bond issue costs	111,871	-	111,871	-
Restricted assets:				
Cash and cash equivalents in segregated accounts. . .	-	2,486,606	2,486,606	-
Investments in segregated accounts.	-	1,583,222	1,583,222	-
Due from external parties.	90,782	-	90,782	-
Capital assets:				
Land and construction in progress.	1,883,024	2,558,319	4,441,343	-
Depreciable capital assets, net.	27,459,842	9,851,521	37,311,363	22,602
Total capital assets, net.	29,342,866	12,409,840	41,752,706	22,602
Total assets	49,971,447	23,872,885	73,844,332	147,597
Liabilities:				
Accounts payable.	783,243	2,526,134	3,309,377	-
Accrued wages and benefits	362,024	848,195	1,210,219	-
Due to other governments	292,831	602	293,433	-
Due to other funds	136,323	-	136,323	-
Deferred revenue	-	1,350,000	1,350,000	-
Unearned revenue	3,557,670	-	3,557,670	-
Accrued interest payable	56,516	8,763	65,279	-
Other accrued liabilities	-	511,327	511,327	2,416
Long-term liabilities:				
Due within one year	2,549,854	1,149,617	3,699,471	5,490
Due in more than one year.	6,019,313	2,232,999	8,252,312	-
Total liabilities	13,757,774	8,627,637	22,385,411	7,906
Net assets:				
Invested in capital assets, net of related debt	22,519,071	9,569,867	32,088,938	-
Restricted for:				
Debt service	152,738	-	152,738	-
Capital projects	863,504	-	863,504	-
Public safety	791,238	-	791,238	-
Public works	3,810,099	-	3,810,099	-
Health.	2,291,410	-	2,291,410	-
Human services	120,823	-	120,823	-
Other purposes	1,287,155	-	1,287,155	-
General government.	706,459	-	706,459	-
Economic and development.	1,446,315	-	1,446,315	-
Unrestricted	2,224,861	5,675,381	7,900,242	139,691
Total net assets	\$ 36,213,673	\$ 15,245,248	\$ 51,458,921	\$ 139,691

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	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	\$ 3,891,673	\$ 2,023,398	\$ 283,275	\$ -
Judicial	1,750,324	179,279	345,214	-
Public safety	3,763,664	187,411	657,014	-
Public works	5,705,792	440	3,916,829	21,922
Health	2,875,112	121,250	675,624	-
Human services	7,940,773	1,722,830	5,693,806	-
Economic development and assistance.	199,626	11,914	546,458	-
Intergovernmental.	339,423	-	-	-
Other	1,954,649	1,312,805	216,864	-
Interest and fiscal charges.	325,031	-	-	-
Total governmental activities	<u>28,746,067</u>	<u>5,559,327</u>	<u>12,335,084</u>	<u>21,922</u>
Business-type activities:				
Morrow County Hospital	27,012,964	24,109,843	-	-
Other business-type activities	125,057	45,162	-	132,166
Total business-type activities	<u>27,138,021</u>	<u>24,155,005</u>	<u>-</u>	<u>132,166</u>
Total primary government.	<u>\$ 55,884,088</u>	<u>\$ 29,714,332</u>	<u>\$ 12,335,084</u>	<u>\$ 154,088</u>
Component unit:				
Whetstone Industries, inc.	<u>\$ 562,750</u>	<u>\$ 71,094</u>	<u>\$ 489,042</u>	<u>\$ -</u>

General revenues:

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

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

Governmental Activities	Business-type Activities	Total	Component Unit
\$ (1,585,000)	\$ -	\$ (1,585,000)	\$ -
(1,225,831)	-	(1,225,831)	-
(2,919,239)	-	(2,919,239)	-
(1,766,601)	-	(1,766,601)	-
(2,078,238)	-	(2,078,238)	-
(524,137)	-	(524,137)	-
358,746	-	358,746	-
(339,423)	-	(339,423)	-
(424,980)	-	(424,980)	-
(325,031)	-	(325,031)	-
<u>(10,829,734)</u>	<u>-</u>	<u>(10,829,734)</u>	<u>-</u>
-	(2,903,121)	(2,903,121)	-
-	52,271	52,271	-
-	(2,850,850)	(2,850,850)	-
<u>(10,829,734)</u>	<u>(2,850,850)</u>	<u>(13,680,584)</u>	<u>-</u>
-	-	-	(2,614)
2,067,816	-	2,067,816	-
2,040,244	-	2,040,244	-
3,055,023	-	3,055,023	-
1,748,059	-	1,748,059	-
44,788	28,536	73,324	-
906,458	2,014,625	2,921,083	992
<u>9,862,388</u>	<u>2,043,161</u>	<u>11,905,549</u>	<u>992</u>
(967,346)	(807,689)	(1,775,035)	(1,622)
<u>37,181,019</u>	<u>16,052,937</u>	<u>53,233,956</u>	<u>141,313</u>
<u>\$ 36,213,673</u>	<u>\$ 15,245,248</u>	<u>\$ 51,458,921</u>	<u>\$ 139,691</u>

MORROW COUNTY, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General	Emergency Squad	Motor Vehicle and Gas Tax	Public Assistance
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,447,941	\$ 40,610	\$ 2,030,997	\$ 612,458
Receivables:				
Sales taxes	523,713	-	-	-
Real and other taxes	2,025,044	1,272,436	-	-
Accounts	68,256	-	45	-
Special assessments	-	-	-	-
Accrued interest	12,347	-	-	-
Due from other funds	38,133	-	6,790	191,463
Due from other governments	376,923	87,919	1,870,258	109,856
Loans receivable	-	-	-	-
Prepayments	66,912	-	23,865	26,370
Materials and supplies inventory	11,161	-	124,845	5,696
Due from external parties	90,782	-	-	-
Total assets	<u>\$ 4,661,212</u>	<u>\$ 1,400,965</u>	<u>\$ 4,056,800</u>	<u>\$ 945,843</u>
Liabilities:				
Accounts payable	\$ 115,220	\$ -	\$ 65,419	\$ 360,934
Accrued wages and benefits	148,990	-	47,941	51,669
Compensated absences payable	-	-	-	12,524
Due to other funds	5,406	-	33	55
Due to other governments	115,777	-	30,973	53,319
Deferred revenue	900,615	301,193	1,278,431	-
Unearned revenue	1,683,282	1,059,162	-	-
Total liabilities	<u>2,969,290</u>	<u>1,360,355</u>	<u>1,422,797</u>	<u>478,501</u>
Fund balances:				
Nonspendable	142,087	-	148,710	32,066
Restricted	-	40,610	2,485,293	435,276
Committed	245,853	-	-	-
Assigned	1,053,173	-	-	-
Unassigned (deficit)	250,809	-	-	-
Total fund balances	<u>1,691,922</u>	<u>40,610</u>	<u>2,634,003</u>	<u>467,342</u>
Total liabilities and fund balances	<u>\$ 4,661,212</u>	<u>\$ 1,400,965</u>	<u>\$ 4,056,800</u>	<u>\$ 945,843</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

County Board of Developmental Disabilities	Other Governmental Funds	Total Governmental Funds
\$ 800,433	\$ 5,460,909	\$ 10,393,348
-	8,247	531,960
975,494	-	4,272,974
14,953	425,315	508,569
-	4,408	4,408
-	-	12,347
7,434	1,521	245,341
316,622	723,310	3,484,888
-	769,546	769,546
21,228	28,253	166,628
2,291	944	144,937
-	-	90,782
<u>\$ 2,138,455</u>	<u>\$ 7,422,453</u>	<u>\$ 20,625,728</u>
\$ 20,738	\$ 220,932	\$ 783,243
52,275	61,149	362,024
1,919	25,608	40,051
-	239,847	245,341
35,901	56,861	292,831
415,574	559,732	3,455,545
815,226	-	3,557,670
<u>1,341,633</u>	<u>1,164,129</u>	<u>8,736,705</u>
23,519	29,197	375,579
773,303	4,532,218	8,266,700
-	1,551,099	1,796,952
-	148,103	1,201,276
-	(2,293)	248,516
<u>796,822</u>	<u>6,258,324</u>	<u>11,889,023</u>
<u>\$ 2,138,455</u>	<u>\$ 7,422,453</u>	<u>\$ 20,625,728</u>

MORROW COUNTY, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011

Total governmental fund balances		\$ 11,889,023
<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.		29,342,866
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	\$ 715,280	
Special assessments receivable	4,408	
Sales taxes receivable	286,727	
Intergovernmental receivable	2,449,130	
Total	3,455,545	3,455,545
Unamortized bond issue costs are not recognized in the funds.		111,871
Unamortized bond discounts are not recognized in the funds.		26,705
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	(56,516)	
General obligation bonds payable	(5,180,000)	
Bond anticipation notes	(2,000,000)	
Loans payable	(451,125)	
Capital lease payable	(95,133)	
Compensated absences payable	(829,563)	
Total	(8,612,337)	(8,612,337)
Net assets of governmental activities		\$ 36,213,673

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, 2011

	<u>General</u>	<u>Emergency Squad</u>	<u>Motor Vehicle and Gas Tax</u>	<u>Public Assistance</u>
Revenues:				
Real and other taxes	\$ 2,046,652	\$ 1,175,321	\$ -	\$ -
Sales taxes	2,765,848	-	-	-
Charges for services	375,162	-	-	153,029
Licenses and permits	761,750	-	-	-
Fines and forfeitures	326,710	-	440	-
Intergovernmental	925,191	175,838	3,844,097	3,681,881
Investment income	55,786	-	-	-
Rental income	-	-	-	-
Other	71,853	-	52,078	194,927
Total revenues	<u>7,328,952</u>	<u>1,351,159</u>	<u>3,896,615</u>	<u>4,029,837</u>
Expenditures:				
Current:				
General government:				
Legislative and executive	2,962,218	-	-	-
Judicial	1,101,253	-	-	-
Public safety	1,932,864	1,356,542	-	-
Public works	-	-	4,121,758	-
Health	70,798	-	-	-
Human services	467,055	-	-	4,146,465
Economic development and assistance	-	-	-	-
Other	75,353	-	-	-
Capital outlay	-	-	-	-
Intergovernmental	339,423	-	169,550	-
Debt service:				
Principal retirement	8,443	-	100,000	2,367
Interest and fiscal charges	701	-	11,318	239
Note issuance costs	-	-	-	-
Total expenditures	<u>6,958,108</u>	<u>1,356,542</u>	<u>4,402,626</u>	<u>4,149,071</u>
Excess (deficiency) of revenues over (under) expenditures	<u>370,844</u>	<u>(5,383)</u>	<u>(506,011)</u>	<u>(119,234)</u>
Other financing sources (uses):				
Note issuance	-	-	-	-
Capital lease transaction	-	-	-	-
Transfers in	-	-	-	-
Transfers (out)	(432,684)	-	-	-
Premium on note issuance	-	-	-	-
Total other financing sources (uses)	<u>(432,684)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(61,840)	(5,383)	(506,011)	(119,234)
Fund balances at beginning of year (restated)	<u>1,753,762</u>	<u>45,993</u>	<u>3,140,014</u>	<u>586,576</u>
Fund balances at end of year	<u>\$ 1,691,922</u>	<u>\$ 40,610</u>	<u>\$ 2,634,003</u>	<u>\$ 467,342</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

County Board of Developmental Disabilities	Other Governmental Funds	Total Governmental Funds
\$ 841,883	\$ -	\$ 4,063,856
-	2,448	2,768,296
35,165	2,675,530	3,238,886
-	904,844	1,666,594
-	24,059	351,209
1,230,323	3,649,319	13,506,649
-	5,381	61,167
-	363,976	363,976
328,537	197,557	844,952
<u>2,435,908</u>	<u>7,823,114</u>	<u>26,865,585</u>
-	708,805	3,671,023
-	640,637	1,741,890
-	359,108	3,648,514
-	23,314	4,145,072
2,635,350	161,823	2,867,971
30,708	2,996,892	7,641,120
-	216,934	216,934
-	1,859,105	1,934,458
-	1,756,918	1,756,918
-	-	508,973
27,624	265,729	404,163
6,273	260,178	278,709
-	24,740	24,740
<u>2,699,955</u>	<u>9,274,183</u>	<u>28,840,485</u>
<u>(264,047)</u>	<u>(1,451,069)</u>	<u>(1,974,900)</u>
-	2,000,000	2,000,000
-	30,606	30,606
-	432,684	432,684
-	-	(432,684)
-	24,740	24,740
<u>-</u>	<u>2,488,030</u>	<u>2,055,346</u>
(264,047)	1,036,961	80,446
1,060,869	5,221,363	11,808,577
<u>\$ 796,822</u>	<u>\$ 6,258,324</u>	<u>\$ 11,889,023</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, 2011

Net change in fund balances - total governmental funds	\$	80,446
<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 depreciation expense exceeds capital outlays in the current period.		
Capital asset additions	\$ 1,649,484	
Current year depreciation	<u>(1,919,767)</u>	
Total		(270,283)
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	44,204	
Sales taxes	286,727	
Special assessments	168	
Intergovernmental revenues	593,120	
Interest revenues	<u>(11,083)</u>	
Total		913,136
Proceeds of notes, 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.		
		(2,030,606)
Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		404,163
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 more interest being reported in the statement of activities.		
Increase in accrued interest payable	(40,023)	
Amortization of bond discounts	(1,214)	
Amortization of bond issue costs	<u>(5,085)</u>	
Total		(46,322)
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.		
		<u>(17,880)</u>
Change in net assets of governmental activities	\$	<u>(967,346)</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)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Real and other taxes.	\$ 2,136,849	\$ 2,237,931	\$ 2,455,249	\$ 217,318
Sales taxes	2,370,224	2,482,348	2,723,399	241,051
Charges for services.	185,261	194,025	212,866	18,841
Licenses and permits	1,654	1,732	1,900	168
Fines and forfeitures	708,578	742,098	814,160	72,062
Intergovernmental.	670,471	702,187	770,374	68,187
Investment income.	50,640	53,036	58,186	5,150
Other	36,323	38,041	41,735	3,694
Total revenues	<u>6,160,000</u>	<u>6,451,398</u>	<u>7,077,869</u>	<u>626,471</u>
Expenditures:				
Current:				
General government:				
Legislative and executive	2,817,513	2,871,036	2,837,113	33,923
Judicial	1,024,204	1,071,548	1,087,641	(16,093)
Public safety	2,042,927	2,124,467	2,095,161	29,306
Health	85,591	85,295	85,295	-
Human services.	513,072	512,352	512,347	5
Other	50,137	49,022	48,337	685
Intergovernmental.	237,400	334,570	334,570	-
Total expenditures	<u>6,770,844</u>	<u>7,048,290</u>	<u>7,000,464</u>	<u>47,826</u>
Excess of expenditures over revenues.	<u>(610,844)</u>	<u>(596,892)</u>	<u>77,405</u>	<u>674,297</u>
Other financing uses:				
Transfers out.	(432,684)	(432,684)	(432,684)	-
Total other financing uses	<u>(432,684)</u>	<u>(432,684)</u>	<u>(432,684)</u>	<u>-</u>
Net change in fund balances	(1,043,528)	(1,029,576)	(355,279)	674,297
Fund balances at beginning of year (restated).	733,420	733,420	733,420	-
Prior year encumbrances appropriated	145,242	145,242	145,242	-
Fund balance (deficit) at end of year	<u>\$ (164,866)</u>	<u>\$ (150,914)</u>	<u>\$ 523,383</u>	<u>\$ 674,297</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, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Real and other taxes	\$ 859,162	\$ 1,180,704	\$ 1,180,704	\$ -
Intergovernmental	175,838	175,838	175,838	-
Total revenues	<u>1,035,000</u>	<u>1,356,542</u>	<u>1,356,542</u>	<u>-</u>
Expenditures:				
Current:				
Public safety	1,035,000	1,356,542	1,356,542	-
Total expenditures	<u>1,035,000</u>	<u>1,356,542</u>	<u>1,356,542</u>	<u>-</u>
Net change in fund balances	-	-	-	-
Fund balances at beginning of year	-	-	-	-
Prior year encumbrances appropriated . . .	-	-	-	-
Fund balance at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 MOTOR VEHICLE AND GAS TAX FUND
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Fines and forfeitures	\$ 381	\$ 381	\$ 419	\$ 38
Intergovernmental.	3,408,530	3,408,530	3,775,231	366,701
Other	48,589	48,589	53,504	4,915
Total revenues	<u>3,457,500</u>	<u>3,457,500</u>	<u>3,829,154</u>	<u>371,654</u>
Expenditures:				
Current:				
Public works	5,336,805	5,785,280	4,990,781	794,499
Total expenditures	<u>5,336,805</u>	<u>5,785,280</u>	<u>4,990,781</u>	<u>794,499</u>
Net change in fund balances	(1,879,305)	(2,327,780)	(1,161,627)	1,166,153
Fund balances at beginning of year	1,943,012	1,943,012	1,943,012	-
Prior year encumbrances appropriated . . .	616,838	616,838	616,838	-
Fund balance at end of year	<u>\$ 680,545</u>	<u>\$ 232,070</u>	<u>\$ 1,398,223</u>	<u>\$ 1,166,153</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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for services.	\$ 126,993	\$ 149,954	\$ 153,029	\$ 3,075
Intergovernmental.	3,396,243	4,010,272	4,092,513	82,241
Other	161,764	191,010	194,927	3,917
Total revenues	<u>3,685,000</u>	<u>4,351,236</u>	<u>4,440,469</u>	<u>89,233</u>
Expenditures:				
Current:				
Human services.	3,826,066	4,739,193	4,714,459	24,734
Total expenditures	<u>3,826,066</u>	<u>4,739,193</u>	<u>4,714,459</u>	<u>24,734</u>
Net change in fund balances	(141,066)	(387,957)	(273,990)	113,967
Fund balances at beginning of year	26,565	26,565	26,565	-
Prior year encumbrances appropriated	361,473	361,473	361,473	-
Fund balance at end of year	<u>\$ 246,972</u>	<u>\$ 81</u>	<u>\$ 114,048</u>	<u>\$ 113,967</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, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Real and other taxes.	\$ 721,241	\$ 723,405	\$ 845,860	\$ 122,455
Intergovernmental.	1,066,216	1,068,442	1,095,217	26,775
Other	385,743	386,690	699,528	312,838
Total revenues	<u>2,173,200</u>	<u>2,178,537</u>	<u>2,640,605</u>	<u>462,068</u>
Expenditures:				
Current:				
Health	3,047,014	3,047,014	2,902,720	144,294
Human services.	32,089	43,892	43,592	300
Total expenditures	<u>3,079,103</u>	<u>3,090,906</u>	<u>2,946,312</u>	<u>144,594</u>
Net change in fund balances	(905,903)	(912,369)	(305,707)	606,662
Fund balances at beginning of year	694,038	694,038	694,038	-
Prior year encumbrances appropriated	227,161	227,161	227,161	-
Fund balance at end of year	<u>\$ 15,296</u>	<u>\$ 8,830</u>	<u>\$ 615,492</u>	<u>\$ 606,662</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds		
	Morrow County		
	Hospital	Nonmajor	Total
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	\$ -	\$ 75,341	\$ 75,341
Cash and cash equivalents in segregated accounts	114,108	-	114,108
Investments.	349,848	-	349,848
Receivables:			
Real and other taxes	1,350,000	-	1,350,000
Accounts.	3,996,128	-	3,996,128
Estimated third-party payor settlements.	24,844	-	24,844
Physician advances	57,827	-	57,827
Materials and supplies inventory.	545,638	-	545,638
Prepayments	540,562	22	540,584
Total current assets	<u>6,978,955</u>	<u>75,363</u>	<u>7,054,318</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents in segregated accounts	2,486,606	-	2,486,606
Investments in segregated accounts.	1,583,222	-	1,583,222
Investments in segregated accounts.	338,899	-	338,899
Capital assets:			
Land and construction in progress.	2,516,999	41,320	2,558,319
Depreciable capital assets, net.	7,800,470	2,051,051	9,851,521
Total capital assets, net.	<u>10,317,469</u>	<u>2,092,371</u>	<u>12,409,840</u>
Total noncurrent assets	<u>14,726,196</u>	<u>2,092,371</u>	<u>16,818,567</u>
Total assets	<u>21,705,151</u>	<u>2,167,734</u>	<u>23,872,885</u>
Liabilities:			
Current liabilities:			
Accounts payable.	2,524,739	1,395	2,526,134
Accrued wages and benefits	847,299	896	848,195
Due to other governments	-	602	602
Deferred revenue	1,350,000	-	1,350,000
Accrued interest payable	536	8,227	8,763
Other accrued liabilities.	511,327	-	511,327
Compensated absences payable - current	542,639	-	542,639
Lease purchase agreement - current	509,682	-	509,682
Capital lease obligations payable - current	97,296	-	97,296
Total current liabilities	<u>6,383,518</u>	<u>11,120</u>	<u>6,394,638</u>
Long-term liabilities:			
Hospital facilities revenue bonds payable	1,392,963	-	1,392,963
Capital lease obligations payable	230,036	-	230,036
Sanitary sewer revenue bonds payable	-	610,000	610,000
Total long-term liabilities	<u>1,622,999</u>	<u>610,000</u>	<u>2,232,999</u>
Total liabilities	<u>8,006,517</u>	<u>621,120</u>	<u>8,627,637</u>
Net assets:			
Invested in capital assets, net of related debt.	8,087,496	1,482,371	9,569,867
Unrestricted	<u>5,611,138</u>	<u>64,243</u>	<u>5,675,381</u>
Total net assets	<u>\$ 13,698,634</u>	<u>\$ 1,546,614</u>	<u>\$ 15,245,248</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds		
	Morrow County Hospital	Nonmajor	Total
Operating revenues:			
Charges for services	\$ -	\$ 45,162	\$ 45,162
Patient service revenue, net.	24,109,843	-	24,109,843
Other operating revenues	632,646	65,769	698,415
Total operating revenues.	24,742,489	110,931	24,853,420
Operating expenses:			
Personal services	13,231,046	16,760	13,247,806
Contractual services.	6,861,417	85,517	6,946,934
Materials and supplies.	4,284,503	-	4,284,503
Administrative costs.	-	4,073	4,073
Depreciation.	1,210,855	5,127	1,215,982
Other	1,352,563	256	1,352,819
Total operating expenses.	26,940,384	111,733	27,052,117
Operating loss	(2,197,895)	(802)	(2,198,697)
Nonoperating revenues (expenses):			
Interest and fiscal charges	(72,580)	(13,324)	(85,904)
Real and other taxes.	1,112,593	-	1,112,593
Intergovernmental	203,617	-	203,617
Interest income.	28,536	-	28,536
Total nonoperating revenues (expenses).	1,272,166	(13,324)	1,258,842
Loss before capital contributions	(925,729)	(14,126)	(939,855)
Capital contributions.		132,166	132,166
Change in net assets	(925,729)	118,040	(807,689)
Net assets, January 1 (restated)	14,624,363	1,428,574	16,052,937
Net assets, December 31	\$ 13,698,634	\$ 1,546,614	\$ 15,245,248

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds		
	Morrow County		
	Hospital	Nonmajor	Total
Cash flows from operating activities:			
Cash received from customers.	\$ -	\$ 45,162	\$ 45,162
Cash received from patients and third-party payors.	23,287,891	-	23,287,891
Cash received from other operations.	632,642	65,769	698,411
Cash payments to suppliers for services and goods.	(8,099,111)	(85,451)	(8,184,562)
Cash payments to employees for services	(13,409,409)	(16,628)	(13,426,037)
Cash payments for other expenses	-	(4,329)	(4,329)
	<u>2,412,013</u>	<u>4,523</u>	<u>2,416,536</u>
Net cash provided by operating activities			
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(981,279)	(119,245)	(1,100,524)
Property tax levy/intergovernmental revenue	1,316,215	-	1,316,215
Capital contributions	-	132,166	132,166
OWDA loan proceeds	-	5,097	5,097
Revenue bond proceeds	-	610,000	610,000
Principal payments on long-term debt	(740,985)	(624,346)	(1,365,331)
Interest and fiscal charges	(72,580)	(5,097)	(77,677)
	<u>(478,629)</u>	<u>(1,425)</u>	<u>(480,054)</u>
Net cash used in capital and related financing activities			
Cash flows from investing activities:			
Interest received	28,536	-	28,536
Purchase of investments	(2,507,789)	-	(2,507,789)
Assets limited as to use	(3,634,910)	-	(3,634,910)
Proceeds from sale of investments	2,400,223	-	2,400,223
	<u>(3,713,940)</u>	<u>-</u>	<u>(3,713,940)</u>
Net cash used in investing activities			
Net increase (decrease) in cash and cash equivalents	(1,780,556)	3,098	(1,777,458)
Cash and cash equivalents at beginning of year (restated)	4,140,275	72,243	4,212,518
Cash and cash equivalents at end of year	<u>\$ 2,359,719</u>	<u>\$ 75,341</u>	<u>\$ 2,435,060</u>
Supplemental cash flow information:			
Cash and cash equivalents	\$ 114,108		
Investments	2,136,703		
Board designated funds	108,908		
Cash and cash equivalents at end of year	<u>\$ 2,359,719</u>		

-- Continued

MORROW COUNTY, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Morrow County Hospital</u>	<u>Nonmajor</u>	<u>Total</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (2,197,895)	\$ (802)	\$ (2,198,697)
Adjustments:			
Depreciation.	1,210,855	5,127	1,215,982
Provisions for bad debt	2,634,281	-	2,634,281
Changes in assets and liabilities:			
Decrease in materials and supplies inventory	70,796	-	70,796
Decrease in prepayments	140,571	3	140,574
Decrease in other current assets.	14,174	-	14,174
(Increase) in patient accounts receivable.	(754,671)	-	(754,671)
(Increase) in taxes receivable.	(100,000)	-	(100,000)
Decrease in third party settlement receivables	32,719	-	32,719
Increase in accrued wages and benefits.	-	9	9
Increase in due to other governments	-	120	120
Increase in third party settlements payable.	100,000	-	100,000
Increase in accounts payable.	1,128,609	66	1,128,675
Increase in accrued expenses.	132,574	-	132,574
Net cash provided by operating activities	<u>\$ 2,412,013</u>	<u>\$ 4,523</u>	<u>\$ 2,416,536</u>

Non-cash transactions:

During 2011, the Hospital drew down \$1,392,962 of Facilities Revenue Bonds to finance the Meditech EMR project.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 FIDUCIARY FUNDS
 DECEMBER 31, 2011

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 3,150,065
Cash and cash equivalents in segregated accounts. . . .	872,676
Receivables (net of allowance for uncollectibles):	
Real and other taxes	28,549,706
Accounts.	3,247
Special assessments	4,408
Due from other governments	1,407,178
Total assets	\$ 33,987,280
 Liabilities:	
Accounts payable.	\$ 48,311
Due to other governments	5,375,032
Due to external parties	90,782
Undistributed assets	28,473,155
Total liabilities.	\$ 33,987,280

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011**

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. Financial information is currently unavailable.

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, 2011

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, 2011

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 fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Emergency squad - This fund accounts for revenues that are restricted 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 that are restricted for County road and bridge maintenance, construction and improvements.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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 that are restricted 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 revenues that are restricted 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) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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 two non-major enterprise funds to account for the Ketterman sewer operations and Johnsville 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 (Financial information is currently unavailable).

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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

D. Measurement Focus

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

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

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

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

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. Government-wide financial statements are prepared using the 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.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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

Nonexchange transactions, in which the County receives value without directly giving equal value in return, include sales taxes, property taxes, grants, entitlements and donations. On 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.

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, 2011, but which were levied to finance year 2012 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, 2011, 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.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

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 2011.

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 2011. The final budgeted figures reflect the original budgeted amounts plus all budgetary amendments and supplemental appropriations that were legally enacted during 2011.

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.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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

G. Cash and Investments

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

During 2011, investments were limited to U.S Government bonds, nonnegotiable certificates of deposit, Federal Home Loan Mortgage Corporation (FHLMC) bond, a U.S. Government money market mutual fund and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

The County has invested funds in STAR Ohio during 2011. 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, 2011.

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 2011 amounted to \$55,786 which includes \$49,475 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.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

On the fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance 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.

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 - 50 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.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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

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, 2011, 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.

The total liability for vacation, compensatory time and sick leave payments has been calculated using pay rates in effect at December 31, 2011 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, 2011, 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 nonspendable fund balance 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.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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

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.

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, 2011. Outstanding balances between governmental activities and agency funds are reported as “due to / due from external parties”.

N. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the County for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Board of Commissioners.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

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.

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 2011.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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>2011</u>
Patient accounts receivable	\$ 9,129,104
Less:	
Allowance for uncollectible accounts	(1,554,160)
Allowance for contractual adjustments	<u>(3,578,816)</u>
Net accounts receivable	<u>\$ 3,996,128</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>2011</u>
Medicare	46.00%
Medicaid	16.00%
Commercial insurance and HMO's	30.00%
Self-pay	<u>8.00%</u>
Total	<u>100.00%</u>

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.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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 2011, the Hospital provided charity care of approximately \$1,228,357.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For 2011, the County has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the County.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Fund Reclassifications/Restatement

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the County's governmental fund balances as previously reported:

	<u>General</u>	<u>Emergency Squad</u>	<u>Motor Vehicle and Gas Tax</u>	<u>Public Assistance</u>	<u>County Board of Developmental Disabilities</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
Fund balance as previously reported	\$ 1,640,096	\$ 45,993	\$ 3,140,014	\$ 586,576	\$ 1,060,869	\$ 5,347,035	\$ 11,820,583
Fund reclassifications:							
Public defender reimbursement and fees	48,208	-	-	-	-	(48,208)	-
Prepayments interest account	6,625	-	-	-	-	(6,625)	-
Certificate of title administration	27,612	-	-	-	-	(27,612)	-
Recorder's fees	31,221	-	-	-	-	(31,221)	-
Johnsville sewer project	-	-	-	-	-	(12,006)	(12,006)
Total fund reclassifications	<u>113,666</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(125,672)</u>	<u>(12,006)</u>
Restated fund balance at January 1, 2011	<u>\$ 1,753,762</u>	<u>\$ 45,993</u>	<u>\$ 3,140,014</u>	<u>\$ 586,576</u>	<u>\$ 1,060,869</u>	<u>\$ 5,221,363</u>	<u>\$ 11,808,577</u>

A restatement of net assets for governmental activities and business-type activities at December 31, 2010 is required to properly classify the Johnsville sewer project fund as a business-type fund along with construction in progress and OWDA loans associated with the fund as business-type activity rather than as governmental activity. The restatement had the following effect as previously reported:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Nonmajor Enterprise funds</u>
Net assets at December 31, 2010	\$ 38,362,310	\$ 14,871,646	\$ 247,283
Reclassification of Johnsville sewer project fund cash	(12,006)	12,006	12,006
Reclassification of construction in progress	(1,788,534)	1,788,534	1,788,534
Reclassification of OWDA loan payable	<u>619,249</u>	<u>(619,249)</u>	<u>(619,249)</u>
Restated net assets at January 1, 2011	<u>\$ 37,181,019</u>	<u>\$ 16,052,937</u>	<u>\$ 1,428,574</u>

C. Budgetary Prior Period Adjustment

In prior years the general fund included certain funds that are legally budgeted in separate funds on a budgetary basis. The County has elected to report only the legally budgeted general fund and in the budgetary statements; therefore, a restatement to the beginning budgetary balances is required.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The restatement of the general fund and major special revenue funds' budgetary-basis fund balances at December 31, 2011 is as follows:

Budgetary Basis

	<u>General Fund</u>
Balance at December 31, 2010	\$ 1,135,366
Funds budgeted elsewhere	<u>(401,946)</u>
Restated balance at January 1, 2011	<u>\$ 733,420</u>

D. Deficit Fund Balances

Fund balances at December 31, 2011 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
CPCR justice grant	\$ 297
Felony grant	1,996

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 resulted from adjustments for accrued liabilities.

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;

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

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, 2011, the carrying amount of all County deposits was \$15,336,960. As of December 31, 2011, \$13,618,718 of the County's bank balance of \$15,588,081 was exposed to custodial risk as discussed below, while \$1,969,363 was covered by the FDIC.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2011, 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	\$ 1,583,222	\$ -	\$ 1,583,222
FHLMC	502,220	502,220	-
U.S. Government money market mutual funds	1,594,877	1,594,877	-
STAR Ohio	346,834	346,834	-
Total	<u>\$ 4,027,153</u>	<u>\$ 2,443,931</u>	<u>\$ 1,583,222</u>

The weighted average maturity of investments is 0.40 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 AA+ 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.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
U.S. Government bonds	\$ 1,583,222	39.31
FHLMC	502,220	12.47
U.S. Government money market mutual funds	1,594,877	39.61
STAR Ohio	<u>346,834</u>	<u>8.61</u>
Total	<u>\$ 4,027,153</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, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 15,336,960
Investments	<u>4,027,153</u>
Total	<u>\$ 19,364,113</u>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 10,393,348
Business-type activities	4,948,024
Agency funds	<u>4,022,741</u>
Total	<u>\$ 19,364,113</u>

E. Component Unit

At December 31, 2011, the carrying amount of the component unit’s demand deposits was \$102,167 and the bank balance was \$102,167. The entire bank balance was covered by FDIC. See Note 25 for more information on the component unit’s depository accounts. The component units cash balance at December 31, 2011 is reported as “cash and cash equivalents in segregated accounts” on the statement of net assets.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Due from/to other funds consisted of the following at December 31, 2011, as reported on the fund financial statements:

	Due from				Total Due to
	General	Motor Vehicle & Gas Tax	Public Assistance	Nonmajor governmental funds	
<u>Due to</u>					
General	\$ -	\$ 33	\$ 55	\$ 38,045	\$ 38,133
Motor vehicle & gas tax	5,406	-	-	1,384	6,790
Public assistance	-	-	-	191,463	191,463
County Board of DD	-	-	-	7,434	7,434
Other governmental	-	-	-	1,521	1,521
 Total due to	 \$ 5,406	 \$ 33	 \$ 55	 \$ 239,847	 \$ 245,341

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, 2011, consisted of the following, as reported on the fund financial statements:

Transfers from general fund to:

Nonmajor governmental funds \$ 432,684

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 2011 to make debt payments out of the appropriate funds.

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.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- C. Due to external parties at December 31, 2011, consisted of the following as reported on the fund statements:

	<u>Agency</u>
General	<u>\$ 90,782</u>

These balances resulted from the time lag between the dates that (1) goods and services are provided, (2) transactions are recorded in the accounting system, and (3) payments are made. All balances are due within one year.

NOTE 6 - PROPERTY TAX

Property taxes include amounts levied against all real and public utility property located in the City. 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. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County. The County Auditor periodically remits to the County its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2011 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 2011 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, 2011

NOTE 6 - PROPERTY TAX - (Continued)

The full tax rate for all County operations for the year ended December 31, 2011 was \$11.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

<u>Real property</u>	
Residential/agricultural	\$ 612,521,890
Commercial/industrial/mineral	51,758,070
Personal public utility	<u>22,748,200</u>
Total assessed value	<u>\$ 687,028,160</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 2011 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 2011 amounted to \$2,768,296 on the governmental fund financial statements.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 8 - RECEIVABLES

Receivables at December 31, 2011, 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, 2011. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Sales taxes	\$ 531,960
Real and other local taxes	4,272,974
Accounts	508,569
Special assessments	4,408
Accrued interest	12,347
Due from other governments	3,484,888
Loans	769,546

Business-type activities:

Real and other local taxes	1,350,000
Accounts	3,996,128

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:

	Restated Balance <u>12/31/10</u>	Loans Issued	Principal Received	Balance <u>12/31/11</u>
<u>Special Revenue Funds</u>				
Community block and HOME Investments partnerships program grants commercial loans	\$ 497,167	\$ 34,037	\$ (14,181)	\$ 517,023
Home investment partnership	107,576	-	(6,284)	101,292
Water/sewer revolving loans	56,745	10,901	(14,740)	52,906
Rural hardship revolving loans	<u>103,670</u>	<u>20,265</u>	<u>(25,610)</u>	<u>98,325</u>
Total	<u>\$ 765,158</u>	<u>\$ 65,203</u>	<u>\$ (60,815)</u>	<u>\$ 769,546</u>

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011, is set forth in the following table:

Board restricted for capital improvements:	
Cash and cash equivalents in segregated accounts	\$ 2,486,606
Investments in segregated accounts	<u>1,583,222</u>
Total	<u>\$ 4,069,828</u>

NOTE 11 - CAPITAL ASSETS

A. A summary of the business-type activities capital assets for the year ended December 31, 2011 is as follows. The business-type activities construction in progress balance at December 31, 2010 has been restated as described in Note 3.B.

<u>Business-type activities:</u>	<u>Restated Balance 12/31/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/11</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 191,995	\$ 41,320	\$ -	\$ 233,315
Construction in progress	<u>2,051,292</u>	<u>2,337,961</u>	<u>(2,064,249)</u>	<u>2,325,004</u>
<i>Total capital assets, not being depreciated</i>	<u>2,243,287</u>	<u>2,379,281</u>	<u>(2,064,249)</u>	<u>2,558,319</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	499,208	45,273	-	544,481
Buildings	5,950,933	508,973	-	6,459,906
Equipment	15,749,939	305,631	(11,300)	16,044,270
Infrastructure	<u>256,370</u>	<u>1,318,582</u>	<u>-</u>	<u>1,574,952</u>
<i>Total capital assets, being depreciated</i>	<u>22,456,450</u>	<u>2,178,459</u>	<u>(11,300)</u>	<u>24,623,609</u>
Less: accumulated depreciation:				
Land and improvements	(426,152)	(34,201)	-	(460,353)
Buildings	(3,266,496)	(221,681)	-	(3,488,177)
Equipment	(9,808,107)	(954,973)	11,300	(10,751,780)
Infrastructure	<u>(66,651)</u>	<u>(5,127)</u>	<u>-</u>	<u>(71,778)</u>
Total accumulated depreciation	<u>(13,567,406)</u>	<u>(1,215,982)</u>	<u>11,300</u>	<u>(14,772,088)</u>
Total capital assets, being depreciated, net	<u>8,889,044</u>	<u>962,477</u>	<u>-</u>	<u>9,851,521</u>
Business-type activities capital assets, net	<u>\$ 11,132,331</u>	<u>\$ 3,341,758</u>	<u>\$ (2,064,249)</u>	<u>\$ 12,409,840</u>

Construction in progress primarily consists of hospital facility improvements.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 11 - CAPITAL ASSETS - (Continued)

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

Business-type activities:

Morrow County Hospital	\$ 1,210,855
Ketterman Project	5,127
Total depreciation expense - business-type activities	<u>\$ 1,215,982</u>

- B.** Capital asset activity for the governmental activities for the year ended December 31, 2011, was as follows. The governmental activities construction in progress balance at December 31, 2010 has been restated as described in Note 3.B.

<u>Governmental activities:</u>	<u>Restated Balance 12/31/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/11</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 736,057	\$ -	\$ -	\$ 736,057
Construction in progress	<u>218,486</u>	<u>1,292,468</u>	<u>(363,987)</u>	<u>1,146,967</u>
Total capital assets, not being depreciated	<u>954,543</u>	<u>1,292,468</u>	<u>(363,987)</u>	<u>1,883,024</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	164,548	-	-	164,548
Buildings	8,642,145	-	-	8,642,145
Building improvements	2,771,477	-	-	2,771,477
Equipment	2,033,356	83,676	-	2,117,032
Vehicles	5,269,566	178,143	(57,961)	5,389,748
Infrastructure	<u>42,993,651</u>	<u>459,184</u>	<u>-</u>	<u>43,452,835</u>
Total capital assets, being depreciated	<u>61,874,743</u>	<u>721,003</u>	<u>(57,961)</u>	<u>62,537,785</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(152,295)	(1,885)	-	(154,180)
Buildings	(3,209,699)	(159,811)	-	(3,369,510)
Building improvements	(741,520)	(89,786)	-	(831,306)
Equipment	(1,562,150)	(144,259)	-	(1,706,409)
Vehicles	(4,253,130)	(205,627)	57,961	(4,400,796)
Infrastructure	<u>(23,297,343)</u>	<u>(1,318,399)</u>	<u>-</u>	<u>(24,615,742)</u>
Total accumulated depreciation	<u>(33,216,137)</u>	<u>(1,919,767)</u>	<u>57,961</u>	<u>(35,077,943)</u>
Total capital assets being depreciated, net	<u>28,658,606</u>	<u>(1,198,764)</u>	<u>-</u>	<u>27,459,842</u>
Governmental activities capital assets, net	<u>\$ 29,613,149</u>	<u>\$ 93,704</u>	<u>\$ (363,987)</u>	<u>\$ 29,342,866</u>

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 11 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

Legislative and executive	\$ 173,952
Judicial	15,351
Public safety	99,266
Public works	1,420,002
Health	2,552
Human services	207,600
Other	<u>1,044</u>
Total depreciation expense - governmental activities	<u>\$ 1,919,767</u>

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE

- A. In the current year, the County entered into a capital lease for the acquisition a copiers. During prior years, the County entered into capital leases for the acquisition of a telephone system, copier equipment, printer and a scanner. 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 \$219,578. 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, 2011, was \$91,188, leaving a current book value of \$128,390. Principal payments in 2011 totaled \$8,443, \$2,367, \$27,624 and \$417 made out of the general fund, public assistance fund, the County Board of DD fund, and the computer equipment fund (a nonmajor governmental fund), respectively. The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2011:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2012	\$ 30,202
2013	25,889
2014	25,889
2015	22,814
2016	<u>6,826</u>
Total future minimum lease payments	111,620
Less: amount representing interest	<u>(16,487)</u>
Present value of net minimum lease payments	<u>\$ 95,133</u>

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

B. At December 31, 2011, 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, 2011 were \$528,000 and \$201,000, respectively. The liability for the obligation under capital lease at December 31, 2011 was \$327,332.

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, 2011:

Year Ending December 31,	Amount
2012	\$ 112,804
2013	92,856
2014	92,856
2015	61,908
Total future minimum lease payments	360,424
Less: amount representing interest	(33,092)
Present value of net minimum lease payments	\$ 327,332

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, 2011, vested benefits for vacation leave and compensatory time for governmental fund employees totaled \$631,001 and vested benefits for sick leave totaled \$199,550. In accordance with GASB Statement No. 16, an additional liability of \$40,051 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 \$869,614. Of this total, \$197,554 is due within one year and \$672,801 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, 2011

NOTE 14 - LONG-TERM OBLIGATIONS

A. Governmental Activities Long-Term Obligations

During 2011, the following changes occurred in the County's governmental activities long-term obligations. The governmental long-term obligations at December 31, 2010 have been restated as described in Note 3.B.

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Restated Balance 12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/11</u>	<u>Amount Due in One Year</u>
<u>General obligation bonds:</u>							
Board of DD building bonds	2011	6.2-7.95%	\$ 40,000	\$ -	\$ (40,000)	\$ -	\$ -
County services building bonds	2022	1.5-4.8%	1,585,000	-	(105,000)	1,480,000	110,000
Various purpose bonds	2033	3.00-5.375%	3,800,000	-	(100,000)	3,700,000	105,000
Total general obligation bonds			<u>5,425,000</u>	<u>-</u>	<u>(245,000)</u>	<u>5,180,000</u>	<u>215,000</u>
<u>Loans payable:</u>							
JFS service garage	2026	4.55%	218,000	-	(10,000)	208,000	10,000
Engineer loan 12-N	2013	4.25%	300,000	-	(100,000)	200,000	100,000
Total loans payable			<u>518,000</u>	<u>-</u>	<u>(110,000)</u>	<u>408,000</u>	<u>110,000</u>
Courthouse improvement bond anticipation notes	2013	2.00%	-	2,000,000	-	2,000,000	2,000,000
<u>OWDA loans payable:</u>							
OWDA loan payable	2011	7.50%	6,562	-	(6,562)	-	-
OWDA loan payable	2023	0.00%	46,875	-	(3,750)	43,125	3,750
Total OWDA loans payable			<u>53,437</u>	<u>-</u>	<u>(10,312)</u>	<u>43,125</u>	<u>3,750</u>
<u>Other long-term obligations:</u>							
Compensated absences payable			869,338	449,521	(449,245)	869,614	197,554
Capital lease payable			103,378	30,606	(38,851)	95,133	23,550
Total other long-term obligations			<u>972,716</u>	<u>480,127</u>	<u>(488,096)</u>	<u>964,747</u>	<u>221,104</u>
Total long-term obligations			<u>\$ 6,969,153</u>	<u>\$ 2,480,127</u>	<u>\$ (853,408)</u>	<u>\$ 8,595,872</u>	<u>\$ 2,549,854</u>
Less: unamortized discount on bonds			<u>(27,919)</u>			<u>(26,705)</u>	
Total reported on statement of net assets			<u>\$ 6,941,234</u>			<u>\$ 8,569,167</u>	

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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 bore an interest rate ranging from 6.2% to 7.95% and matured in 2011. There are no future obligations outstanding on this bond. 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 2011, 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 \$105,000 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).

Bond Anticipation Notes: On January 26, 2011, the County issued a \$2,000,000 bond anticipation note for renovations on the County courthouse. The liability for this note has been reported as a long-term liability in accordance with FASB Statement No. 6, "Classification of Short-Term Obligations Expected to be Refinanced", since the note has been financed on a long-term basis prior to the issuance of the financial statements. See Note 28 for details on the note issuance. As of December 31, 2011, there were \$763,887 in unspent proceeds.

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 2011, the County made a final principal payment of \$6,562 on this loan. This OWDA loan is being retired from the Ketterman debt service fund (a nonmajor governmental fund). There are no future obligations outstanding on this loan.

The County has received a zero percent interest rate loan from the OWDA for the purpose of financing septic system replacements. During 2011, the County made principal payments of \$3,750 on this loan leaving a balance at December 31, 2011 of \$43,125. This loan is being retired from the community development block grant fund (a nonmajor governmental fund). This loan matures in 2023.

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 2011, the County made principal payments of \$10,000 on this loan leaving a balance of \$208,000 at December 31, 2011. This loan is being retired from the JFS service garage fund (a nonmajor governmental fund).

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

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 2011, the County made principal payments of \$200,000 on this loan leaving a balance of \$200,000 at December 31, 2011. This loan will be retired from the motor vehicle and gas tax fund.

Compensated Absences: Compensated absences will be paid from the fund which the employee is paid, which for the County, is primarily the general fund, motor vehicle and gas tax fund, 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
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	245,000	205,494	450,494	-	-	-
2017 - 2021	1,405,000	858,318	2,263,318	-	-	-
2022 - 2026	1,025,000	553,338	1,578,338	-	-	-
2027 - 2031	1,085,000	312,435	1,397,435	-	-	-
2032 - 2033	515,000	41,926	556,926	-	-	-
Total	<u>\$ 5,180,000</u>	<u>\$ 2,854,814</u>	<u>\$ 8,034,814</u>	<u>\$ 200,000</u>	<u>\$ 9,909</u>	<u>\$ 209,909</u>

Year Ended December 31,	JFS Service Garage Loan			OWDA Loans		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 10,000	\$ 9,118	\$ 19,118	\$ 3,750	\$ -	\$ 3,750
2013	11,000	8,611	19,611	3,750	-	3,750
2014	11,000	8,105	19,105	3,750	-	3,750
2015	11,000	8,105	19,105	3,750	-	3,750
2016	12,000	7,598	19,598	3,750	-	3,750
2017 - 2021	69,000	29,104	98,104	18,750	-	18,750
2022 - 2026	84,000	11,973	95,973	5,625	-	5,625
Total	<u>\$ 208,000</u>	<u>\$ 82,614</u>	<u>\$ 290,614</u>	<u>\$ 43,125</u>	<u>\$ -</u>	<u>\$ 43,125</u>

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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 \$8,036,607 at December 31, 2011 and the unvoted legal debt margin was \$7,021,185 at December 31, 2011.

C. Business-Type Activities Long-Term Obligations

During 2011, the following changes occurred in the County's business-type activities long-term obligations. The business-type activities long-term obligations at December 31, 2010 have been restated as described in Note 3.B.

	Interest	Restated			Balance	Amount
	Rate	Balance	Additions	Reductions	12/31/11	Due in
		12/31/10				One Year
Capital lease payable		\$ 424,269	\$ -	\$ (96,937)	\$ 327,332	\$ 97,296
Sanitary sewer revenue bonds, series 2011	2.75%	-	610,000	-	610,000	-
OWDA loan payable		619,249	5,097	(624,346)	-	-
Master lease and purchase agreement	5.89%	1,153,731	-	(644,049)	509,682	509,682
Hospital facilities revenue bonds, series 2011		-	1,392,962	-	1,392,962	-
Compensated absences payable		559,972	857,540	(874,872)	542,640	542,639
Total business-type activities long-term obligations		<u>\$ 2,757,221</u>	<u>\$ 2,865,599</u>	<u>\$ (2,240,204)</u>	<u>\$ 3,382,616</u>	<u>\$ 1,149,617</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.

Sanitary Sewer Revenue Bonds: On July 5, 2011, the County issued \$610,000 in 2011 Sanitary Sewer Revenue Bonds to pay off the OWDA loan for the Johnsville Sanitary Sewer Project. The bond carries an interest rate of 2.75% and will mature June 1, 2051. These bonds will be retired from the Johnsville sewer project fund (a nonmajor enterprise fund).

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

OWDA Loans Payable: 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 closed out as of December 31, 2011. Proceeds of \$5,097 were received during 2011, and a final principal payment of \$624,346 was made by the County on this loan. There are no future obligations on this loan.

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.

Hospital Facility Revenue Bonds: During 2011, the Hospital authorized the issuance of revenue bonds in a principal amount of \$3,200,000 for the purpose of acquiring and installing the Meditech computer system. All debt charges on the bonds are expected to be paid from adjusted annual revenue of the Hospital. The Hospital made interest only payments on a monthly basis, commencing September 24, 2011. A mandatory redemption of Hospital will then be required to make monthly principal and interest payments through December, 2018. The bonds bear interest at a fixed rate equal to 3.5%. Interest is calculated on the outstanding principal amount of the disbursed bonds from the respective disbursement. As of December 31, 2011, the Hospital had issued \$1,392,962 of the total authorized. No amortization schedule is available at this time; the project is still in progress.

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

Year Ending December 31,	Master Lease Purchase Agreement		
	Principal	Interest	Total
2012	\$ 509,682	\$ 15,120	\$ 524,802
Total	\$ 509,682	\$ 15,120	\$ 524,802

Year Ended December 31,	Sanitary Sewer Revenue Bonds		
	Principal	Interest	Total
2012	\$ -	\$ 15,481	\$ 15,481
2013	8,927	16,768	25,695
2014	9,172	16,523	25,695
2015	9,425	16,270	25,695
2016	9,640	16,055	25,695
2017 - 2021	52,516	75,959	128,475
2022 - 2026	60,146	68,329	128,475
2027 - 2031	68,888	59,587	128,475
2032 - 2036	78,875	49,600	128,475
2037 - 2041	90,370	38,105	128,475
2042 - 2046	103,505	24,970	128,475
2047 - 2051	118,536	9,936	128,472
Total	\$ 610,000	\$ 407,583	\$ 1,017,583

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

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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 2011 recorded in the Hospital enterprise fund was \$24,109,843.

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 2011, 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	
Other Property Insurance:	
Extra Expense	1,000,000
Contractors' Equipment	Actual Cash Value
Valuable Papers and Records	1,000,000
Inland Marine	Actual Cash Value
Automatic Acquisition	5,000,000
Crime Insurance:	
Faithful Performance	\$ 1,000,000
Money and Securities (inside and outside)	1,000,000
Depositor's Forgery	1,000,000
Money Orders and Counterfeit Paper Currency	1,000,000
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.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 16 - RISK MANAGEMENT - (Continued)

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 \$1,991,032 for the year ended December 31, 2011.

A reconciliation of accrued health insurance for the Hospital at December 31, 2011 consists of the following:

Balance at January 1, 2011	\$ 317,227
Health insurance expense	1,991,032
Payments made	<u>(1,785,769)</u>
Balance at December 31, 2011	<u>\$ 522,490</u>

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.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 17 - PENSION PLANS - (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, 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 2011, 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 2011 member contribution rates were 10.00% for members in State and local classifications. Public safety and law enforcement members contributed 11.00% and 11.60%, respectively. The County's contribution rate for 2011 was 14.00%, except for those plan members in law enforcement or public safety, for whom the County's contribution was 18.10% of covered payroll.

The County's contribution rate for pension benefits for members in the Traditional Plan for 2011 was 10.00%. The County's contribution rate for pension benefits for members in the Combined Plan for 2010 was 7.95%. For those plan members in law enforcement and public safety pension contributions were 14.10%. The County's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$1,983,546, \$1,652,014, and \$1,516,025, respectively; 97% has been contributed for 2011 and 100% has been contributed for 2010 and 2009. Contributions to the Member-Directed Plan for 2011 were \$29,928 made by the County and \$21,378 made by the plan members.

B. State Teachers Retirement System

Plan Description - Certified teachers, employed by the school for Developmental Disabilities, participate in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system 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.

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 17 - PENSION PLANS - (Continued)

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 2011, 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, 2011, 2010, and 2009 were \$7,587, \$7,358, and \$7,144, respectively; 100% has been contributed for 2011, 2010 and 2009.

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 visiting <https://www.opers.org/investments/cafr.shtml>, 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 administered 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.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 18 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2011, local government employers contributed 14.00% of covered payroll (18.10% 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 2011 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2011 was 6.05%.

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, 2011, 2010, and 2009 were \$784,578, \$939,775, and \$1,072,870, respectively; 97% has been contributed for 2011 and 100% has been contributed for 2010 and 2009.

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.

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 2011, 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 years ended December 31, 2011, 2010, and 2009 were \$584, \$566, and \$550, respectively; 100 % has been contributed for 2011 and 100 percent for 2010 and 2009.

NOTE 19 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 19 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund, emergency squad fund, motor vehicle and gas tax fund, public assistance fund and county board of developmental disabilities fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented:

Net Change in Fund Balance

	<u>General fund</u>	Emergency <u>Squad</u>	Motor Vehicle and <u>Gas Tax</u>	Public <u>Assistance</u>	County Board of Developmental <u>Disabilities</u>
Budget basis	\$ (355,279)	\$ -	\$ (1,161,627)	\$ (273,990)	\$ (305,707)
Net adjustment for revenue accruals	128,834	(5,383)	67,461	(410,632)	(204,697)
Net adjustment for expenditure accruals	69,952	-	(28,683)	203,915	19,196
Net adjustment for other sources/uses	-	-	-	-	-
Funds budgeted elsewhere	(50,589)	-	-	-	-
Adjustment for encumbrances	<u>145,242</u>	<u>-</u>	<u>616,838</u>	<u>361,473</u>	<u>227,161</u>
GAAP basis	<u>\$ (61,840)</u>	<u>\$ (5,383)</u>	<u>\$ (506,011)</u>	<u>\$ (119,234)</u>	<u>\$ (264,047)</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the sheriff's rotary fund, the County unclaimed monies fund, the self-insurance fund, the public defender reimbursement and fees fund, the prepayment interest fund, the certificate of title administration fund and the recorder's fees fund.

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 20 - FUND BALANCE

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

Fund balance	General	Emergency Squad	Motor Vehicle and Gas Tax	Public Assistance	County Board of Developmental Disabilities	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:							
Materials and supplies inventory	\$ 11,161	\$ -	\$ 124,845	\$ 5,696	\$ 2,291	\$ 944	\$ 144,937
Prepays	66,912	-	23,865	26,370	21,228	28,253	166,628
Unclaimed monies	64,014	-	-	-	-	-	64,014
Total nonspendable	142,087	-	148,710	32,066	23,519	29,197	375,579
Restricted:							
General government	-	-	-	-	-	580,747	580,747
Public safety	-	40,610	-	-	-	386,714	427,324
Public works	-	-	2,485,293	-	-	-	2,485,293
Human services	-	-	-	435,276	-	733,062	1,168,338
Health	-	-	-	-	773,303	122,688	895,991
Debt service	-	-	-	-	-	803,515	803,515
Economic and development	-	-	-	-	-	1,216,739	1,216,739
Other purposes	-	-	-	-	-	688,753	688,753
Total restricted	-	40,610	2,485,293	435,276	773,303	4,532,218	8,266,700
Committed:							
Self - insurance	245,853	-	-	-	-	-	245,853
Capital projects	-	-	-	-	-	876,927	876,927
Other purposes	-	-	-	-	-	674,172	674,172
Total committed	245,853	-	-	-	-	1,551,099	1,796,952
Assigned:							
General government	95,460	-	-	-	-	-	95,460
Public safety	169,734	-	-	-	-	-	169,734
Human services	45,151	-	-	-	-	-	45,151
Health	12,921	-	-	-	-	-	12,921
Sheriff's rotary	23,019	-	-	-	-	-	23,019
Prepayments interest account	6,625	-	-	-	-	-	6,625
Motor vehicle bond retirement	-	-	-	-	-	148,103	148,103
Subsequent year appropriations	692,453	-	-	-	-	-	692,453
Other purposes	7,810	-	-	-	-	-	7,810
Total assigned	1,053,173	-	-	-	-	148,103	1,201,276
Unassigned (deficit)	250,809	-	-	-	-	(2,293)	248,516
Total fund balances	\$ 1,691,922	\$ 40,610	\$ 2,634,003	\$ 467,342	\$ 796,822	\$ 6,258,324	\$ 11,889,023

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 21 - OTHER COMMITMENTS

The County utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the County's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 343,272
Motor vehicle and gas tax	568,747
Public assistance	215,154
County Board of Developmental Disabilities	129,528
Other governmental	<u>1,729,684</u>
Total	<u>\$ 2,986,385</u>

NOTE 22 - 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, 2011.

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, 2011**

NOTE 22 - 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 23 - 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, 2011, the County's contributions totaled \$489,042.

NOTE 24 - 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 25 - 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 25.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, 2011

NOTE 25 - 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>	<u>Balance 12/31/11</u>
First Knox National Bank	Operating account	\$ 40,155
First Knox National Bank	Payroll account	1,018
First Knox National Bank	Certificates of Deposit	60,739
Cash on hand	Operations	<u>255</u>
Total		<u>\$ 102,167</u>

The Workshop has three certificates of deposit at December 31, 2011. 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 0.40% to 1.15%.

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, 2011

NOTE 25 - 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 \$489,042 for the year ending December 31, 2011. 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 2011:

	Balance 12/31/10	Additions	Reductions	Balance 12/31/11
Property and equipment	\$ 55,457	\$ -	\$ -	\$ 55,457
Accumulated depreciation	(28,782)	(4,073)	-	(32,855)
Total	\$ 26,675	\$ (4,073)	\$ -	\$ 22,602

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 26 - 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 \$507,000 for the year ended December 31, 2011. Amounts due to OhioHealth for services amounted to approximately \$71,000 at December 31, 2011 and has been included in accounts payable of the Hospital on the financial statements.

NOTE 27 - 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.

MORROW COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 27 - COST REPORT SETTLEMENTS - (Continued)

Contractual adjustments under these reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

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

Medicaid - Inpatient, acute care services rendered to Medicaid program beneficiaries are paid 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 28 - SUBSEQUENT EVENT

On January 18, 2012, the County issued \$2,000,000 in Courthouse Improvement Bond Anticipation Notes. The notes carry an interest rate of 2.00% and will mature January 13, 2013.

SUPPLEMENTARY DATA

**MORROW COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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	\$ 334,879
(I) Water and Waste Disposal Systems for Rural Communities	10.760	N/A	129,721
Total U.S. Department of Agriculture			464,600
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-C-10-1CB-1	112,046
Community Development Block Grants/State's Program	14.228	B-F-09-1CB-1	35,959
Community Development Block Grants/State's Program	14.228	B-F-10-1CB-1	132,264
Community Development Block Grants/State's Program	14.228	B-Z-08-1CB-1	221,279
(C) Community Development Block Grants/State's Program	14.228	N/A	10,270
(D) Community Development Block Grants/State's Program	14.228	N/A	3,056
Total Community Development Block Grants/State's Programs			514,874
Home Investment Partnerships Program	14.239	B-C-10-1CB-2	167,234
(E) Home Investment Partnerships Program	14.239	N/A	684
Total Home Investment Partnerships Program			167,918
Total U.S. Department of Housing and Urban Development			682,792
U.S. DEPARTMENT OF JUSTICE PASSED THROUGH THE OFFICE OF CRIMINAL JUSTICE SERVICES			
Crime Victim Assistance	16.575	2011-VAGENE069	14,762
Crime Victim Assistance	16.575	2012-VAGENE069	7,464
Total Crime Victim Assistance			22,226
Edward Byrne Justice Assistance Cluster:			
(F) Edward Byrne Memorial Justice Assistance Grant Program	16.738	2007-JG-COV-V6621	16,669
(F) ARRA - Edward Byrne Justice Assistance Grant Formula Program	16.803	2009-RA-D01-2170	39,995
(F) ARRA - Edward Byrne Justice Assistance Grant Formula Program	16.803	2005-JG-A0V-V6697	72,603
Total ARRA - Edward Byrne Justice Assistance Grant Formula Program			112,598
Total Edward Byrne Justice Assistance Cluster:			129,267
Total U.S. Department of Justice			151,493

-continued

**MORROW COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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	2010-7259-1/2011-7259-1	\$ 2,048
Workforce Investment Act (WIA) Cluster:			
(G) WIA Adult Program	17.258	2010-7259-1/2011-7259-1	39,967
(G) WIA Adult Program - Adult Administration Total Workforce Investment Act - Adult	17.258	2010-7259-1/2011-7259-1	6,521 <u>46,488</u>
(G) WIA Youth Activities	17.259	2010-7259-1/2011-7259-1	56,302
(G) WIA Youth Activities - Youth Administration Total Workforce Investment Act - Youth Activities	17.259	2010-7259-1/2011-7259-1	6,905 <u>63,207</u>
(G) WIA Dislocated Workers	17.260	2010-7259-1/2011-7259-1	8,880
(G) WIA Dislocated Workers - Dislocated Workers Administration Total Workforce Investment Act - Dislocated Workers	17.260	2010-7259-1/2011-7259-1	5,143 <u>14,023</u>
(G) WIA Dislocated Worker Formula Grants	17.278	2010-7259-1/2011-7259-1	65,305
(G) WIA Dislocated Worker Formula Grants Total Workforce Investment Act - Dislocated Worker Formula Grants	17.278	2010-7259-1/2011-7259-1	1,852 <u>67,157</u>
Total Workforce Investment Act (WIA) Cluster			<u>190,875</u>
Disabled Veterans' Outreach Program	17.801	2010-7259-1/2011-7259-1	505
Local Veterans' Employment Representative Program	17.804	2010-7259-1/2011-7259-1	49
Total U.S. Department of Labor			<u>193,477</u>
U.S. DEPARTMENT OF TRANSPORTATION PASSED THROUGH THE OHIO DEPARTMENT OF TRANSPORTATION			
Highway Planning and Construction	20.205	87270	169,550
Transit Services Program Cluster:			
(H) Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	CRD-0059-002091	4,153
(H) Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	CRD-0059-005011	51,371
(H) (M) 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-0059-002198	17,223
(H) Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	PNP-0059-004165	17,223
(H) Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	PNP-0059-004166	25,369
Total Capital Assistance Program for Elderly Persons and Persons with Disabilities			<u>141,155</u>
(H) Job Access_Reverse Commute	20.516	JARC-0059-071092	1,110
(H) Job Access_Reverse Commute	20.516	JARC-4059-071091	4,330
(H) Job Access_Reverse Commute	20.516	JARC-4059-071101	122,770
Total Job Access_Reverse Commute			<u>128,210</u>
Total Transit Services Program Cluster			<u>269,365</u>
Total U.S. Department of Transportation			<u>438,915</u>

**MORROW COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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-Grants for Infants and Families	84.181	59-1-002-1-HG-02-09	\$ 36,513
Total U.S. Department of Education			<u>36,513</u>
U.S. ELECTION ASSISTANCE COMMISSION PASSED THROUGH THE OHIO SECRETARY OF STATE			
Help America Vote Act Requirements Payments	90.401	10-SOS-HAVA-59	808
Total U.S. Election Assistance Commission			<u>808</u>
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	37,326
(N) Promoting Safe and Stable Families	93.556	5AU-11-100-22-070	11,373
Total Promoting Safe and Stable Families			<u>48,699</u>
Temporary Assistance for Needy Families	93.558	G-1011-11-5089	510,316
Child Support Enforcement	93.563	G-1011-11-5089	435,758
Chafee Foster Care Independence Program	93.674	G-1011-11-5089	2,928
Child Care and Development Cluster:			
(J) Child Care and Development Block Grant	93.575	G-1011-11-5089	33,575
(J) Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	G-1011-11-5089	23,621
Total Child Care and Development Cluster			<u>57,196</u>
(K) (O) Voting Access for Individuals with Disabilities - Grants to States	93.617	N/A	3,409
Child Welfare Services_State Grants	93.645	G-1011-11-5089	52,574

-continued

**MORROW COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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	<u>133,209</u>
Adoption Assistance	93.659	G-1011-11-5089	<u>66,067</u>
Social Services Block Grant	93.667	G-1011-11-5089	444,822
(K) (L) Social Services Block Grant	93.667	N/A	<u>31,558</u>
Total Social Services Block Grant			<u>476,380</u>
Medical Assistance Program	93.778	G-1011-11-5089	651,357
(K) (L) ARRA - Medical Assistance Program - Enhanced Federal Matching Funds	93.778	N/A	27,254
(K) (L) (P) Medical Assistance Program - Medicaid Administration Claiming	93.778	N/A	<u>141,063</u>
Total Medical Assistance Program			<u>819,674</u>
Total U.S. Department of Health and Human Services			<u>2,606,210</u>
U.S. DEPARTMENT OF HOMELAND SECURITY PASSED THROUGH THE OHIO EMERGENCY MANAGEMENT AGENCY			
Emergency Management Performance Grants	97.042	EMW-2011-EP-00003-S01	<u>19,214</u>
Homeland Security Grant Program	97.067	2010-SS-T0-0012	<u>49,796</u>
Total U.S. Department of Homeland Security			<u>69,010</u>
Total Federal Financial Assistance			<u>\$ 4,643,818</u>

-continued

MORROW COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

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 \$10,270 in administrative and other costs during 2011.

Activity in the Community Development Block Grant revolving loan fund during 2011 is as follows:

Beginning loans receivable balance as of January 1, 2011	\$ 497,167
Loans Disbursed	34,037
Loan Repayments	<u>(14,181)</u>
Ending loans receivable balance as of December 31, 2011	<u>\$ 517,023</u>
Cash balance on hand as of December 31, 2011	\$ 271,353
Delinquent amounts due as of December 31, 2011	\$ 393,112

(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 \$3,056 in administrative and other costs during 2011.

Activity in the Community Development Block Grant revolving loan fund during 2011 is as follows:

Beginning loans receivable balance as of January 1, 2011 (restated)	\$ 56,745
Loans Disbursed	10,901
Loan Repayments	<u>(14,740)</u>
Ending loans receivable balance as of December 31, 2011	<u>\$ 52,906</u>
Cash balance on hand as of December 31, 2011	\$ 50,023
Delinquent amounts due as of December 31, 2011	\$ -

(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 \$684 in administrative or other costs during 2011.

Activity in the Home Investment Partnership Program revolving loan fund during 2011 is as follows:

Beginning loans receivable balance as of January 1, 2011	\$ 107,576
Loans Disbursed	-
Loan Repayments	<u>(6,284)</u>
Ending loans receivable balance as of December 31, 2011	<u>\$ 101,292</u>
Cash balance on hand as of December 31, 2011	\$ 8,824
Delinquent amounts due as of December 31, 2011	\$ -

(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) This grant was received directly from the U.S. Department of Agriculture.

(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.

(M) Per the Ohio Department of Transportation, this portion of the grant was spent during 2009 calendar year.

(N) This portion of the grant was passed through Ohio Department of Mental Health.

(O) This grant was passed through the Ohio Secretary of State.

(P) During the calendar year, the County received a deferred payment from the Ohio Department of Developmental Disabilities (DODD) for the Medicaid program (CFDA #93.778) in the amount of \$142,825. The deferred payment was for Medicaid Administrative Claiming (MAC) and Waiver Administrative Claiming (WAC) expenses the County incurred in prior reporting periods due to an increase of federal funding received by DODD to reimburse these expenses and also due to changes in the County's Medicaid Eligibility Rate (MER) for certain activity codes within MAC/WAC. This revenue is not listed on the County's Schedule of Federal Awards since the underlying expenses occurred in prior reporting periods.

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, 2011. The County incurred no administrative or other costs during 2011.

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Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

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

To the Board of Commissioners:

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, 2011, which collectively comprise Morrow County's basic financial statements and have issued our report thereon dated August 27, 2012, wherein we noted Morrow County adopted Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and governmental activities, business-type activities, and non major enterprise fund net assets were restated as of December 31, 2010 to properly present the Johnsville Sewer project. Our report refers to 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*. Other auditors audited the financial statements of the Morrow County Hospital, a major enterprise fund, as described in our report on Morrow County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that those auditors separately reported. Other auditors audited the financial statements of Whetstone Industries, Inc., a component unit, in accordance with auditing standards generally accepted in the United States of America and not in accordance with *Government Auditing Standards* and, accordingly, this report does not extend to that component unit.

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 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 deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatement 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 would not necessarily identify all deficiencies in internal control 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider significant deficiencies in internal control over financial reporting. We consider findings 2011-MC-001 and 2011-MC-002 to be significant deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We also noted certain matters not requiring inclusion in this report that we reported to Morrow County's management in a separate letter dated August 27, 2012.

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 management and Board of Commissioners 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 27, 2012



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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 Required by OMB Circular A-133

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

To the Board of Commissioners:

Compliance

We have audited the compliance of Morrow County 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, 2011. 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 opine on Morrow County's compliance based on our audit.

Our compliance audit followed 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, *Audits of States, Local Governments, and Non-Profit Organizations*. These 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 these 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 program for the year ended December 31, 2011.

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 and Board of Commissioners 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 27, 2012

MORROW COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
 OMB CIRCULAR A-133 § .505
 DECEMBER 31, 2011

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>	Yes
(d)(1)(iii)	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
(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>	Temporary Assistance for Needy Families, CFDA #93.558; Medical Assistance Program, CFDA #93.778
(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, 2011

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2011-MC-001

Significant Deficiency - Capital Assets

The presentation of materially correct financial statements and the related footnotes is the responsibility of management. This responsibility remains intact even if management decides to outsource this function for efficiency purposes or any other reason. It is important that control procedures are developed related to capital assets that enable management to identify, prevent, detect and correct potential misstatements in the financial statements and footnotes.

The County has not had an appraisal related to capital asset inventory in several years. Capital assets records are updated during each year by additions and disposals via the financial statements and are not maintained by the County on a regular basis.

By not having proper policies and procedures in place to track capital asset additions and disposals and a complete capital asset inventory listing, the County may not report capital assets materially correct in the financial statements.

While alternative and various methods of testing were able to be performed for purposes of the audit, the County lacks internal controls over their reporting of capital assets.

We recommend the County consider consulting with an appraisal company or take a physical inventory of County assets with their own sources. We further recommend the County consider designating an individual in the Auditor's or Commissioner's office as having the duties of a "Capital Assets Manager". A review of all of the County's capital assets should be conducted to determine if the capital assets are still in use and if all assets are included. In addition, the County should consider a "tagging" method of asset inventory and prepare a detailed schedule that supports the cost, book value, and depreciation schedule for each item. This schedule should then be maintained on a current basis. We further recommend the County re-evaluate its policies, procedures and controls regarding additions and disposals of capital assets. Complete information such as described above on each capital asset may help provide additional controls for the safeguarding of these assets. Better assessment and evaluation could also be made regarding the reliability of certain capital assets and the County's future needs for improvements and replacements.

Client's Response: The County will consider preparing a physical inventory in the future.

Finding Number	2011-MC-002
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Significant Deficiency - Restatement and Audit Adjustments

A critical part of financial reporting is to maintain internal controls to help ensure the proper reporting of financial statement amounts.

The County recognized the need to restate prior year audited net assets balances for the year ended December 31, 2010. In addition, the County recognized a need to adjust the amount booked as real and other taxes receivable as of December 31, 2011 in the general real property tax agency fund. The restatement and adjustment are as follows:

MORROW COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2011

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2011-MC-002 - (Continued)

Johnsville Sewer Project Restatement

A restatement of net assets for governmental activities and business-type activities at December 31, 2010 was required to properly classify the Johnsville sewer project fund and its activity as an enterprise fund. In addition, the fund's related assets and liabilities were also restated from governmental activity to business-type activity at December 31, 2010. This restatement resulted in an overall decrease in governmental activities net assets and an increase in business-type activities and nonmajor enterprise funds nets assets of \$1,181,291.

Agency Fund Adjustment

Increase real and other taxes receivable and due to other governments in the amount of \$4,604,040 in the General real property tax fund to properly account for taxes receivable and due to other governments.

Additionally, misstatements in the financial statements were identified which were not initially identified by the County's internal control. The County had the following audit adjustments necessary to properly record activity in 2011:

Audit Adjustments:

County Board of Developmental Disabilities -

1. Reclass miscellaneous revenue to charges for services and intergovernmental revenue in the amounts of \$35,165 and \$334,996, respectively, to properly classify revenues.
2. Increase due from other governments and deferred revenue in the amount of \$143,576 to properly reflect grants receivable.

Motor Vehicle and Gas Tax -

1. Increase intergovernmental revenue and capital outlay by \$169,550 to properly record Ohio Department of Transportation (ODOT) on behalf payments.

Public Assistance -

1. Increase due from other funds and decrease human services expenditures in the amount of \$136,323 to properly account for shared costs due from other funds.
2. Increase accounts payable in the amount of \$78,010 for services provided and not paid by December 31, 2011.

Aggregate Remaining Fund Information -

1. Decrease capital outlay and intergovernmental revenue by a net amount of \$144,181 in the Morrow County Transit Authority (MCTC) special revenue fund to properly record ODOT on behalf payments.
2. Increase due to other funds and human services expenditures in the amount of \$136,323 in the Children Services special revenue fund to account for shared costs owed to the Public Assistance fund.
3. Increase accounts receivable in the amount of \$172,720 in the MCTC special revenue fund for transportation provided and not paid for as of December 31, 2011.
4. Increase due from other governments in the amount of \$148,130 in the Children Services special revenue fund to properly reflect grants receivable.

MORROW COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2011

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2011-MC-002 - (Continued)

5. Increase accounts receivable in the amount of \$231,993 in the Immigration Customs Enforcement (ICE) / Out of County Housing special revenue fund to properly account for charges for services receivable.

The restatement and adjustments have been recorded by the County.

Proper posting of County activities is a crucial part of the County's financial statements as potential users may rely on the statements to make decisions that could have an impact on the County.

We recommend the County review its current controls over financial reporting and develop additional policies, procedures and controls to help ensure more accurate posting and reporting.

Clients Response: The County is reviewing its procedures to reach a conclusion that will better facilitate more accurate financial reporting.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

MORROW COUNTY

STATUS OF PRIOR AUDIT FINDINGS
 OMB CIRCULAR A-133 § .505
 DECEMBER 31, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2010-MC-001	Ohio Revised Code Section 5705.38(A) requires that 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.	Yes	N/A
2010-MC-002	Ohio Revised Code Section 5705.39 in part requires that total appropriations from each fund should not exceed total estimated resources.	Partially	Moved to Management Letter
2010-MC-003	Ohio Revised Code Section 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.	Partially	Moved to Management Letter
2010-MC-004	Ohio Revised Code Section 5705.40 outlines the requirements for amending and supplementing appropriations.	Yes	N/A
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.	Yes	N/A
2010-MC-006	Ohio Revised Code Section 5705.41(D) requires that no orders or contracts involving 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.	Partially	Moved to Management Letter

MORROW COUNTY

STATUS OF PRIOR AUDIT FINDINGS

OMB CIRCULAR A-133 § .505

DECEMBER 31, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
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.	Yes	N/A



Dave Yost • Auditor of State

MORROW COUNTY FINANCIAL CONDITION

MORROW COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 25, 2012