

**MORROW COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS***  
***(Audited)***

***FOR THE YEAR ENDED***  
***DECEMBER 31, 2012***

**MARY M. HOLTREY, AUDITOR**

MORROW COUNTY

BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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## Independent Auditor's Report

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

To the Board of Commissioners:

### ***Report on the Financial Statements***

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, 2012, and the related notes to the financial statements, which collectively comprise Morrow County's basic financial statements as listed in the table of contents.

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We did not audit the financial statements of the Morrow County Hospital, a major Enterprise fund, which represents 90.93 percent, 89.83 percent, and 99.57 percent, respectively, of the assets, net position, 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 audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Morrow County Hospital and Whetstone Industries, Inc., is based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement. 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 requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to Morrow County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of Morrow County's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Morrow County, Ohio, as of December 31, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund, Emergency Squad Fund, Motor Vehicle and Gas Tax Fund, Public Assistance Fund and County Board of Developmental Disabilities Fund, thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matters***

As discussed in Note 3 to the financial statements, during 2012, Morrow County adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. As described in Note 3 to the financial statements, governmental activities net position was restated as of December 31, 2011 to correct errors and omissions previously reported. Our opinion is not modified with respect to these matters.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

***Supplementary and Other Information***

Our audit was conducted to opine on Morrow County's basic financial statements taken as a whole.

The schedule of expenditures of federal awards presents additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the 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. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2013, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Morrow County's internal control over financial reporting and compliance.

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

Julian & Grube, Inc.  
August 26, 2013

## MORROW COUNTY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012. 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 2012 are as follows:

- The County restated net position as described in Note 3.B. The total net position of the County decreased \$531,142. Net position of governmental activities increased \$386,426, which represents a 0.99% increase from 2011. Net position of business-type activities decreased \$917,568 or 6.02% from 2011.
- General revenues accounted for \$9,773,396 or 35.43% of total governmental activities revenue. Program specific revenues accounted for \$17,808,023 or 64.57% of total governmental activities revenue.
- The County had \$27,194,993 in expenses related to governmental activities; \$17,808,023 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$9,773,396 were adequate to provide for these programs.
- The general fund, the County's most significant major governmental fund, had revenues and other financing sources of \$8,139,410 in 2012, an increase of \$810,458 or 11.06% from 2011 revenues. The general fund had expenditures and other financing uses of \$7,743,227 in 2012, an increase of \$352,435, or 4.77% from 2011. The net increase in revenues and other financing sources contributed to the general fund balance increase of \$396,183 from 2011 to 2012.
- The emergency squad, a County major fund, had revenues of \$1,362,231 in 2012. The emergency squad fund, had expenditures of \$1,340,339 in 2012. The emergency squad fund balance increased \$21,892 from 2011 to 2012.
- The motor vehicle and gas tax, a County major fund, had revenues of \$3,937,185 in 2012. The motor vehicle and gas tax, had expenditures of \$3,895,762 in 2012. The motor vehicle and gas tax fund balance increased \$41,423 from 2011 to 2012.
- The public assistance fund, a County major fund, had revenues of \$3,986,100 in 2012. The public assistance fund, had expenditures of \$4,038,756 in 2012. The public assistance fund balance decreased \$52,656 from 2011 to 2012.
- The County board of developmental disabilities (DD) fund, a County major fund, had revenues of \$2,590,972 in 2012. The County board of DD fund, had expenditures of \$2,770,622 in 2012. The County board of DD fund balance decreased \$179,650 from 2011 to 2012.
- The court house renovation note fund, a County major fund, had revenues and other financing sources of \$3,844,593 in 2012. The court house renovation note fund, had expenditures and other financing uses of \$4,524,496 in 2012. The court house renovation note fund balance decreased \$679,903 from 2011 to 2012.
- Net position for the business-type activities, which are made up of the Ketterman and Johnsville sewer operations and Morrow County Hospital enterprise funds, decreased in 2012 by \$917,568.

## MORROW COUNTY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012

- In the general fund, the actual revenues and other financing sources came in \$1,416,883 higher than they were originally budgeted and actual expenditures and other financing uses were \$722,078 higher than the amount in the original budget. The County uses a conservative budgeting process.

#### **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 position 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 six major governmental funds.

#### **Reporting the County as a Whole**

##### *Statement of Net Position and the Statement of Activities*

The statement of net position and the statement of activities answer the question, "How did we do financially during 2012?" These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 position and changes in net position. This change in net position 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 position 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 position and statement of activities can be found on pages 17-19 of this report.

## MORROW COUNTY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012

#### **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.

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, County board of developmental disabilities (DD), and the court house renovation note fund. The analysis of the County's major governmental and proprietary funds begins on page 11.

##### ***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 20-31 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 Johnsonville sewer operations and Morrow County Hospital operations. The basic proprietary fund financial statements can be found on pages 32-35 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 36 of this report.



**MORROW COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

***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 37-84 of this report.

**Government-Wide Financial Analysis**

The statement of net position provides the perspective of the County as a whole. The table below provides a summary of the County's net position at December 31, 2012 and December 31, 2011. The net position of the governmental activities at December 31, 2011 has been restated as described in Note 3.B.

	<b>Net Position</b>					
	Governmental Activities	Business-type Activities	Restated		Total	Restated Total
			Governmental Activities	Business-type Activities		
	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<u>Assets</u>						
Current and other assets	\$ 19,985,025	\$ 11,232,240	\$ 20,516,710	\$ 11,463,045	\$ 31,217,265	\$ 31,979,755
Capital assets, net	<u>33,003,255</u>	<u>13,091,003</u>	<u>32,199,420</u>	<u>12,409,840</u>	<u>46,094,258</u>	<u>44,609,260</u>
Total assets	<u>52,988,280</u>	<u>24,323,243</u>	<u>52,716,130</u>	<u>23,872,885</u>	<u>77,311,523</u>	<u>76,589,015</u>
<u>Deferred Outflows of Resources</u>						
Unamortized deferred charges on debt refunding	<u>54,126</u>	-	-	-	<u>54,126</u>	-
Total deferred outflows of resources	<u>54,126</u>	-	-	-	<u>54,126</u>	-
<u>Liabilities</u>						
Long-term liabilities outstanding	8,327,481	3,889,968	8,569,167	3,382,616	12,217,449	11,951,783
Other liabilities	<u>1,842,941</u>	<u>4,805,595</u>	<u>1,630,937</u>	<u>5,245,021</u>	<u>6,648,536</u>	<u>6,875,958</u>
Total liabilities	<u>10,170,422</u>	<u>8,695,563</u>	<u>10,200,104</u>	<u>8,627,637</u>	<u>18,865,985</u>	<u>18,827,741</u>
<u>Deferred Inflows of Resources</u>						
Property taxes levied for the next fiscal year	<u>3,527,202</u>	<u>1,300,000</u>	<u>3,557,670</u>	-	<u>4,827,202</u>	<u>3,557,670</u>
Total deferred inflows of resources	<u>3,527,202</u>	<u>1,300,000</u>	<u>3,557,670</u>	-	<u>4,827,202</u>	<u>3,557,670</u>
<u>Net Position</u>						
Net investment in capital assets	25,557,285	9,799,271	25,263,754	9,569,867	35,356,556	34,833,621
Restricted	9,178,837	-	11,469,741	-	9,178,837	11,469,741
Unrestricted	<u>4,608,660</u>	<u>4,528,409</u>	<u>2,224,861</u>	<u>5,675,381</u>	<u>9,137,069</u>	<u>7,900,242</u>
Total net position	<u>\$ 39,344,782</u>	<u>\$ 14,327,680</u>	<u>\$ 38,958,356</u>	<u>\$ 15,245,248</u>	<u>\$ 53,672,462</u>	<u>\$ 54,203,604</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2012, the County's asset plus deferred outflows exceeded liabilities plus deferred inflows by \$53,672,462. This amounts to \$39,344,782 in governmental activities and \$14,327,680 in business-type activities.

## MORROW COUNTY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012

Capital assets reported on the government-wide statements represent the largest portion of the County's assets. At year-end, capital assets represented 59.62% of total governmental and business-type assets. Capital assets include land, land improvements, buildings, buildings and improvements, equipment, vehicles, infrastructure and construction in progress. Net investment in capital assets at December 31, 2012, was \$35,356,556. These capital assets are used to provide services to citizens and are not available for future spending. Although the County's net 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, 2012, the County is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the County's government-wide net position, \$9,178,837 or 23.33%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net position of \$4,608,660 may be used to meet the government's ongoing obligations to citizens and creditors.

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**MORROW COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

The table below shows the changes in net position for 2012 and 2011. The net position of the governmental activities at December 31, 2011 has been restated as described in Note 3.B.

	<b>Change in Net Position</b>					
	Governmental	Business-type	Governmental	Business-type	Total	Total
	Activities	Activities	Activities	Activities	Total	Total
	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Revenues</b>						
Program revenues:						
Charges for services and sales	\$ 5,199,006	\$ 24,263,860	\$ 5,559,327	\$ 24,155,005	\$ 29,462,866	\$ 29,714,332
Operating grants and contributions	12,298,783	-	12,335,084	-	12,298,783	12,335,084
Capital grants and contributions	<u>310,234</u>	<u>-</u>	<u>21,922</u>	<u>132,166</u>	<u>310,234</u>	<u>154,088</u>
Total program revenues	<u>17,808,023</u>	<u>24,263,860</u>	<u>17,916,333</u>	<u>24,287,171</u>	<u>42,071,883</u>	<u>42,203,504</u>
General revenues:						
Property taxes	3,892,718	-	4,108,060	-	3,892,718	4,108,060
Sales tax	3,338,678	-	3,055,023	-	3,338,678	3,055,023
Unrestricted grants	1,309,707	-	1,748,059	-	1,309,707	1,748,059
Investment earnings	62,601	34,396	44,788	28,536	96,997	73,324
Miscellaneous	<u>1,169,692</u>	<u>2,245,711</u>	<u>906,458</u>	<u>2,014,625</u>	<u>3,415,403</u>	<u>2,921,083</u>
Total general revenues	<u>9,773,396</u>	<u>2,280,107</u>	<u>9,862,388</u>	<u>2,043,161</u>	<u>12,053,503</u>	<u>11,905,549</u>
Total revenues	<u>27,581,419</u>	<u>26,543,967</u>	<u>27,778,721</u>	<u>26,330,332</u>	<u>54,125,386</u>	<u>54,109,053</u>
<b>Expenses</b>						
Program expenses:						
General government						
Legislative and executive	3,942,016	-	3,891,673	-	3,942,016	3,891,673
Judicial	1,453,251	-	1,750,324	-	1,453,251	1,750,324
Public safety	3,958,818	-	3,763,664	-	3,958,818	3,763,664
Public works	3,937,059	-	5,705,792	-	3,937,059	5,705,792
Health	3,009,319	-	2,875,112	-	3,009,319	2,875,112
Human services	8,006,608	-	7,940,773	-	8,006,608	7,940,773
Economic development and assistance	235,753	-	199,626	-	235,753	199,626
Intergovernmental	406,729	-	339,423	-	406,729	339,423
Other	2,003,139	-	1,954,649	-	2,003,139	1,954,649
Interest and fiscal charges	242,301	-	325,031	-	242,301	325,031
Morrow County Hospital	-	27,257,619	-	27,012,964	27,257,619	27,012,964
Other business-type activities	<u>-</u>	<u>203,916</u>	<u>-</u>	<u>125,057</u>	<u>203,916</u>	<u>125,057</u>
Total expenses	<u>27,194,993</u>	<u>27,461,535</u>	<u>28,746,067</u>	<u>27,138,021</u>	<u>54,656,528</u>	<u>55,884,088</u>
Change in net position	386,426	(917,568)	(967,346)	(807,689)	(531,142)	(1,775,035)
Net position at beginning of year (restated)	<u>38,958,356</u>	<u>15,245,248</u>	<u>37,181,019</u>	<u>16,052,937</u>	<u>54,203,604</u>	<u>53,233,956</u>
Net position at end of year	<u>\$ 39,344,782</u>	<u>\$ 14,327,680</u>	<u>\$ 36,213,673</u>	<u>\$ 15,245,248</u>	<u>\$ 53,672,462</u>	<u>\$ 51,458,921</u>

## MORROW COUNTY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012

#### Governmental Activities

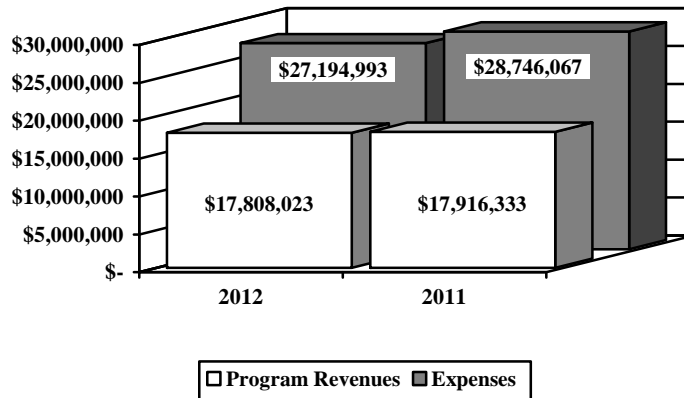
Governmental net position increased by \$386,426 in 2012. Human services accounts for \$8,006,608 of expenses, or 29.44% of total governmental expenses of the County. These expenses were funded by \$1,507,668 in charges to users of services and \$5,548,378 in operating grants and contributions in 2012. General government, which includes legislative and executive and judicial programs, expenses totaled \$5,395,267 or 19.84% of total governmental expenses. General government expenses were covered by \$2,441,857 of direct charges to users and \$445,739 in operating grants and contributions in 2012.

The State and federal government contributed to the County revenues of \$12,298,783 in operating grants and contributions and \$310,234 in capital grants and contributions during 2012. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions \$5,548,378 or 45.11%, subsidized human services programs.

General revenues totaled \$9,773,396, and amounted to 35.43% of total revenues. These revenues primarily consist of property and sales tax revenue of \$7,231,396 or 73.99% of total general revenues in 2012. 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 \$1,309,707, or 13.40% 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 2012 and 2011. 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, 2012

**Governmental Activities**

	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>
Program Expenses:				
General government				
Legislative and executive	\$ 3,942,016	\$ 1,574,202	\$ 3,891,673	\$ 1,585,000
Judicial	1,453,251	933,469	1,750,324	1,225,831
Public safety	3,958,818	3,052,917	3,763,664	2,919,239
Public works	3,937,059	125,816	5,705,792	1,766,601
Health	3,009,319	1,567,726	2,875,112	2,078,238
Human services	8,006,608	950,562	7,940,773	524,137
Economic development and assistance	235,753	19,223	199,626	(358,746)
Intergovernmental	406,729	406,729	339,423	339,423
Other	2,003,139	770,536	1,954,649	424,980
Interest and fiscal charges	<u>242,301</u>	<u>(14,210)</u>	<u>325,031</u>	<u>325,031</u>
<b>Total</b>	<b><u>\$ 27,194,993</u></b>	<b><u>\$ 9,386,970</u></b>	<b><u>\$ 28,746,067</u></b>	<b><u>\$ 10,829,734</u></b>

The dependence upon general revenues for governmental activities is apparent, with 34.52% of expenses supported through taxes and other general revenues during 2012.

**Business-Type Activities**

The Morrow County Hospital, Johnsville sewer operations and Ketterman sewer operations are the County's only enterprise funds. These programs had revenues of \$26,543,967 and expenses of \$27,461,535 for 2012. The net position of the enterprise funds decreased \$917,568 or 6.02% during 2012.

**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 20 – 21) reported a combined fund balance of \$10,906,625, which is \$982,398 lower than last year's total of \$11,889,023.

**MORROW COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2012 and December 31, 2011 for all major and non-major governmental funds.

	<u>Fund Balance</u> <u>December 31, 2012</u>	<u>Fund Balance</u> <u>December 31, 2011</u>	<u>Increase/</u> <u>(Decrease)</u>
Major Funds:			
General	\$ 2,088,105	\$ 1,691,922	\$ 396,183
Emergency Squad Fund	62,502	40,610	21,892
Motor Vehicle and Gas Tax	2,675,426	2,634,003	41,423
Public Assistance	414,686	467,342	(52,656)
County Board of DD	617,172	796,822	(179,650)
Court House Renovation Note	120,812	800,715	(679,903)
Other Nonmajor Governmental Funds	<u>4,927,922</u>	<u>5,457,609</u>	<u>(529,687)</u>
 Total	 <u>\$ 10,906,625</u>	 <u>\$ 11,889,023</u>	 <u>\$ (982,398)</u>

***General Fund***

The County's general fund balance increased \$396,183. The table that follows assists in illustrating the revenues of the general fund.

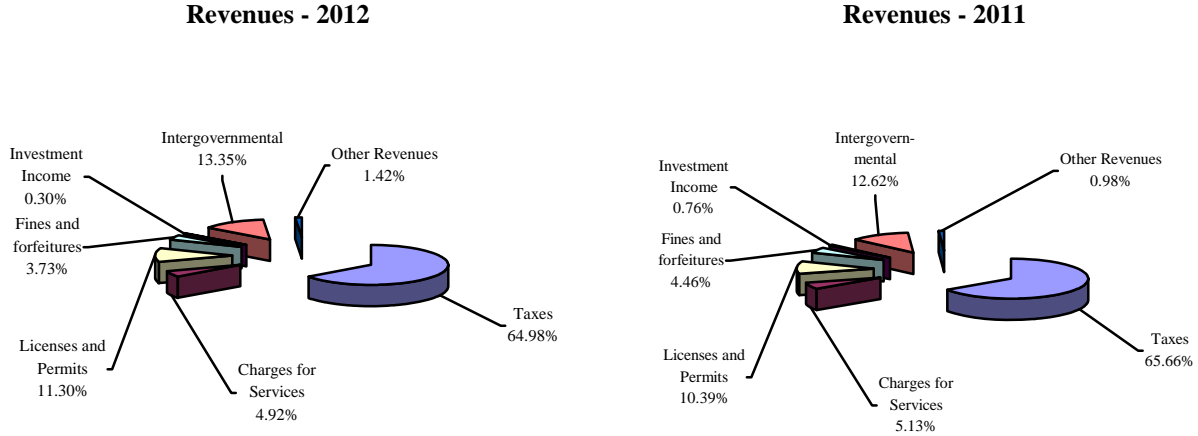
	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 5,237,546	\$ 4,812,500	8.83 %
Charges for services	396,209	375,162	5.61 %
Licenses and permits	910,419	761,750	19.52 %
Fines and forfeitures	300,724	326,710	(7.95) %
Intergovernmental	1,076,369	925,191	16.34 %
Investment income	24,098	55,786	(56.80) %
Other	<u>114,838</u>	<u>71,853</u>	59.82 %
 Total	 <u>\$ 8,060,203</u>	 <u>\$ 7,328,952</u>	 9.98 %

Tax revenue represents 64.98% of all general fund revenue. Tax revenue increased by 8.83% 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 is due to an increase in conveyance fees. The increase in intergovernmental receipts is due primarily to the initial receipting of casino taxes during 2012. All other revenue remained comparable to 2011.

**MORROW COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

The following graphs detail revenues by source for 2012 and 2011:



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

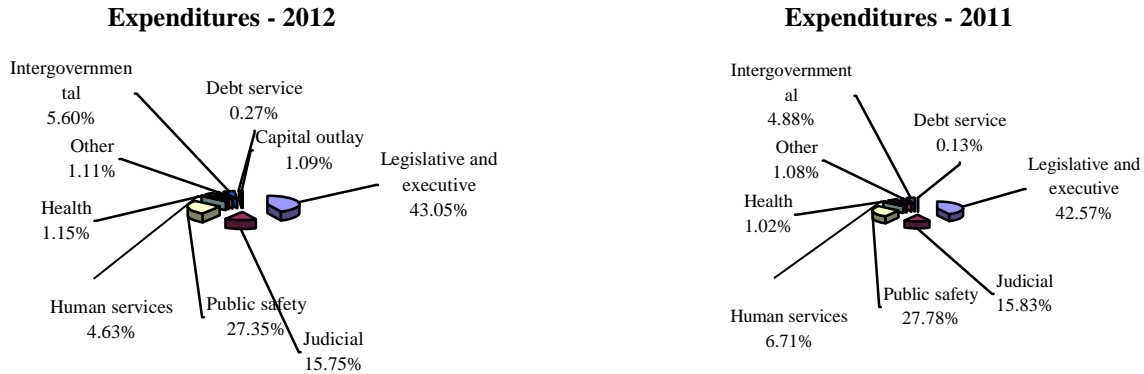
	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Expenditures</u></b>			
General government			
Legislative and executive	\$ 3,124,634	\$ 2,962,218	5.48 %
Judicial	1,143,530	1,101,253	3.84 %
Public safety	1,985,374	1,932,864	2.72 %
Health	83,119	70,798	17.40 %
Human services	335,761	467,055	(28.11) %
Other	80,790	75,353	7.22 %
Capital outlay	79,207	-	100.00 %
Intergovernmental	406,729	339,423	19.83 %
Debt service	19,435	9,144	112.54 %
<b>Total</b>	<u>\$ 7,258,579</u>	<u>\$ 6,958,108</u>	4.32 %

The largest expenditure, legislative and executive, increased due to an increase in wages and other employee fringe benefits. Intergovernmental expenditures increased due to an increase in child placement costs. Human services expenditures decreased due to a decrease in child support expenses. All other major expenditure line items increased during the year as a result of increases in wages and other employee fringe benefits.

## MORROW COUNTY, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012

The graphs below detail expenditures by function for 2012 and 2011:



#### ***Emergency Squad Fund***

The emergency squad, a County major fund, had revenues of \$1,362,231 in 2012. The emergency squad fund, had expenditures of \$1,340,339 in 2012. The emergency squad fund balance increased \$21,892 from 2011 to 2012.

#### ***Motor Vehicle and Gas Tax***

The motor vehicle and gas tax, a County major fund, had revenues of \$3,937,185 in 2012. The motor vehicle and gas tax, had expenditures of \$3,895,762 in 2012. The motor vehicle and gas tax fund balance increased \$41,423 from 2011 to 2012.

#### ***Public Assistance Fund***

The public assistance fund, a County major fund, had revenues of \$3,986,100 in 2012. The public assistance fund, had expenditures of \$4,038,756 in 2012. The public assistance fund balance decreased \$52,656 from 2011 to 2012.

#### ***County Board of DD***

The County board of developmental disabilities (DD) fund, a County major fund, had revenues of \$2,590,972 in 2012. The County board of DD fund, had expenditures of \$2,770,622 in 2012. The County board of DD fund balance decreased \$179,650 from 2011 to 2012.

#### ***Court House renovation note***

The court house renovation note fund, a County major fund, had revenues and other financing sources of \$3,844,593 in 2012. The court house renovation note fund, had expenditures and other financing uses of \$4,524,496 in 2012. The court house renovation note fund balance decreased \$679,903 from 2011 to 2012.

#### ***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, 2012

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 and other financing sources of \$7,379,683 exceeded final budgeted revenues of \$6,662,529 by \$717,154. This increase is due to the County's conservative approach to budgeting.

Original budgeted expenditures and other financing uses of \$7,056,691 were \$530,659 lower than final budgeted expenditures and other financing uses of \$7,587,350. Actual expenditures and other financing uses of \$7,778,769 were \$191,419 higher than final budgeted expenditures.

#### *Proprietary Funds*

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

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

##### *Capital Assets*

The County restated capital assets as described in Note 11.B. At the end of 2012, the County had \$46,094,258 (net of accumulated depreciation) invested in land, land improvements, buildings, building improvements, equipment, vehicles, infrastructure and construction in progress. Of this total, \$33,003,255 was reported in governmental activities and \$13,091,003 was reported in business-type activities. The following table shows December 31, 2012 balances compared to December 31, 2011.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	Restated				Restated	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 748,557	\$ 736,057	\$ 233,315	\$ 233,315	\$ 981,872	\$ 969,372
Land Improvements	8,483	10,368	53,545	84,128	62,028	94,496
Buildings	7,838,489	8,129,189	2,852,486	2,971,729	10,690,975	11,100,918
Building Improvements	1,850,385	1,940,171	-	-	1,850,385	1,940,171
Equipment	410,988	410,623	4,861,626	5,292,490	5,272,614	5,703,113
Vehicles	1,034,115	988,952	-	-	1,034,115	988,952
Infrastructure	19,198,359	18,837,093	1,471,675	1,503,174	20,670,034	20,340,267
Construction in progress	1,913,879	1,146,967	3,618,356	2,325,004	5,532,235	3,471,971
<b>Total</b>	<b><u>\$ 33,003,255</u></b>	<b><u>\$ 32,199,420</u></b>	<b><u>\$ 13,091,003</u></b>	<b><u>\$ 12,409,840</u></b>	<b><u>\$ 46,094,258</u></b>	<b><u>\$ 44,609,260</u></b>

##### *Debt Administration*

At December 31, 2012 the County had \$7,523,775 in general obligation bonds, loans payable, bond anticipation notes, OWDA loans, and capital leases outstanding in governmental activities. Of this total, \$2,395,038 is due within one year and \$5,128,737 is due in greater than one year. Business-type activities had \$3,291,834 in revenue bonds, capital leases, and hospital facilities revenue bonds outstanding at December 31, 2012. See Note 14 to the basic financial statements for detail.

**MORROW COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

The following table summarizes the bonds, notes and loan outstanding at December 31, 2012 and December 31, 2011.

	<b>Outstanding Debt, at Year End</b>			
	Governmental Activities		Business-Type Activities	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Long-Term Obligations				
General obligation bonds	\$ 5,050,000	\$ 5,180,000	\$ -	\$ -
Revenue bonds	-	-	610,000	610,000
Loans payable	298,000	408,000	-	-
OWDA loans	39,375	43,125	-	-
Bond anticipation notes	2,000,000	2,000,000	-	-
Capital leases	136,400	95,133	314,936	327,332
Master lease and purchase agreement	-	-	-	509,682
Hospital facilities revenue bonds	<u>-</u>	<u>-</u>	<u>2,366,898</u>	<u>1,392,962</u>
<b>Total</b>	<b><u>\$ 7,523,775</u></b>	<b><u>\$ 7,726,258</u></b>	<b><u>\$ 3,291,834</u></b>	<b><u>\$ 2,839,976</u></b>

At December 31, 2012 the County had a voted legal debt margin of \$8,806,914 and an unvoted legal debt margin of \$7,033,308.

**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 2012 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 POSITION  
DECEMBER 31, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Unit</u>
<b>Assets:</b>				
Equity in pooled cash and investments . . . . .	\$ 9,243,771	\$ 167,828	\$ 9,411,599	\$ -
Cash and cash equivalents in segregated accounts. . . . .	-	1,158,084	1,158,084	40,213
Investments in segregated accounts . . . . .	-	165,020	165,020	61,339
Receivables:				
Sales taxes. . . . .	804,429	-	804,429	-
Real and other taxes. . . . .	4,210,186	1,300,000	5,510,186	-
Accounts . . . . .	524,734	4,220,861	4,745,595	2,353
Special assessments . . . . .	4,409	-	4,409	-
Accrued interest . . . . .	34,061	221	34,282	-
Physician advances . . . . .	-	47,056	47,056	-
Due from other governments . . . . .	3,889,018	-	3,889,018	-
Prepayments . . . . .	224,956	1,135,765	1,360,721	-
Deposits. . . . .	-	-	-	336
Materials and supplies inventory . . . . .	160,158	686,956	847,114	11,417
Loans receivable . . . . .	762,653	-	762,653	-
Restricted assets:				
Cash and cash equivalents in segregated accounts . . . . .	-	243,371	243,371	-
Investments in segregated accounts. . . . .	-	2,107,078	2,107,078	-
Due from external parties . . . . .	250	-	250	-
Internal balance . . . . .	126,400	(126,400)	-	-
Capital assets:				
Land and construction in progress . . . . .	2,662,436	3,851,671	6,514,107	-
Depreciable capital assets, net . . . . .	30,340,819	9,239,332	39,580,151	21,345
Total capital assets, net. . . . .	<u>33,003,255</u>	<u>13,091,003</u>	<u>46,094,258</u>	<u>21,345</u>
Total assets . . . . .	<u>52,988,280</u>	<u>24,196,843</u>	<u>77,185,123</u>	<u>137,003</u>
<b>Deferred outflows of resources:</b>				
Unamortized deferred charges on debt refunding . . . . .	54,126	-	54,126	-
Total deferred outflows of resources . . . . .	<u>54,126</u>	<u>-</u>	<u>54,126</u>	<u>-</u>
<b>Liabilities:</b>				
Accounts payable. . . . .	1,110,638	2,596,541	3,707,179	-
Accrued wages and benefits. . . . .	370,084	1,032,230	1,402,314	-
Due to other governments . . . . .	315,676	583	316,259	-
Accrued interest payable . . . . .	46,543	9,741	56,284	-
Other accrued liabilities. . . . .	-	419,345	419,345	1,924
Estimated third-party payor settlements . . . . .	-	620,755	620,755	-
Long-term liabilities:				
Due within one year . . . . .	2,562,456	1,688,266	4,250,722	1,039
Due in more than one year. . . . .	5,765,025	2,201,702	7,966,727	-
Total liabilities . . . . .	<u>10,170,422</u>	<u>8,569,163</u>	<u>18,739,585</u>	<u>2,963</u>
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year. . . . .	3,527,202	1,300,000	4,827,202	-
Total deferred inflows of resources . . . . .	<u>3,527,202</u>	<u>1,300,000</u>	<u>4,827,202</u>	<u>-</u>
<b>Net position:</b>				
Net investment in capital assets. . . . .	25,557,285	9,799,271	35,356,556	-
Restricted for:				
Debt service . . . . .	99,439	-	99,439	-
Public safety . . . . .	747,435	-	747,435	-
Public works. . . . .	3,832,771	-	3,832,771	-
Health . . . . .	73,181	-	73,181	-
Human services . . . . .	1,680,137	-	1,680,137	-
Other purposes . . . . .	502,129	-	502,129	-
General government . . . . .	1,055,186	-	1,055,186	-
Economic and development. . . . .	1,188,559	-	1,188,559	-
Unrestricted . . . . .	<u>4,608,660</u>	<u>4,528,409</u>	<u>9,137,069</u>	<u>134,040</u>
Total net position . . . . .	<u>\$ 39,344,782</u>	<u>\$ 14,327,680</u>	<u>\$ 53,672,462</u>	<u>\$ 134,040</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>Governmental activities:</b>				
General government:				
Legislative and executive. . . . .	\$ 3,942,016	\$ 2,033,904	\$ 333,910	\$ -
Judicial . . . . .	1,453,251	407,953	111,829	-
Public safety. . . . .	3,958,818	45,325	860,576	-
Public works. . . . .	3,937,059	563	3,756,957	53,723
Health . . . . .	3,009,319	159,168	1,282,425	-
Human services . . . . .	8,006,608	1,507,668	5,548,378	-
Economic development and assistance . . . . .	235,753	822	215,708	-
Intergovernmental. . . . .	406,729	-	-	-
Other . . . . .	2,003,139	1,043,603	189,000	-
Interest and fiscal charges. . . . .	242,301	-	-	256,511
Total governmental activities . . . . .	<u>27,194,993</u>	<u>5,199,006</u>	<u>12,298,783</u>	<u>310,234</u>
<b>Business-type activities:</b>				
Morrow County Hospital . . . . .	27,257,619	24,219,266	-	-
Other business-type activities . . . . .	203,916	44,594	-	-
Total business-type activities . . . . .	<u>27,461,535</u>	<u>24,263,860</u>	<u>-</u>	<u>-</u>
Total primary government . . . . .	<u>\$ 54,656,528</u>	<u>\$ 29,462,866</u>	<u>\$ 12,298,783</u>	<u>\$ 310,234</u>
<b>Component unit:</b>				
Whetstone Industries, inc . . . . .	<u>\$ 671,555</u>	<u>\$ 67,811</u>	<u>\$ 596,507</u>	<u>\$ -</u>

<b>General revenues:</b>	
Property taxes levied for:	
General purposes . . . . .	
Special purposes . . . . .	
Sales taxes levied for:	
General purposes . . . . .	
Grants and entitlements not restricted to specific programs . . .	
Investment earnings. . . . .	
Miscellaneous . . . . .	
Total general revenues . . . . .	
Change in net position . . . . .	
<b>Net position at beginning of year (restated) . . . . .</b>	
<b>Net position at end of year. . . . .</b>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Unit</b>
\$ (1,574,202)	\$ -	\$ (1,574,202)	\$ -
(933,469)	-	(933,469)	-
(3,052,917)	-	(3,052,917)	-
(125,816)	-	(125,816)	-
(1,567,726)	-	(1,567,726)	-
(950,562)	-	(950,562)	-
(19,223)	-	(19,223)	-
(406,729)	-	(406,729)	-
(770,536)	-	(770,536)	-
14,210	-	14,210	-
<u>(9,386,970)</u>	<u>-</u>	<u>(9,386,970)</u>	<u>-</u>
-	(3,038,353)	(3,038,353)	-
-	<u>(159,322)</u>	<u>(159,322)</u>	<u>-</u>
-	(3,197,675)	(3,197,675)	-
<u>(9,386,970)</u>	<u>(3,197,675)</u>	<u>(12,584,645)</u>	<u>-</u>
-	-	-	(7,237)
1,900,218	-	1,900,218	-
1,992,500	-	1,992,500	-
-	-	-	-
3,338,678	-	3,338,678	-
1,309,707	-	1,309,707	-
62,601	34,396	96,997	-
<u>1,169,692</u>	<u>2,245,711</u>	<u>3,415,403</u>	<u>1,586</u>
<u>9,773,396</u>	<u>2,280,107</u>	<u>12,053,503</u>	<u>1,586</u>
386,426	(917,568)	(531,142)	(5,651)
<u>38,958,356</u>	<u>15,245,248</u>	<u>54,203,604</u>	<u>139,691</u>
<u>\$ 39,344,782</u>	<u>\$ 14,327,680</u>	<u>\$ 53,672,462</u>	<u>\$ 134,040</u>

MORROW COUNTY, OHIO

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012

	<u>General</u>	<u>Emergency Squad</u>	<u>Motor Vehicle and Gas Tax</u>	<u>Public Assistance</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . .	\$ 1,551,370	\$ 62,502	\$ 2,148,702	\$ 429,729
Receivables:				
Sales taxes . . . . .	804,429	-	-	-
Real and other taxes . . . . .	1,857,305	1,368,102	-	-
Accounts . . . . .	67,367	-	-	-
Special assessments . . . . .	-	-	-	-
Interfund loans . . . . .	-	-	-	-
Accrued interest . . . . .	22,093	-	6,881	-
Due from other funds . . . . .	9,037	-	30,841	40,372
Due from other governments . . . . .	493,065	88,829	1,862,675	450,038
Loans receivable . . . . .	-	-	-	-
Prepayments . . . . .	143,451	-	22,131	29,918
Materials and supplies inventory . . . . .	11,774	-	141,529	5,365
Due from external parties . . . . .	250	-	-	-
Total assets . . . . .	<u>\$ 4,960,141</u>	<u>\$ 1,519,433</u>	<u>\$ 4,212,759</u>	<u>\$ 955,422</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 94,357	\$ -	\$ 169,707	\$ 216,822
Accrued wages and benefits . . . . .	116,120	-	52,917	54,897
Compensated absences payable . . . . .	-	-	-	-
Due to other funds . . . . .	31,100	-	-	57,172
Due to other governments . . . . .	137,396	-	30,859	48,345
Total liabilities . . . . .	<u>378,973</u>	<u>-</u>	<u>253,483</u>	<u>377,236</u>
<b>Deferred inflows of resources:</b>				
Property taxes levied for the next fiscal year . . .	1,531,050	1,164,342	-	-
Delinquent property tax revenue not available . .	326,255	203,760	-	-
Accrued interest not available . . . . .	7,336	-	6,801	-
Special assessments revenue not available . . . .	-	-	-	-
Sales tax revenue revenue not available . . . . .	303,560	-	-	-
Other nonexchange transactions not available . . .	324,862	88,829	1,277,049	163,500
Total deferred inflows of resources . . . . .	<u>2,493,063</u>	<u>1,456,931</u>	<u>1,283,850</u>	<u>163,500</u>
<b>Fund balances:</b>				
Nonspendable . . . . .	224,812	-	163,660	35,283
Restricted . . . . .	-	62,502	2,511,766	379,403
Committed . . . . .	321,120	-	-	-
Assigned . . . . .	882,284	-	-	-
Unassigned (deficit) . . . . .	659,889	-	-	-
Total fund balances . . . . .	<u>2,088,105</u>	<u>62,502</u>	<u>2,675,426</u>	<u>414,686</u>
Total liabilities, deferred inflows of resources and fund balances . . . . .	<u>\$ 4,960,141</u>	<u>\$ 1,519,433</u>	<u>\$ 4,212,759</u>	<u>\$ 955,422</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<b>County Board of Developmental Disabilities</b>	<b>Court House Renovation Note</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 533,023	\$ 129,186	\$ 4,389,259	\$ 9,243,771
-	-	-	804,429
984,779	-	-	4,210,186
32,923	-	424,444	524,734
-	-	4,409	4,409
-	-	126,400	126,400
-	1,231	3,856	34,061
9,896	-	57,172	147,318
219,273	-	775,138	3,889,018
-	-	762,653	762,653
16,084	-	13,372	224,956
235	-	1,255	160,158
-	-	-	250
<u>\$ 1,796,213</u>	<u>\$ 130,417</u>	<u>\$ 6,557,958</u>	<u>\$ 20,132,343</u>
\$ 18,498	\$ 8,388	\$ 602,866	\$ 1,110,638
46,576	-	99,574	370,084
-	-	9,704	9,704
-	-	59,046	147,318
35,210	-	63,866	315,676
<u>100,284</u>	<u>8,388</u>	<u>835,056</u>	<u>1,953,420</u>
831,810	-	-	3,527,202
152,969	-	-	682,984
-	1,217	3,791	19,145
-	-	4,409	4,409
-	-	-	303,560
93,978	-	786,780	2,734,998
<u>1,078,757</u>	<u>1,217</u>	<u>794,980</u>	<u>7,272,298</u>
16,319	-	14,627	454,701
600,853	120,812	3,268,713	6,944,049
-	-	1,684,756	2,005,876
-	-	148,103	1,030,387
-	-	(188,277)	471,612
<u>617,172</u>	<u>120,812</u>	<u>4,927,922</u>	<u>10,906,625</u>
<u>\$ 1,796,213</u>	<u>\$ 130,417</u>	<u>\$ 6,557,958</u>	<u>\$ 20,132,343</u>

**MORROW COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2012

<b>Total governmental fund balances</b>		\$ 10,906,625
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		33,003,255
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Sales taxes receivable	\$ 303,560	
Real and other taxes receivable	682,984	
Special assessments receivable	4,409	
Accrued interest receivable	19,145	
Intergovernmental receivable	2,734,998	
<b>Total</b>	<b>3,745,096</b>	3,745,096
Unamortized bond discounts are not recognized in the funds.		25,491
Unamortized deferred amounts on refundings are not recognized in the governmental funds.		54,126
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	(46,543)	
General obligation bonds payable	(5,050,000)	
Bond anticipation notes	(2,000,000)	
Loans payable	(337,375)	
Capital lease payable	(136,400)	
Compensated absences payable	(817,681)	
Bond premiums	(1,812)	
<b>Total</b>	<b>(8,389,811)</b>	<u><u>(8,389,811)</u></u>
<b>Net position of governmental activities</b>		<b>\$ 39,344,782</b>

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, 2012

	<u>General</u>	<u>Emergency Squad</u>	<u>Motor Vehicle and Gas Tax</u>	<u>Public Assistance</u>
<b>Revenues:</b>				
Real and other taxes . . . . .	\$ 1,915,701	\$ 1,184,573	\$ -	\$ -
Sales taxes . . . . .	3,321,845	-	-	-
Charges for services . . . . .	396,209	-	-	42,670
Licenses and permits . . . . .	910,419	-	-	-
Fines and forfeitures . . . . .	300,724	-	563	-
Intergovernmental . . . . .	1,076,369	177,658	3,812,062	3,813,736
Investment income . . . . .	24,098	-	14,439	-
Rental income . . . . .	-	-	-	-
Other . . . . .	114,838	-	110,121	129,694
Total revenues . . . . .	<u>8,060,203</u>	<u>1,362,231</u>	<u>3,937,185</u>	<u>3,986,100</u>
<b>Expenditures:</b>				
Current:				
General government:				
Legislative and executive . . . . .	3,124,634	-	-	-
Judicial . . . . .	1,143,530	-	-	-
Public safety . . . . .	1,985,374	1,340,339	-	-
Public works . . . . .	-	-	3,788,671	-
Health . . . . .	83,119	-	-	-
Human services . . . . .	335,761	-	-	4,037,019
Economic development and assistance . . . . .	-	-	-	-
Other . . . . .	80,790	-	-	-
Capital outlay . . . . .	79,207	-	-	-
Intergovernmental . . . . .	406,729	-	-	-
Debt service:				
Principal retirement . . . . .	14,390	-	100,000	1,686
Interest and fiscal charges . . . . .	5,045	-	7,091	51
Bond issuance costs . . . . .	-	-	-	-
Note issuance costs . . . . .	-	-	-	-
Total expenditures . . . . .	<u>7,258,579</u>	<u>1,340,339</u>	<u>3,895,762</u>	<u>4,038,756</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>801,624</u>	<u>21,892</u>	<u>41,423</u>	<u>(52,656)</u>
<b>Other financing sources (uses):</b>				
Bond issuance . . . . .	-	-	-	-
Note issuance . . . . .	-	-	-	-
Payment to refunded bond escrow agent . . . . .	-	-	-	-
Capital lease transaction . . . . .	79,207	-	-	-
Transfers in . . . . .	-	-	-	-
Transfers (out) . . . . .	(484,648)	-	-	-
Premium on bond issuance . . . . .	-	-	-	-
Premium on note issuance . . . . .	-	-	-	-
Total other financing sources (uses) . . . . .	<u>(405,441)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances . . . . .	396,183	21,892	41,423	(52,656)
<b>Fund balances at beginning of year . . . . .</b>	<u>1,691,922</u>	<u>40,610</u>	<u>2,634,003</u>	<u>467,342</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 2,088,105</u>	<u>\$ 62,502</u>	<u>\$ 2,675,426</u>	<u>\$ 414,686</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<b>County Board of Developmental Disabilities</b>	<b>Court House Renovation Note</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 824,740	\$ -	\$ -	\$ 3,925,014
-	-	-	3,321,845
67,086	-	2,355,775	2,861,740
-	-	895,245	1,805,664
-	-	38,200	339,487
1,458,196	-	3,182,701	13,520,722
-	2,583	14,399	55,519
-	-	282,333	282,333
240,950	-	583,941	1,179,544
<u>2,590,972</u>	<u>2,583</u>	<u>7,352,594</u>	<u>27,291,868</u>
-	-	656,905	3,781,539
-	-	297,088	1,440,618
-	-	447,198	3,772,911
-	-	250,000	4,038,671
2,723,343	-	232,595	3,039,057
26,261	-	3,256,449	7,655,490
-	-	292,834	292,834
-	-	1,899,439	1,980,229
-	927,539	353,585	1,360,331
-	-	-	406,729
16,644	2,050,000	213,970	2,396,690
4,374	40,153	131,660	188,374
-	58,290	-	58,290
-	19,840	-	19,840
<u>2,770,622</u>	<u>3,095,822</u>	<u>8,031,723</u>	<u>30,431,603</u>
<u>(179,650)</u>	<u>(3,093,239)</u>	<u>(679,129)</u>	<u>(3,139,735)</u>
-	1,485,000	-	1,485,000
-	2,000,000	-	2,000,000
-	(1,428,674)	-	(1,428,674)
-	-	-	79,207
-	335,206	209,442	544,648
-	-	(60,000)	(544,648)
-	1,964	-	1,964
-	19,840	-	19,840
<u>-</u>	<u>2,413,336</u>	<u>149,442</u>	<u>2,157,337</u>
<u>(179,650)</u>	<u>(679,903)</u>	<u>(529,687)</u>	<u>(982,398)</u>
796,822	800,715	5,457,609	11,889,023
<u>\$ 617,172</u>	<u>\$ 120,812</u>	<u>\$ 4,927,922</u>	<u>\$ 10,906,625</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, 2012

<b>Net change in fund balances - total governmental funds</b>		\$ (982,398)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		
Capital asset additions	\$ 3,000,756	
Current year depreciation	(2,196,921)	
Total		803,835
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Sales taxes	16,833	
Real and other taxes	(32,296)	
Special assessments	1	
Interest income	19,145	
Intergovernmental revenues	285,868	
Total		289,551
Proceeds of bonds, 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 position.		
		(3,564,207)
Payment to refunded bond escrow agent for the retirement of bonds is an other financing use in the governmental funds but the payment reduces long-term liabilities on the statement of net position. Deferred charges related to bond refundings are amortized over the life of the issuance in the statement of activities. The following refunding transactions occurred during the year:		
Bonds refunded	1,370,000	
Deferred charges on refundings	58,674	
Total		1,428,674
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 position.		
		2,396,690
Premiums on general obligation bonds are recognized as other financing sources in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		(1,964)
In the statement of activities, interest is accrued on outstanding bonds, loans and notes, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in less interest being reported in the statement of activities.		
Decrease in accrued interest payable	9,973	
Amortization of bond discounts	(1,214)	
Amortization of deferred amounts on refunding	(4,548)	
Amortization of bond premiums	152	
Total		4,363
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.		
		11,882
<b>Change in net position of governmental activities</b>		<u>\$ 386,426</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, 2012

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
Real and other taxes . . . . .	\$ 1,745,477	\$ 1,950,307	\$ 2,167,670	\$ 217,363
Sales taxes . . . . .	2,462,367	2,751,324	3,057,962	306,638
Charges for services. . . . .	176,611	197,336	219,330	21,994
Licenses and permits . . . . .	715,708	799,696	888,823	89,127
Fines and forfeitures. . . . .	248,314	277,453	308,376	30,923
Intergovernmental. . . . .	512,173	572,276	636,057	63,781
Investment income. . . . .	32,921	36,784	15,491	(21,293)
Other. . . . .	63,551	71,009	78,923	7,914
Total revenues . . . . .	<u>5,957,122</u>	<u>6,656,185</u>	<u>7,372,632</u>	<u>716,447</u>
<b>Expenditures:</b>				
Current:				
General government:				
Legislative and executive . . . . .	2,819,089	3,035,228	3,115,034	(79,806)
Judicial. . . . .	950,821	999,790	1,126,028	(126,238)
Public safety . . . . .	1,875,918	2,070,109	2,061,955	8,154
Health . . . . .	95,730	86,910	86,610	300
Human services. . . . .	511,157	450,688	445,341	5,347
Other . . . . .	49,552	61,001	60,177	824
Intergovernmental. . . . .	269,776	398,976	398,976	-
Total expenditures . . . . .	<u>6,572,043</u>	<u>7,102,702</u>	<u>7,294,121</u>	<u>(191,419)</u>
Excess of expenditures over revenues . . . . .	<u>(614,921)</u>	<u>(446,517)</u>	<u>78,511</u>	<u>525,028</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets. . . . .	5,678	6,344	7,051	707
Transfers out. . . . .	<u>(484,648)</u>	<u>(484,648)</u>	<u>(484,648)</u>	<u>-</u>
Total other financing sources (uses) . . . . .	<u>(478,970)</u>	<u>(478,304)</u>	<u>(477,597)</u>	<u>707</u>
Net change in fund balances . . . . .	(1,093,891)	(924,821)	(399,086)	525,735
<b>Fund balances at beginning of year . . . . .</b>	523,383	523,383	523,383	-
<b>Prior year encumbrances appropriated . . . . .</b>	401,438	401,438	401,438	-
<b>Fund balance at end of year (deficit) . . . . .</b>	<u>\$ (169,070)</u>	<u>\$ -</u>	<u>\$ 525,735</u>	<u>\$ 525,735</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, 2012

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
Real and other taxes. . . . .	\$ 1,057,342	\$ 1,162,681	\$ 1,162,681	\$ -
Intergovernmental. . . . .	177,658	177,658	177,658	-
Total revenues . . . . .	<u>1,235,000</u>	<u>1,340,339</u>	<u>1,340,339</u>	<u>-</u>
<b>Expenditures:</b>				
Current:				
Public safety . . . . .	1,235,000	1,375,114	1,340,339	34,775
Total expenditures . . . . .	<u>1,235,000</u>	<u>1,375,114</u>	<u>1,340,339</u>	<u>34,775</u>
Net change in fund balances . . . . .	-	(34,775)	-	34,775
<b>Fund balances at beginning of year . . . . .</b>	-	-	-	-
<b>Prior year encumbrances appropriated . . . . .</b>	-	-	-	-
<b>Fund balance at end of year (deficit). . . . .</b>	<u>\$ -</u>	<u>\$ (34,775)</u>	<u>\$ -</u>	<u>\$ 34,775</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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Fines and forfeitures. . . . .	\$ 510	\$ 547	\$ 608	\$ 61
Intergovernmental. . . . .	3,156,253	3,384,471	3,764,540	380,069
Investment income. . . . .	-	-	14,359	14,359
Other. . . . .	300,737	322,482	358,696	36,214
<b>Total revenues . . . . .</b>	<u>3,457,500</u>	<u>3,707,500</u>	<u>4,138,203</u>	<u>430,703</u>
<b>Expenditures:</b>				
Current:				
Public works . . . . .	5,091,462	5,639,037	4,729,665	909,372
<b>Total expenditures . . . . .</b>	<u>5,091,462</u>	<u>5,639,037</u>	<u>4,729,665</u>	<u>909,372</u>
Net change in fund balances . . . . .	(1,633,962)	(1,931,537)	(591,462)	1,340,075
<b>Fund balances at beginning of year. . . . .</b>	1,398,223	1,398,223	1,398,223	-
<b>Prior year encumbrances appropriated . . . . .</b>	634,199	634,199	634,199	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 398,460</u>	<u>\$ 100,885</u>	<u>\$ 1,440,960</u>	<u>\$ 1,340,075</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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Charges for services. . . . .	\$ 46,261	\$ 47,710	\$ 42,670	\$ (5,040)
Intergovernmental. . . . .	3,943,131	4,066,661	3,637,054	(429,607)
Other. . . . .	140,608	145,013	129,694	(15,319)
Total revenues . . . . .	<u>4,130,000</u>	<u>4,259,384</u>	<u>3,809,418</u>	<u>(449,966)</u>
<b>Expenditures:</b>				
Current:				
Human services. . . . .	4,370,047	4,771,841	4,311,272	460,569
Total expenditures . . . . .	<u>4,370,047</u>	<u>4,771,841</u>	<u>4,311,272</u>	<u>460,569</u>
Net change in fund balances . . . . .	(240,047)	(512,457)	(501,854)	10,603
<b>Fund balances at beginning of year . . . . .</b>	114,048	114,048	114,048	-
<b>Prior year encumbrances appropriated . . .</b>	498,410	498,410	498,410	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 372,411</u>	<u>\$ 100,001</u>	<u>\$ 110,604</u>	<u>\$ 10,603</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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Real and other taxes . . . . .	\$ 857,367	\$ 859,719	\$ 969,761	\$ 110,042
Intergovernmental . . . . .	914,583	917,091	1,034,477	117,386
Other . . . . .	438,350	439,552	495,814	56,262
Total revenues . . . . .	<u>2,210,300</u>	<u>2,216,362</u>	<u>2,500,052</u>	<u>283,690</u>
<b>Expenditures:</b>				
Current:				
Health . . . . .	2,929,047	2,929,047	2,847,828	81,219
Human services. . . . .	48,060	54,122	47,966	6,156
Total expenditures . . . . .	<u>2,977,107</u>	<u>2,983,169</u>	<u>2,895,794</u>	<u>87,375</u>
Net change in fund balances . . . . .	(766,807)	(766,807)	(395,742)	371,065
<b>Fund balances at beginning of year . . . . .</b>	615,492	615,492	615,492	-
<b>Prior year encumbrances appropriated . . .</b>	154,424	154,424	154,424	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 3,109</u>	<u>\$ 3,109</u>	<u>\$ 374,174</u>	<u>\$ 371,065</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2012

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Morrow County</b>		
	<b>Hospital</b>	<b>Nonmajor</b>	<b>Total</b>
<b>Assets:</b>			
Current assets:			
Equity in pooled cash and cash equivalents . . . . .	\$ -	\$ 167,828	\$ 167,828
Cash and cash equivalents in segregated accounts . . . . .	1,158,084	-	1,158,084
Receivables:			
Real and other taxes . . . . .	1,300,000	-	1,300,000
Accounts . . . . .	4,220,861	-	4,220,861
Accrued interest . . . . .	-	221	221
Physician advances . . . . .	47,056	-	47,056
Materials and supplies inventory . . . . .	686,956	-	686,956
Prepayments . . . . .	1,135,765	-	1,135,765
Total current assets . . . . .	<u>8,548,722</u>	<u>168,049</u>	<u>8,716,771</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents in segregated accounts . . . . .	243,371	-	243,371
Investments in segregated accounts . . . . .	2,107,078	-	2,107,078
Investments in segregated accounts . . . . .	165,020	-	165,020
Capital assets:			
Land and construction in progress . . . . .	3,810,351	41,320	3,851,671
Depreciable capital assets, net . . . . .	7,242,301	1,997,031	9,239,332
Total capital assets, net . . . . .	<u>11,052,652</u>	<u>2,038,351</u>	<u>13,091,003</u>
Total noncurrent assets . . . . .	<u>13,568,121</u>	<u>2,038,351</u>	<u>15,606,472</u>
Total assets . . . . .	<u>22,116,843</u>	<u>2,206,400</u>	<u>24,323,243</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable . . . . .	2,594,115	2,426	2,596,541
Accrued wages and benefits . . . . .	1,031,418	812	1,032,230
Due to other governments . . . . .	-	583	583
Interfund loans payable . . . . .	-	126,400	126,400
Accrued interest payable . . . . .	136	9,605	9,741
Sanitary sewer revenue bonds payable - current . . . . .	-	8,927	8,927
Other accrued liabilities . . . . .	419,345	-	419,345
Compensated absences payable - current . . . . .	598,134	-	598,134
Estimated third-party payor settlements . . . . .	620,755	-	620,755
Capital lease obligations payable - current . . . . .	114,307	-	114,307
Hospital facilities revenue bonds payable - current . . . . .	966,898	-	966,898
Total current liabilities . . . . .	<u>6,345,108</u>	<u>148,753</u>	<u>6,493,861</u>
Long-term liabilities:			
Hospital facilities revenue bonds payable . . . . .	1,400,000	-	1,400,000
Sanitary sewer revenue bonds payable . . . . .	-	601,073	601,073
Capital lease obligations payable . . . . .	200,629	-	200,629
Total long-term liabilities . . . . .	<u>1,600,629</u>	<u>601,073</u>	<u>2,201,702</u>
Total liabilities . . . . .	<u>7,945,737</u>	<u>749,826</u>	<u>8,695,563</u>
<b>Deferred inflows of resources:</b>			
Property taxes levied for the next fiscal year . . . . .	1,300,000	-	1,300,000
Total deferred inflows of resources . . . . .	<u>1,300,000</u>	<u>-</u>	<u>1,300,000</u>
Total liabilities and deferred inflows of resources . . . . .	<u>9,245,737</u>	<u>749,826</u>	<u>9,995,563</u>
<b>Net position:</b>			
Net investment in capital assets . . . . .	8,370,920	1,428,351	9,799,271
Unrestricted . . . . .	4,500,186	28,223	4,528,409
Total net position . . . . .	<u>\$ 12,871,106</u>	<u>\$ 1,456,574</u>	<u>\$ 14,327,680</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MORROW COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Morrow County Hospital</b>	<b>Nonmajor</b>	<b>Total</b>
<b>Operating revenues:</b>			
Charges for services . . . . .	\$ -	\$ 44,594	\$ 44,594
Patient service revenue, net . . . . .	24,219,266	-	24,219,266
Other operating revenues . . . . .	887,463	68,601	956,064
<b>Total operating revenues.</b> . . . . .	<b>25,106,729</b>	<b>113,195</b>	<b>25,219,924</b>
<b>Operating expenses:</b>			
Personal services . . . . .	13,488,191	21,283	13,509,474
Contract services. . . . .	7,072,588	106,678	7,179,266
Materials and supplies. . . . .	4,161,990	-	4,161,990
Administrative costs. . . . .	-	4,921	4,921
Depreciation. . . . .	1,106,650	54,020	1,160,670
Other . . . . .	1,393,990	194	1,394,184
<b>Total operating expenses.</b> . . . . .	<b>27,223,409</b>	<b>187,096</b>	<b>27,410,505</b>
<b>Operating income (loss)</b> . . . . .	<b>(2,116,680)</b>	<b>(73,901)</b>	<b>(2,190,581)</b>
<b>Nonoperating revenues (expenses):</b>			
Interest and fiscal charges . . . . .	(34,210)	(16,820)	(51,030)
Real and other taxes. . . . .	1,123,825	-	1,123,825
Intergovernmental . . . . .	165,822	-	165,822
Interest income. . . . .	33,715	681	34,396
<b>Total nonoperating revenues (expenses).</b> . . . . .	<b>1,289,152</b>	<b>(16,139)</b>	<b>1,273,013</b>
<b>Change in net position</b> . . . . .	<b>(827,528)</b>	<b>(90,040)</b>	<b>(917,568)</b>
<b>Net position at beginning of year</b> . . . . .	<b>13,698,634</b>	<b>1,546,614</b>	<b>15,245,248</b>
<b>Net position at end of year</b> . . . . .	<b>\$ 12,871,106</b>	<b>\$ 1,456,574</b>	<b>\$ 14,327,680</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

MORROW COUNTY, OHIO

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2012

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Morrow County Hospital</b>	<b>Nonmajor</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>			
Cash received from customers . . . . .	\$ -	\$ 44,594	\$ 44,594
Cash received from patients and third-party payors. . .	27,627,450	-	27,627,450
Cash received from other operations. . . . .	887,463	68,601	956,064
Cash payments to suppliers for services and goods. . .	(13,427,326)	(104,490)	(13,531,816)
Cash payments to employees for services . . . . .	(13,248,577)	(21,364)	(13,269,941)
Cash payments for other expenses . . . . .	-	(5,115)	(5,115)
Net cash provided by operating activities . . . . .	<u>1,839,010</u>	<u>(17,774)</u>	<u>1,821,236</u>
<b>Cash flows from noncapital financing activities:</b>			
Cash received from interfund loans . . . . .	-	126,400	126,400
Net cash provided by noncapital financing activities. . . . .	<u>-</u>	<u>126,400</u>	<u>126,400</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition of capital assets . . . . .	(782,996)	-	(782,996)
Property tax levy/intergovernmental revenue . . . . .	1,289,647	-	1,289,647
Principal payments on long-term debt . . . . .	(606,978)	-	(606,978)
Interest and fiscal charges . . . . .	(34,210)	(16,820)	(51,030)
Net cash used in capital and related financing activities. . . . .	<u>(134,537)</u>	<u>(16,820)</u>	<u>(151,357)</u>
<b>Cash flows from investing activities:</b>			
Interest received . . . . .	33,715	681	34,396
Purchase of investments . . . . .	(301,367)	-	(301,367)
Assets limited as to use . . . . .	(3,751,762)	-	(3,751,762)
Proceeds from sale of investments . . . . .	<u>1,450,630</u>	<u>-</u>	<u>1,450,630</u>
Net cash provided by (used in) investing activities. .	<u>(2,568,784)</u>	<u>681</u>	<u>(2,568,103)</u>
Net increase (decrease) in cash and cash equivalents . . . . .	(864,311)	92,487	(771,824)
<b>Cash and cash equivalents at beginning of year. . . .</b>	<u>2,359,719</u>	<u>75,341</u>	<u>2,435,060</u>
<b>Cash and cash equivalents at end of year . . . . .</b>	<u>\$ 1,495,408</u>	<u>\$ 167,828</u>	<u>\$ 1,663,236</u>
<b>Supplemental cash flow information:</b>			
Cash and cash equivalents . . . . .	\$ 1,158,084		
Cash . . . . .	272,864		
Board designated funds . . . . .	64,460		
<b>Cash and cash equivalents at end of year . . . . .</b>	<u>\$ 1,495,408</u>		

-- Continued

MORROW COUNTY, OHIO

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Morrow County</u>		
	<u>Hospital</u>	<u>Nonmajor</u>	<u>Total</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss) . . . . .	\$ (2,116,680)	\$ (73,901)	\$ (2,190,581)
Adjustments:			
Depreciation. . . . .	1,106,650	54,020	1,160,670
Provisions for bad debt . . . . .	2,937,318	-	2,937,318
Changes in assets and liabilities:			
(Increase) in materials and supplies inventory . . . . .	(141,321)	-	(141,321)
(Increase) Decrease in prepayments . . . . .	(595,203)	22	(595,181)
Decrease in other current assets. . . . .	10,770	-	10,770
(Increase) in patient accounts receivable. . . . .	(224,733)	-	(224,733)
(Increase) in accrued interest receivable. . . . .	-	(221)	(221)
Decrease in third party settlement receivables . . . . .	645,593	-	645,593
(Decrease) in accrued wages and benefits. . . . .	-	(84)	(84)
(Decrease) in due to other governments . . . . .	-	(19)	(19)
Increase in accounts payable . . . . .	69,376	1,031	70,407
Increase in accrued interest payable . . . . .	-	1,378	1,378
Increase in accrued expenses . . . . .	147,240	-	147,240
Net cash provided by operating activities. . . . .	<u>\$ 1,839,010</u>	<u>\$ (17,774)</u>	<u>\$ 1,821,236</u>
<b>Non-cash transactions:</b>			
Finance revenue bonds for the Meditech EMR Project	\$ 973,936		
Acquisition of new capital lease	84,900		
	<u>\$ 1,058,836</u>		

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MORROW COUNTY, OHIO**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
 FIDUCIARY FUNDS  
 DECEMBER 31, 2012

	<b>Agency</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 3,403,518
Cash and cash equivalents in segregated accounts. . . . .	838,048
Receivables (net of allowance for uncollectibles):	
Real and other taxes. . . . .	28,541,117
Accounts. . . . .	697
Special assessments . . . . .	4,409
Due from other governments . . . . .	1,372,792
Total assets . . . . .	\$ 34,160,581
 <b>Liabilities:</b>	
Accounts payable . . . . .	\$ 22,250
Due to other governments. . . . .	5,142,881
Due to external parties. . . . .	250
Undistributed assets . . . . .	28,995,200
Total liabilities . . . . .	\$ 34,160,581

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## MORROW COUNTY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

#### 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 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, 2012**

**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.

*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, 2012

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

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

The statement of net position 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, and other revenues for the Johnsville Sewer District. 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 deferred outflows of resources and liabilities and deferred inflows of resources 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.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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.

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.

Courthouse renovation note - This fund accounts for bonds and notes that are restricted for the renovation of the courthouse.

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 position, 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 position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the County under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the County's own programs. The County has no trust funds. Agency funds are custodial in nature (assets plus deferred outflows of resources equal liabilities plus deferred inflows of resources) 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.

## MORROW COUNTY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

##### *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.

#### **D. Measurement Focus**

**Government-wide Financial Statements** - The government-wide financial statements are prepared using the economic resources measurement focus. All assets, all deferred outflows of resources, all liabilities and all deferred inflows of resources associated with the operation of the County are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

**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, current deferred outflows of resources, current liabilities and current deferred inflows of resources 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, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. 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 inflows, and in the presentation of expenses versus expenditures.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

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

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.

**Deferred Inflows of Resources and Deferred Outflows of Resources** - A deferred inflow of resources is an acquisition of net position by the County that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the County that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as a deferred inflow of resources. Special assessments and sales taxes not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2012, are recorded as deferred inflows of resources 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 inflows of resources.

**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.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

**F. Budgetary Data**

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

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

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

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

**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 2012.

**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.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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 2012. The final budgeted figures reflect the original budgeted amounts plus all budgetary amendments and supplemental appropriations that were legally enacted during 2012.

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

**G. Cash and Investments**

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

During 2012, investments were limited to U.S Government bonds, negotiable certificates of deposit, Municipal bonds and notes, Federal National Mortgage Association (FNMA) bonds, 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 are reported at cost.

The County has invested funds in STAR Ohio during 2012. 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 and 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, 2012.

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 2012 amounted to \$24,098 which includes \$18,104 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.

**MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

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. Materials and Supplies Inventory**

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

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



**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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.

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, 2012, 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, 2012 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. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

## MORROW COUNTY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

##### **K. Prepayments**

Payments made to vendors for services that will benefit periods beyond December 31, 2012, are recorded as prepayments 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 position.

##### **L. Accrued Liabilities and Long-term Obligations**

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

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

##### **M. Interfund Transactions**

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

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." Receivables and payables resulting from interfund loans are reported as "interfund loans receivable/payable." These amounts are eliminated in the statement of net position, 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". 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.

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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.

*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. Unamortized Bond Premium and Discount / Unamortized Deferred Charges on Debt Refunding/Bond Issuance Costs**

Bond premiums and discounts are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds. 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 position is presented in Note 14.A.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred outflow of resources.

Bond and note issue costs are expensed when they occur.

**P. Net Position**

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net position component "Net investment in capital assets", 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes consists 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 position is 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 2012.

**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.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

	2012
Patient accounts receivable	\$10,620,315
Less:	
Allowance for uncollectible accounts	(3,078,795)
Allowance for contractual adjustments	(3,320,659)
Net accounts receivable	\$ 4,220,861

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:

	2012
Medicare	31.00%
Medicaid	3.00%
Commercial insurance and HMO's	59.00%
Self-pay	7.00%
Total	100.00%

**T. Assets Limited as to Use**

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

**U. Net Patient Service Revenue**

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

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

## MORROW COUNTY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

##### 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 2012, the Hospital provided charity care of approximately \$1,189,986.

#### NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

##### A. Change in Accounting Principles

For 2012, the County has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the County.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the County.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the County's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. See Note 3.B. for the effect GASB Statement No. 65 had on the financial statements of the County.

**B. Restatement of Net Position**

The net position at December 31, 2011 has been restated for the following reasons: (i) to restate capital assets due to errors and omissions previously reported and (ii) to remove unamortized bond issuance cost due to the implementation of GASB Statement No. 65.

	Governmental Activities
Net position as previously reported	\$ 36,213,673
Removal of unamortized bond issuance costs	(111,871)
Capital asset adjustment	2,856,554
Net position at January 1, 2012	\$ 38,958,356

**C. Deficit Fund Balances**

Fund balances at December 31, 2012 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Children Services	\$ 180,261
Common Pleas/Probate Division	17
DOJ/WMD Terr Equipment	1,252
Grant Court Support	1,843
Juvenile Division Probation Block Grant	1,336

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.

## MORROW COUNTY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

#### NOTE 4 - DEPOSITS AND INVESTMENTS

##### **Primary Government**

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

Monies held by the County which are not considered active are classified as inactive. Inactive monies may be deposited or invested in the following securities:

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

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



**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

*Cash on hand:* At year end, the County had \$51 in undeposited cash on hand which is included on the financial statements of the County as part of "equity in pooled cash and cash equivalents".

**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, 2012, the carrying amount of all County deposits was \$7,525,409. As of December 31, 2012, \$6,123,787 of the County's bank balance of \$7,812,147 was exposed to custodial risk as discussed below, while \$1,688,360 was covered by the FDIC.

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

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Investments**

As of December 31, 2012, the County had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
U.S. Government bonds	\$ 2,107,078	\$ -	\$ 2,107,078	\$ -	\$ -	\$ -
U.S. Government money market mutual funds	998,507	998,507	-	-	-	-
Negotiable certificates of deposit	1,101,878	349,958	250,193	250,670	-	251,057
Municipal notes - Marietta Ohio	702,107	702,107	-	-	-	-
Municipal notes - New Lebanon Ohio	426,944	426,944	-	-	-	-
Municipal bonds - Fairfield Ohio	617,855	-	253,440	-	364,415	-
Municipal bonds - Sylvania Ohio	167,912	-	86,133	-	81,779	-
Municipal bonds - Toledo Ohio	320,021	-	151,721	-	168,300	-
FNMA	2,011,360	-	-	-	-	2,011,360
STAR Ohio	1,347,596	1,347,596	-	-	-	-
<b>Total</b>	<b>\$ 9,801,258</b>	<b>\$ 3,825,112</b>	<b>\$ 2,848,565</b>	<b>\$ 250,670</b>	<b>\$ 614,494</b>	<b>\$ 2,262,417</b>

The weighted average maturity of investments is 1.38 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 Federal Agency Securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The municipal notes – Marietta, Ohio were rated A by Standard & Poor's and Baa1 by Moody's. The municipal notes – New Lebanon, Ohio were rated AA2 by Moody's. The municipal bonds – Fairfield, Ohio were rated Aa1 by Moody's. The municipal bonds – Sylvania, Ohio were rated AA by Standard & Poor's. The municipal bonds – Toledo, Ohio were rated A- by Standard & Poor's and A2 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, 2012

**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, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
U.S. Government bonds	\$ 2,107,078	21.50
U.S. Government money market mutual funds	998,507	10.19
Negotiable certificates of deposit	1,101,878	11.24
Municipal notes - Marietta Ohio	702,107	7.16
Municipal notes - New Lebanon Ohio	426,944	4.36
Municipal bonds - Fairfield Ohio	617,855	6.30
Municipal bonds - Sylvania Ohio	167,912	1.71
Municipal bonds - Toledo Ohio	320,021	3.27
FNMA	2,011,360	20.52
STAR Ohio	1,347,596	13.75
Total	<u>\$ 9,801,258</u>	<u>100.00</u>

**D. Reconciliation of Cash and Investments to the Statement of Net Position**

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 position as of December 31, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 7,525,409
Investments	9,801,258
Cash on hand	51
Total	<u>\$ 17,326,718</u>

<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 9,243,771
Business-type activities	3,841,381
Agency funds	4,241,566
Total	<u>\$ 17,326,718</u>

**E. Component Unit**

At December 31, 2012, the carrying amount of the component unit’s demand deposits was \$101,552 and the bank balance was \$101,552. 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, 2012 is reported as “cash and cash equivalents in segregated accounts” on the statement of net position.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 5 - INTERFUND TRANSACTIONS**

- A. Due from/to other funds consisted of the following at December 31, 2012, as reported on the fund financial statements:

<u>Due to</u>	Due from			<u>Total due from</u>
	<u>General</u>	<u>Public Assistance</u>	<u>Nonmajor governmental funds</u>	
General	\$ -	\$ -	\$ 9,037	\$ 9,037
Motor vehicle and gas tax	29,706	-	1,135	30,841
Public assistance	1,394	-	38,978	40,372
County Board of DD	-	-	9,896	9,896
Other governmental	-	57,172	-	57,172
	<u>\$ 31,100</u>	<u>\$ 57,172</u>	<u>\$ 59,046</u>	<u>\$ 147,318</u>
Total due to	<u>\$ 31,100</u>	<u>\$ 57,172</u>	<u>\$ 59,046</u>	<u>\$ 147,318</u>

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

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

- B. Interfund transfers for the year ended December 31, 2012, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	
Courthouse renovation note	\$ 275,206
Nonmajor governmental funds	209,442
<u>Transfer from nonmajor governmental funds to:</u>	
Courthouse renovation note	<u>60,000</u>
Total	<u>\$ 544,648</u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfers were made during 2012 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, 2012

**NOTE 5 - INTERFUND TRANSACTIONS - (Continued)**

- C. Due to external parties at December 31, 2012, consisted of the following as reported on the fund statements:

	<u>Agency</u>
General	<u>\$ 250</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.

- D. Interfund loans receivable/payable consisted of the following at December 31, 2012 as reported on the fund statement:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor governmental fund	Other enterprise fund	<u>\$ 126,400</u>

The primary purpose of the interfund loans from the Community Development Block Grant fund (a nonmajor governmental fund) to the Johnsville Sanitary Sewer District enterprise fund (an other enterprise fund) was to begin the planning, design and engineering of the I-71/State Route 95 Interchange Area Sanitary Sewer System Project and the preliminary design and final engineering of the North Morrow Sewer District Project. These interfund balances will be repaid once the anticipated revenues are received. Interfund balances between governmental funds and enterprise funds are reported as internal balances on the government-wide statement of net position.

**NOTE 6 - PROPERTY TAX**

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes. 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, 2012 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by deferred inflows of resources since the current taxes were not levied to finance 2012 operations and the collection of delinquent taxes has been offset by deferred inflows of resources 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 inflows of resources.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 6 - PROPERTY TAX – (Continued)**

The full tax rate for all County operations for the year ended December 31, 2012 was \$11.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2012 property tax receipts were based are as follows:

Real property

Residential/agricultural	\$ 613,855,560
Commercial/industrial/mineral	49,925,730
Personal public utility	<u>24,459,160</u>
Total assessed value	<u>\$ 688,240,450</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 2012 and amounts that are measurable and available at year end are accrued as revenue. Amounts received outside the available period are recorded as deferred inflows of resources on the fund financial statements and as revenue on the government-wide financial statements. Sales and use tax revenue for 2012 amounted to \$3,321,845 on the governmental fund financial statements.

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2012, 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, 2012. A summary of the principal items of receivables reported on the statement of net position follows:

**Governmental activities:**

Sales taxes	\$ 804,429
Real and other local taxes	4,210,186
Accounts	524,734
Special assessments	4,409
Accrued interest	34,061
Loans	762,653
Due from other governments	3,889,018

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 8 - RECEIVABLES - (Continued)**

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:

	<u>Balance</u> <u>12/31/11</u>	<u>Loans</u> <u>Issued</u>	<u>Principal</u> <u>Received</u>	<u>Balance</u> <u>12/31/12</u>
<u>Special Revenue Funds</u>				
Community block and HOME Investments				
partnerships program grants commercial loans	\$ 517,023	\$ 694	\$ (11,797)	\$ 505,920
Home investment partnership	101,292	200	(6,391)	95,101
Water/sewer revolving loans	52,906	5,693	(10,792)	47,807
Rural hardship revolving loans	<u>98,325</u>	<u>39,623</u>	<u>(24,123)</u>	<u>113,825</u>
Total	<u>\$ 769,546</u>	<u>\$ 46,210</u>	<u>\$ (53,103)</u>	<u>\$ 762,653</u>

**NOTE 10 - RESTRICTED ASSETS**

The Hospital has assets whose use is limited consisting of invested funds securing bank debt and invested funds designated by the Hospital's Board of Trustees for the replacement, improvement and expansion of the Hospital's facilities. Investments consist principally of U.S. Government securities and are recorded at fair value. The composition of assets whose use is limited at December 31, 2012, is set forth in the following table:

Board restricted for capital improvements:	
Cash and cash equivalents in segregated accounts	\$ 243,371
Investments in segregated accounts	<u>2,107,078</u>
Total	<u>\$ 2,350,449</u>

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 11 - CAPITAL ASSETS**

- A. A summary of the business-type activities capital assets for the year ended December 31, 2012 is as follows:

<b><u>Business-type activities:</u></b>	<u>Balance</u> <u>12/31/11</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/12</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 233,315	\$ -	\$ -	\$ 233,315
Construction in progress	<u>2,325,004</u>	<u>1,587,251</u>	<u>(293,899)</u>	<u>3,618,356</u>
<i>Total capital assets, not being depreciated</i>	<u>2,558,319</u>	<u>1,587,251</u>	<u>(293,899)</u>	<u>3,851,671</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	544,481	2,558	-	547,039
Buildings	6,459,906	93,167	-	6,553,073
Equipment	16,044,270	452,756	-	16,497,026
Infrastructure	<u>1,574,952</u>	<u>-</u>	<u>-</u>	<u>1,574,952</u>
<i>Total capital assets, being depreciated</i>	<u>24,623,609</u>	<u>548,481</u>	<u>-</u>	<u>25,172,090</u>
Less: accumulated depreciation:				
Land improvements	(460,353)	(33,141)	-	(493,494)
Buildings	(3,488,177)	(212,410)	-	(3,700,587)
Equipment	(10,751,780)	(883,620)	-	(11,635,400)
Infrastructure	<u>(71,778)</u>	<u>(31,499)</u>	<u>-</u>	<u>(103,277)</u>
<i>Total accumulated depreciation</i>	<u>(14,772,088)</u>	<u>(1,160,670)</u>	<u>-</u>	<u>(15,932,758)</u>
<i>Total capital assets, being depreciated, net</i>	<u>9,851,521</u>	<u>(612,189)</u>	<u>-</u>	<u>9,239,332</u>
<b>Business-type activities capital assets, net</b>	<u><u>\$ 12,409,840</u></u>	<u><u>\$ 975,062</u></u>	<u><u>\$ (293,899)</u></u>	<u><u>\$ 13,091,003</u></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, 2012

**NOTE 11 - CAPITAL ASSETS - (Continued)**

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

**Business-type activities:**

Morrow County Hospital	\$ 1,106,650
Ketterman Project	5,127
Johnsville Sewer	48,893
Total depreciation expense - business-type activities	<u>\$ 1,160,670</u>

- B.** The capital asset balances of the governmental activities have been restated due to errors and omissions in the previous year. See Note 3.B. for detail.

	Balance		Restated
<b><u>Governmental activities:</u></b>	<u>12/31/11</u>	<u>Adjustments</u>	<u>12/31/11</u>
<i>Capital assets, not being depreciated:</i>			
Land	\$ 736,057	\$ -	\$ 736,057
Construction in progress	<u>1,146,967</u>	-	<u>1,146,967</u>
Total capital assets, not being depreciated	<u>1,883,024</u>	-	<u>1,883,024</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	164,548	-	164,548
Buildings	8,642,145	4,100,000	12,742,145
Building improvements	2,771,477	-	2,771,477
Equipment	2,117,032	-	2,117,032
Vehicles	5,389,748	-	5,389,748
Infrastructure	<u>43,452,835</u>	-	<u>43,452,835</u>
Total capital assets, being depreciated	<u>62,537,785</u>	<u>4,100,000</u>	<u>66,637,785</u>
<i>Less: accumulated depreciation:</i>			
Land improvements	(154,180)	-	(154,180)
Buildings	(3,369,510)	(1,243,446)	(4,612,956)
Building improvements	(831,306)	-	(831,306)
Equipment	(1,706,409)	-	(1,706,409)
Vehicles	(4,400,796)	-	(4,400,796)
Infrastructure	<u>(24,615,742)</u>	-	<u>(24,615,742)</u>
Total accumulated depreciation	<u>(35,077,943)</u>	<u>(1,243,446)</u>	<u>(36,321,389)</u>
Total capital assets being depreciated, net	<u>27,459,842</u>	<u>2,856,554</u>	<u>30,316,396</u>
Governmental activities capital assets, net	<u>\$ 29,342,866</u>	<u>\$ 2,856,554</u>	<u>\$ 32,199,420</u>

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 11 - CAPITAL ASSETS - (Continued)**

C. Capital asset activity for the governmental activities for the year ended December 31, 2012, was as follows:

<b><u>Governmental activities:</u></b>	Restated Balance <u>12/31/11</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/12</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 736,057	\$ 12,500	\$ -	\$ 748,557
Construction in progress	<u>1,146,967</u>	<u>766,912</u>	-	<u>1,913,879</u>
Total capital assets, not being depreciated	<u>1,883,024</u>	<u>779,412</u>	-	<u>2,662,436</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	164,548	-	-	164,548
Buildings	12,742,145	-	-	12,742,145
Building improvements	2,771,477	-	-	2,771,477
Equipment	2,117,032	143,711	-	2,260,743
Vehicles	5,389,748	389,000	-	5,778,748
Infrastructure	<u>43,452,835</u>	<u>1,688,633</u>	-	<u>45,141,468</u>
Total capital assets, being depreciated	<u>66,637,785</u>	<u>2,221,344</u>	-	<u>68,859,129</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(154,180)	(1,885)	-	(156,065)
Buildings	(4,612,956)	(290,700)	-	(4,903,656)
Building improvements	(831,306)	(89,786)	-	(921,092)
Equipment	(1,706,409)	(143,346)	-	(1,849,755)
Vehicles	(4,400,796)	(343,837)	-	(4,744,633)
Infrastructure	<u>(24,615,742)</u>	<u>(1,327,367)</u>	-	<u>(25,943,109)</u>
Total accumulated depreciation	<u>(36,321,389)</u>	<u>(2,196,921)</u>	-	<u>(38,518,310)</u>
Total capital assets being depreciated, net	<u>30,316,396</u>	<u>24,423</u>	-	<u>30,340,819</u>
Governmental activities capital assets, net	<u>\$ 32,199,420</u>	<u>\$ 803,835</u>	<u>\$ -</u>	<u>\$ 33,003,255</u>

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

<b><u>Governmental activities:</u></b>	
Legislative and executive	\$ 193,992
Judicial	14,373
Public safety	196,226
Public works	1,430,179
Health	3,595
Human services	357,512
Other	<u>1,044</u>
Total depreciation expense - governmental activities	<u>\$ 2,196,921</u>

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE**

- A.** In the current year, the County entered into a capital lease for the acquisition of a copier and computer system. 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 copier equipment, scanners, printers and a computer have been capitalized in the amount of \$298,785. 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, 2012, was \$135,648, leaving a current book value of \$163,137. Principal payments in 2012 totaled \$1,686, \$16,644, \$5,220 and \$14,390 made out of the public assistance fund, the County Board of DD fund, the computer equipment fund (a nonmajor governmental fund) and the general 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, 2012:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2013	\$ 48,604
2014	48,604
2015	45,528
2016	<u>12,505</u>
Total future minimum lease payments	155,241
Less: amount representing interest	<u>(18,841)</u>
Present value of net minimum lease payments	<u>\$ 136,400</u>

- B.** At December 31, 2012, 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 3.63 percent to 5.44 percent annually. These leases expire in 2017, and are collateralized by the leased equipment. Capitalized costs and accumulated depreciation of the leased equipment at December 31, 2012 were \$613,000 and \$298,000, respectively. The liability for the obligation under capital lease at December 31, 2012 was \$314,936.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2012:

Year Ending December 31,	Amount
2013	\$ 126,357
2014	128,951
2015	69,496
2016	5,000
2017	5,000
Total future minimum lease payments	334,804
Less: amount representing interest	(19,868)
Present value of net minimum lease payments	\$ 314,936

**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 position. 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, 2012, vested benefits for vacation leave and compensatory time for governmental fund employees totaled \$630,856 and vested benefits for sick leave totaled \$186,825. In accordance with GASB Statement No. 16, an additional liability of \$9,704 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 \$827,385. Of this total, \$167,418 is due within one year and \$659,967 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, 2012

**NOTE 14 - LONG-TERM OBLIGATIONS**

**A. Governmental Activities Long-Term Obligations**

During 2012, the following changes occurred in the County's governmental activities long-term obligations.

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance 12/31/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/12</u>	<u>Amount Due in One Year</u>
<u>General obligation bonds:</u>							
County services building bonds	2022	1.5-4.8%	\$ 1,480,000	\$ -	\$(1,480,000)	\$ -	\$ -
County services facility refunding bonds	2022	1.0-2.5%	-	1,485,000	(30,000)	1,455,000	130,000
Various purpose bonds	2033	3.00-5.375%	3,700,000	-	(105,000)	3,595,000	110,000
<b>Total general obligation bonds</b>			<u>5,180,000</u>	<u>1,485,000</u>	<u>(1,615,000)</u>	<u>5,050,000</u>	<u>240,000</u>
<u>Loans payable:</u>							
JFS service garage	2026	4.55%	208,000	-	(10,000)	198,000	11,000
Engineer loan 12-N	2013	4.25%	200,000	-	(100,000)	100,000	100,000
<b>Total loans payable</b>			<u>408,000</u>	<u>-</u>	<u>(110,000)</u>	<u>298,000</u>	<u>111,000</u>
<u>Bond anticipation notes:</u>							
Courthouse improvement, 2011	2012	2.00%	2,000,000	-	(2,000,000)	-	-
Courthouse improvement, 2012	2013	2.00%	-	2,000,000	-	2,000,000	2,000,000
<b>Total Bond anticipation notes</b>			<u>2,000,000</u>	<u>2,000,000</u>	<u>(2,000,000)</u>	<u>2,000,000</u>	<u>2,000,000</u>
<u>OWDA loans payable:</u>							
OWDA loan payable	2023	0.00%	43,125	-	(3,750)	39,375	3,750
<b>Total OWDA loans payable</b>			<u>43,125</u>	<u>-</u>	<u>(3,750)</u>	<u>39,375</u>	<u>3,750</u>
<u>Other long-term obligations:</u>							
Compensated absences payable			869,614	388,104	(430,333)	827,385	167,418
Capital lease payable			95,133	79,207	(37,940)	136,400	40,288
<b>Total other long-term obligations</b>			<u>964,747</u>	<u>467,311</u>	<u>(468,273)</u>	<u>963,785</u>	<u>207,706</u>
<b>Total long-term obligations</b>			<u>\$ 8,595,872</u>	<u>\$ 3,952,311</u>	<u>\$(4,197,023)</u>	8,351,160	<u>\$ 2,562,456</u>
Less: unamortized discount on bonds			(26,705)			(25,491)	
Add: unamortized premium			-			1,812	
<b>Total reported on statement of net position</b>			<u>\$ 8,569,167</u>			<u>\$ 8,327,481</u>	

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)**

*General Obligation Bonds:* The general obligation bonds are supported by the full faith and credit of the County. On August 15, 2002, the County issued bonds to provide for building renovation and improvements to the County services building. 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 2012, a principal payment of \$110,000 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 \$105,000 on various purpose bonds was made from the social services bond retirement fund (a nonmajor governmental fund) and the Courthouse Renovation Note fund.

On March 13, 2012, the City issued \$1,485,000 in Refunding Bonds (Series 2012) which mature serially on December 1, 2014 through December 1, 2018 inclusive, and term bonds which mature on December 1, 2013, December 1, 2020 and December 1, 2022. The bonds were issued to refund \$1,370,000 of the Series 2002 general obligation bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position. During 2012, a principal payment of \$30,000 was made from the social services bond retirement fund (a nonmajor governmental fund). The balance of the refunded bonds at December 31, 2012 was \$1,455,000.

The reacquisition price exceeded the net carrying amount of the old debt by \$58,674. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt, which has a final maturity date of December 1, 2022. This advance refunding was undertaken to reduce the combined total debt service payments over the next 10.75 years by \$109,951 and resulted in an economic gain of \$98,109.

The bonds maturing on December 1, 2013 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the year and in the respective principal amount as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2012	\$30,000

The remaining principal amount of such bonds (\$130,000) will be paid at stated maturity on December 1, 2013.

The bonds maturing on December 1, 2020 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the year and in the respective principal amount as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2019	\$150,000

MORROW COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

The remaining principal amount of such bonds (\$150,000) will be paid at stated maturity on December 1, 2020.

The bonds maturing on December 1, 2022 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the year and in the respective principal amount as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2021	\$155,000

The remaining principal amount of such bonds (\$160,000) will be paid at stated maturity on December 1, 2022.

Bond Anticipation Notes: On January 26, 2011, the County issued a \$2,000,000 bond anticipation note for renovations on the County Courthouse. During 2012, the note was paid in full and subsequently, on January 18, 2012, the County issued an additional \$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 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.

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

The County has received a zero percent interest rate loan from the OWDA for the purpose of financing septic system replacements. During 2012, the County made principal payments of \$3,750 on this loan leaving a balance at December 31, 2012 of \$39,375. 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 2012, the County made principal payments of \$10,000 on this loan leaving a balance of \$198,000 at December 31, 2012. This loan is being retired from the JFS service garage fund (a nonmajor governmental fund).

In 2008, the County issued a loan through a line of credit to purchase various maintenance vehicles for the Morrow County Engineers Division in the amount of \$500,000. This loan bears an interest rate of 4.25% and is scheduled to mature in 2013. During 2012, the County made principal payments of \$100,000 on this loan leaving a balance of \$100,000 at December 31, 2012. 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.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)**

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

Year Ended December 31,	General Obligation Bonds			Engineer Loan 12-N		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 240,000	\$ 199,863	\$ 439,863	\$ 100,000	\$ 2,818	\$ 102,818
2014	250,000	194,714	444,714	-	-	-
2015	255,000	188,979	443,979	-	-	-
2016	260,000	182,589	442,589	-	-	-
2017	270,000	174,989	444,989	-	-	-
2018 - 2022	1,470,000	740,755	2,210,755	-	-	-
2023 - 2027	900,000	504,168	1,404,168	-	-	-
2028 - 2032	1,140,000	256,816	1,396,816	-	-	-
2033	265,000	14,244	279,244	-	-	-
Total	<u>\$ 5,050,000</u>	<u>\$ 2,457,117</u>	<u>\$ 7,507,117</u>	<u>\$ 100,000</u>	<u>\$ 2,818</u>	<u>\$ 102,818</u>

Year Ended December 31,	JFS Service Garage Loan			OWDA Loans		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 11,000	\$ 9,118	\$ 20,118	\$ 3,750	\$ -	\$ 3,750
2014	11,000	8,611	19,611	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	13,000	7,046	20,046	3,750	-	3,750
2018 - 2022	71,000	25,926	96,926	18,750	-	18,750
2023 - 2026	69,000	8,105	77,105	1,875	-	1,875
Total	<u>\$ 198,000</u>	<u>\$ 74,509</u>	<u>\$ 272,509</u>	<u>\$ 39,375</u>	<u>\$ -</u>	<u>\$ 39,375</u>

- 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 \$8,806,914 at December 31, 2012 and the unvoted legal debt margin was \$7,033,308 at December 31, 2012.



**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)**

**C. Business-Type Activities Long-Term Obligations**

During 2012, the following changes occurred in the County's business-type activities long-term obligations.

	Interest Rate	Balance 12/31/11	Additions	Reductions	Balance 12/31/12	Amount Due in One Year
Capital lease payable		\$ 327,332	\$ 84,900	\$ (97,296)	\$ 314,936	\$ 114,307
Sanitary sewer revenue bonds, series 2011	2.75%	610,000	-	-	610,000	8,927
Master lease and purchase agreement	5.89%	509,682	-	(509,682)	-	-
Hospital facilities revenue bonds, series 2011	3.50%	1,392,962	973,936	-	2,366,898	966,898
Compensated absences payable		<u>542,640</u>	<u>742,884</u>	<u>(687,390)</u>	<u>598,134</u>	<u>598,134</u>
Total business-type activities long-term obligations		<u>\$ 3,382,616</u>	<u>\$ 1,801,720</u>	<u>\$ (1,294,368)</u>	<u>\$ 3,889,968</u>	<u>\$ 1,688,266</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). Pledged revenues will begin being collected in 2013.

**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 that matured 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 by the Hospital. The master lease purchase agreement was paid in full during 2012 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 \$1,800,000 in principal of the bonds is due on or before December 24, 2013. The 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, 2012, the Hospital had issued \$2,366,898 of the total authorized. No amortization schedule is available at this time; the project is still in progress.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)**

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,	<u>Sanitary Sewer Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	9,949	15,746	25,695
2018 - 2022	53,960	74,515	128,475
2023 - 2027	61,800	66,675	128,475
2028 - 2032	70,753	57,722	128,475
2033 - 2037	81,074	47,401	128,475
2038 - 2042	92,855	35,620	128,475
2043 - 2047	106,351	22,124	128,475
2048 - 2051	<u>96,094</u>	<u>6,683</u>	<u>102,777</u>
Total	<u>\$ 610,000</u>	<u>\$ 392,102</u>	<u>\$ 1,002,102</u>

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

**NOTE 15 - NET PATIENT SERVICE REVENUE**

The Hospital provides services to certain patients covered by various third party payer arrangements that provide for payments to the Hospital at amounts different than its established rates. Net patient service revenue for 2012 recorded in the Hospital enterprise fund was \$24,219,266.

**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 2012, 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	

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 16 - RISK MANAGEMENT - (Continued)**

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. The County pays all elected officials' bonds by statute.

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; medical malpractice; and employee health dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims for the Hospital have not exceeded this coverage in the past three years and there has been no significant reduction in coverage from the prior year for the Hospital. Also see Note 22.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 \$2,533,530 for the year ended December 31, 2012.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 16 - RISK MANAGEMENT - (Continued)**

A reconciliation of accrued health insurance for the Hospital at December 31, 2012 consists of the following:

Balance at January 1, 2012, restated	\$ 205,263
Health insurance expense	2,533,530
Payments made	<u>(2,499,161)</u>
Balance at December 31, 2012	<u>\$ 239,632</u>

The beginning balance at January 1, 2012 was restated to properly reflect amounts due.

**NOTE 17 - PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report 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 2012 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 2012 member contribution rates were 10.00% for members in State and local classifications. Public safety and law enforcement members contributed 11.50% and 12.10%, respectively. The County's contribution rate for 2012 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.

## MORROW COUNTY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

#### NOTE 17 - PENSION PLANS - (Continued)

The County's contribution rate for pension benefits for members in the Traditional Plan for 2012 was 10.00%. The County's contribution rate for pension benefits for members in the Combined Plan and Traditional Plan was 7.95% and 10.00%, respectively. 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, 2012, 2011, and 2010 were \$1,925,694, \$1,983,546, and \$1,652,014, respectively; 96.74% has been contributed for 2012 and 100% has been contributed for 2011 and 2010. The remaining 2012 pension liability has been reported as due to other governments on the basic financial statements. Contributions to the member-directed plan for 2012 were \$28,243 made by the County and \$20,175 made by the plan members.

#### **B. State Teachers Retirement System of Ohio**

Plan Description - The County participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 website at [www.strsoh.org](http://www.strsoh.org), under "Publications".

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

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

Funding Policy - For 2012, plan members were required to contribute 10 percent of their annual covered salaries. The County was required to contribute 14 percent; 13 percent 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, 2012, 2011 and 2010 were \$7,681, \$7,587 and \$7,358, respectively; 100 percent has been contributed for 2012 and 100 percent for 2011 and 2010. The remaining 2012 pension liability has been reported as due to other governments on the basic financial statements.

## MORROW COUNTY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2012 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 2012 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2012 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, 2012, 2011, and 2010 were \$760,572, \$784,578, and \$939,775, respectively; 96.74% has been contributed for 2012 and 100% has been contributed for 2011 and 2010. The remaining 2012 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under State Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 18 - POSTEMPLOYMENT BENEFIT PLANS - (Continued)**

**B. State Teachers Retirement System of Ohio**

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](http://www.strsoh.org), under "Publications" 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. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The County's contributions for health care for the years ended December 31, 2012, 2011 and 2010 were \$591, \$584 and \$566, respectively; 100 percent has been contributed for 2012 and 100 percent for 2011 and 2010. The remaining 2012 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

**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.

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).

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 19 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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	\$ (399,086)	\$ -	\$ (591,462)	\$ (501,854)	\$ (395,742)
Net adjustment for revenue accruals	210,563	21,892	(201,018)	176,682	90,920
Net adjustment for expenditure accruals	154,575	-	126,161	(46,609)	13,245
Net adjustment for other sources/uses	(112,176)	-	-	-	-
Funds budgeted elsewhere	329,916	-	-	-	-
Adjustment for encumbrances	<u>212,391</u>	<u>-</u>	<u>707,742</u>	<u>319,125</u>	<u>111,927</u>
GAAP basis	<u>\$ 396,183</u>	<u>\$ 21,892</u>	<u>\$ 41,423</u>	<u>\$ (52,656)</u>	<u>\$ (179,650)</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, the recorder's fees fund, and the casino/capital improvement fund.



**MORROW COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**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	Courthouse Renovation Note	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable:</b>								
Materials and supplies inventory	\$ 11,774	\$ -	\$ 141,529	\$ 5,365	\$ 235	\$ -	\$ 1,255	\$ 160,158
Prepays	143,451	-	22,131	29,918	16,084	-	13,372	224,956
Unclaimed monies	69,587	-	-	-	-	-	-	69,587
<b>Total nonspendable</b>	<b>224,812</b>	<b>-</b>	<b>163,660</b>	<b>35,283</b>	<b>16,319</b>	<b>-</b>	<b>14,627</b>	<b>454,701</b>
<b>Restricted:</b>								
General government	-	-	-	-	-	-	687,248	687,248
Public safety	-	62,502	-	-	-	-	354,943	417,445
Public works	-	-	2,511,766	-	-	-	-	2,511,766
Human services	-	-	-	379,403	-	-	520,195	899,598
Health	-	-	-	-	600,853	-	74,624	675,477
Debt service	-	-	-	-	-	120,812	2,800	123,612
Economic and development	-	-	-	-	-	-	1,089,813	1,089,813
Other purposes	-	-	-	-	-	-	539,090	539,090
<b>Total restricted</b>	<b>-</b>	<b>62,502</b>	<b>2,511,766</b>	<b>379,403</b>	<b>600,853</b>	<b>120,812</b>	<b>3,268,713</b>	<b>6,944,049</b>
<b>Committed:</b>								
Self - insurance	321,120	-	-	-	-	-	-	321,120
Capital projects	-	-	-	-	-	-	835,748	835,748
Other purposes	-	-	-	-	-	-	849,008	849,008
<b>Total committed</b>	<b>321,120</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,684,756</b>	<b>2,005,876</b>
<b>Assigned:</b>								
General government	37,488	-	-	-	-	-	-	37,488
Public safety	21,933	-	-	-	-	-	-	21,933
Human services	107,172	-	-	-	-	-	-	107,172
Health	1,585	-	-	-	-	-	-	1,585
Sheriff's rotary	29,718	-	-	-	-	-	-	29,718
Prepayments interest account	6,625	-	-	-	-	-	-	6,625
Motor vehicle bond retirement	-	-	-	-	-	-	148,103	148,103
Subsequent year appropriations	656,128	-	-	-	-	-	-	656,128
Other purposes	21,635	-	-	-	-	-	-	21,635
<b>Total assigned</b>	<b>882,284</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>148,103</b>	<b>1,030,387</b>
Unassigned (deficit)	659,889	-	-	-	-	-	(188,277)	471,612
<b>Total fund balances</b>	<b>\$ 2,088,105</b>	<b>\$ 62,502</b>	<b>\$ 2,675,426</b>	<b>\$ 414,686</b>	<b>\$ 617,172</b>	<b>\$ 120,812</b>	<b>\$ 4,927,922</b>	<b>\$ 10,906,625</b>

**MORROW COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012

**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	\$ 201,837
Motor vehicle and gas tax	560,183
Public assistance	202,485
County Board of Developmental Disabilities	94,199
Other governmental	<u>937,151</u>
 Total	 <u>\$ 1,995,855</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, 2012.

**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 occurred. 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. There has not been a significant reduction in coverage from the prior year. 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, 2012**

**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, 2012, the County's contributions totaled \$596,507.

**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, 2012

**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 receives 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 generates 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:

Depository	Description	Balance 12/31/12
First Knox National Bank	Operating account	\$ 38,799
First Knox National Bank	Payroll account	1,159
Cash on hand	Operations	255
Total		\$ 40,213

The Workshop has three negotiable certificates of deposit at December 31, 2012. These certificates of deposit are recorded at fair value, with maturities of nine to twenty-four months. These certificates of deposit earn interest at rates of 0.40% to 1.15%. Investments in the certificates of deposits totaled \$61,339.

**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, 2012

**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 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 Workshop 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 2012:

	Balance 12/31/11	Additions	Reductions	Balance 12/31/12
Property and equipment	\$ 55,457	\$ 2,200	\$ -	\$ 57,657
Accumulated depreciation	<u>(32,855)</u>	<u>(3,457)</u>	<u>-</u>	<u>(36,312)</u>
Total	<u>\$ 22,602</u>	<u>\$ (1,257)</u>	<u>\$ -</u>	<u>\$ 21,345</u>

**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 and chief financial officers and also appoints one nonvoting representative to the Hospital’s Board of Trustees. Fees for services amounted to approximately \$540,000 for the year ended December 31, 2012. Amounts due to OhioHealth for services amounted to approximately \$65,000 at December 31, 2012 and has been included in accounts payable of the Hospital on the financial statements.

## MORROW COUNTY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

#### NOTE 27 - COST REPORT SETTLEMENTS

Approximately 36 percent of the Hospital's revenues from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under these reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

**Medicare** - Effective October 1, 2002, the Hospital received full accreditation from the Center for Medicare and Medicaid Services for the critical access hospital designation. As a critical access hospital, the Hospital receives 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-reimbursement 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

- A. On January 16, 2013, the County issued \$2,000,000 in Courthouse Improvement Bond Anticipation Notes. The notes carry an interest rate of 1.50% and will mature on January 15, 2014.
- B. The Hospital has issued an additional \$247,756 of previously authorized revenue bonds for the purpose of acquiring and installing the Meditech computer system. This additional amount will be included in the mandatory redemption of the bonds that will be due on or before December 24, 2013.

## **SUPPLEMENTARY DATA**

**MORROW COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE</b>	<b>CFDA NUMBER</b>	<b>PASS-THROUGH GRANT NUMBER</b>	<b>(A),(B) CASH FEDERAL DISBURSEMENTS</b>
<b>U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF JOBS AND FAMILY SERVICES</b>			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	G-1011-11-5089	\$ 275,868
<b>Total U.S. Department of Agriculture</b>			<u>275,868</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASSED THROUGH THE OHIO DEPARTMENT OF DEVELOPMENT OFFICE OF HOUSING AND COMMUNITY PARTNERSHIP</b>			
Community Development Block Grants/State's Program	14.228	B-F-11-1CB-1	122,000
Community Development Block Grants/State's Program	14.228	B-C-10-1CB-1	76,454
Community Development Block Grants/State's Program	14.228	B-F-10-1CB-1	736
Community Development Block Grants/State's Program	14.228	B-Z-08-1CB-1	182,016
(C) Community Development Block Grants/State's Program	14.228	N/A	140,910
(D) Community Development Block Grants/State's Program	14.228	N/A	2,087
<b>Total Community Development Block Grants/State's Programs</b>			<u>524,203</u>
Home Investment Partnerships Program	14.239	B-C-10-1CB-2	195,939
(E) Home Investment Partnerships Program	14.239	N/A	664
<b>Total Home Investment Partnerships Program</b>			<u>196,603</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>720,806</u>
<b>U.S. DEPARTMENT OF JUSTICE PASSED THROUGH THE OFFICE OF CRIMINAL JUSTICE SERVICES</b>			
Crime Victim Assistance	16.575	2013-VAGENE069	2,004
Crime Victim Assistance	16.575	2012-VAGENE069	9,136
<b>Total Crime Victim Assistance</b>			<u>11,140</u>
<b>Total U.S. Department of Justice</b>			<u>11,140</u>



**MORROW COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE</b>	<b>CFDA NUMBER</b>	<b>PASS-THROUGH GRANT NUMBER</b>	<b>(A) CASH FEDERAL DISBURSEMENTS</b>
<b>U.S. DEPARTMENT OF LABOR PASSED THROUGH THE OHIO DEPARTMENT OF JOBS AND FAMILY SERVICES AND AREA 7 WORKFORCE INVESTMENT BOARD</b>			
Employment Service/Wagner-Peyser Funded Activities:	17.207	2012-7259-1/2011-7259-1	\$ 14,915
<b>Workforce Investment Act (WIA) Cluster:</b>			
(G) WIA Adult Program	17.258	2012-7259-1/2011-7259-1	54,430
(G) WIA Adult Program - Adult Administration	17.258	2012-7259-1/2011-7259-1	7,462
<b>Total Workforce Investment Act - Adult</b>			<u>61,892</u>
(G) WIA Youth Activities	17.259	2012-7259-1/2011-7259-1	12,781
(G) WIA Youth Activities - Youth Administration	17.259	2012-7259-1/2011-7259-1	2,094
<b>Total Workforce Investment Act - Youth Activities</b>			<u>14,875</u>
(G) WIA Dislocated Workers	17.260	2012-7259-1/2011-7259-1	8,945
(G) WIA Dislocated Worker Formula Grants	17.278	2012-7259-1/2011-7259-1	20,576
(G) WIA Dislocated Worker Formula Grants - Dislocated Workers Administration	17.278	2012-7259-1/2011-7259-1	6,778
<b>Total Workforce Investment Act - Dislocated Worker Formula Grants</b>			<u>27,354</u>
<b>Total Workforce Investment Act (WIA) Cluster</b>			<u>113,066</u>
<b>Total U.S. Department of Labor</b>			<u>127,981</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION PASSED THROUGH THE OHIO DEPARTMENT OF TRANSPORTATION</b>			
<b>Transit Services Program Cluster:</b>			
(H) Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	CRD-0059-007-121	49,596
(H) Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	CRD-0059-005011	13,604
(H) Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	PNP-0059-006008	37,930
<b>Total Capital Assistance Program for Elderly Persons and Persons with Disabilities</b>			<u>101,130</u>
(H) Job Access_Reverse Commute	20.516	JARC-4059-071101	77,110
<b>Total Transit Services Program Cluster and U.S. Department of Transportation</b>			<u>178,240</u>

**MORROW COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE</b>	<b>CFDA NUMBER</b>	<b>PASS-THROUGH GRANT NUMBER</b>	<b>(A) CASH FEDERAL DISBURSEMENTS</b>
<b>U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF HEALTH</b>			
Special Education-Grants for Infants and Families	84.181	59-1-002-1-HG-04-13	\$ 8,459
Special Education-Grants for Infants and Families	84.181	59-1-002-1-HG-03-12	32,925
<b>Total Special Education-Grants for Infants and Families</b>			<u>41,384</u>
<b>Total U.S. Department of Education</b>			<u>41,384</u>
<b>U.S. ELECTION ASSISTANCE COMMISSION PASSED THROUGH THE OHIO SECRETARY OF STATE</b>			
Help America Vote Act Requirements Payments	90.401	10-SOS-HAVA-59	3,955
<b>Total U.S. Election Assistance Commission</b>			<u>3,955</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF JOBS AND FAMILY SERVICES</b>			
Promoting Safe and Stable Families	93.556	G-1213-11-0089	26,091
(K) Promoting Safe and Stable Families	93.556	5AU-12-100-22-060	3,515
(K) Promoting Safe and Stable Families	93.556	5AU-13-100-22-060	11,032
<b>Total Promoting Safe and Stable Families</b>			<u>40,638</u>
Temporary Assistance for Needy Families	93.558	G-1213-11-0089	533,829
Child Support Enforcement	93.563	G-1213-11-0089	471,951
Chafee Foster Care Independence Program	93.674	G-1213-11-0089	1,634
<b>Child Care and Development Cluster:</b>			
(I) Child Care and Development Block Grant	93.575	G-1213-11-0089	14,354
(I) Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	G-1213-11-0089	10,958
<b>Total Child Care and Development Cluster</b>			<u>25,312</u>
Child Welfare Services_State Grants	93.645	G-1213-11-0089	58,995

**MORROW COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE</b>	<b>CFDA NUMBER</b>	<b>PASS-THROUGH GRANT NUMBER</b>	<b>(A) CASH FEDERAL DISBURSEMENTS</b>
Foster Care_Title IV-E	93.658	G-1213-11-0089	\$ 108,285
Adoption Assistance	93.659	G-1213-11-0089	32,373
Social Services Block Grant	93.667	G-1213-11-0089	557,201
(F) (J) Social Services Block Grant	93.667	N/A	32,067
<b>Total Social Services Block Grant</b>			<u>589,268</u>
Medical Assistance Program	93.778	G-1213-11-0089	743,323
(F) (J) (L) (M) Medical Assistance Program - Medicaid Administration Claiming	93.778	N/A	62,838
<b>Total Medical Assistance Program</b>			<u>806,161</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>2,668,446</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY PASSED THROUGH THE OHIO EMERGENCY MANAGEMENT AGENCY</b>			
Emergency Management Performance Grants	97.042	EMW-2011-EP-00003-S01	6,232
Emergency Management Performance Grants	97.042	EMW-2012-EP-00004-S01	10,038
<b>Total Emergency Management Performance Grants</b>			<u>16,270</u>
Homeland Security Grant Program	97.067	EMW-2011-SS-0070	10,480
<b>Total U.S. Department of Homeland Security</b>			<u>26,750</u>
<b>Total Federal Financial Assistance</b>			<u>\$ 4,054,570</u>

**MORROW COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**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 \$140,910 in administrative and other costs during 2012.

Activity in the Community Development Block Grant revolving loan fund during 2012 is as follows:

Beginning loans receivable balance as of January 1, 2012	\$ 517,023
Loans Disbursed	694
Loan Repayments	<u>(11,797)</u>
Ending loans receivable balance as of December 31, 2012	<u>\$ 505,920</u>
Cash balance on hand as of December 31, 2012	\$ 147,383
Delinquent amounts due as of December 31, 2012	\$ 401,944

(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 \$2,087 in administrative and other costs during 2012.

Activity in the Community Development Block Grant revolving loan fund during 2012 is as follows:

Beginning loans receivable balance as of January 1, 2012	\$ 52,906
Loans Disbursed	5,693
Loan Repayments	<u>(10,792)</u>
Ending loans receivable balance as of December 31, 2012	<u>\$ 47,807</u>
Cash balance on hand as of December 31, 2012	\$ 55,145
Delinquent amounts due as of December 31, 2012	\$ -

(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 \$664 in administrative or other costs during 2012.

Activity in the Home Investment Partnership Program revolving loan fund during 2012 is as follows:

Beginning loans receivable balance as of January 1, 2012	\$ 101,292
Loans Disbursed	200
Loan Repayments	<u>(6,391)</u>
Ending loans receivable balance as of December 31, 2012	<u>\$ 95,101</u>
Cash balance on hand as of December 31, 2012	\$ 21,154
Delinquent amounts due as of December 31, 2012	\$ -

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

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

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

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

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

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

(L) During the calendar year, the County Board of Developmental Disabilities received a refund for eFMAP (ARRA) funds for the Medicaid Program (CFDA #93.778) in the amount of \$591 from the Ohio Department of Developmental Disabilities. This refund was a correction to the eFMAP percentage for four billing cycles during July and August 2009. This revenue is not listed on the County's Schedule of Expenditures of Federal Awards since the underlying expenses occurred in prior reporting periods.

(M) During the calendar year, the County Board of Developmental Disabilities received a settlement for the 2007 Cost Report from the Ohio Department of Developmental Disabilities for the Medicaid Program (CFDA #93.778) in the amount of \$3,302. The Cost Report settlement was for settlement of the difference between the statewide payment rate and the rate calculated based upon actual expenditures for Medicaid services. This revenue is not listed on the County's Schedule of Expenditures 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, 2012. The County incurred no administrative or other costs during 2012.



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

**Independent Auditor's 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, 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, 2012, and the related notes to the financial statements, which collectively comprise Morrow County's basic financial statements and have issued our report thereon dated August 26, 2013, wherein we noted as discussed in Note 3, Morrow County adopted Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*, and noted as discussed in Note 3 to the financial statements, governmental activities net position was restated as of December 31, 2011 to correct errors and omissions previously reported. 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***

As part of our financial statement audit, we considered Morrow County's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of Morrow County's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider a material weakness.

Board of Commissioners  
Morrow County

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 a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of Morrow County's financial statements. We consider finding 2012-MC-001 described in the accompanying schedule of findings and responses to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-MC-002 described in the accompanying schedule of findings and responses to be a significant deficiency.

### ***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, opining 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 noted certain matters not requiring inclusion in this report that we reported to Morrow County's management in a separate letter dated August 26, 2013.

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

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.

### ***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of Morrow County's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering Morrow County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.  
August 26, 2013



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### **Independent Auditor's 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, Ohio 43338

To the Board of Commissioners:

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

We have audited Morrow County's compliance with the applicable 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, 2012. The *Summary of Audit Results* in the accompanying schedule of findings and responses identifies Morrow County's major federal programs.

#### ***Management's Responsibility***

Morrow County's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to opine on Morrow County's compliance for each of Morrow County's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for 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 us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about Morrow County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on Morrow County's major programs. However, our audit does not provide a legal determination of Morrow County's compliance.

Board of Commissioners  
Morrow County

***Opinion on Each Major Federal Program***

In our opinion, Morrow County complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2012.

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

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Julian & Grube, Inc.  
August 26, 2013



MORROW COUNTY

SCHEDULE OF FINDINGS AND RESPONSES  
 OMB CIRCULAR A-133 § .505  
 DECEMBER 31, 2012

1. SUMMARY OF AUDITOR'S RESULTS		
(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under §.510(a)?	No
(d)(1)(vii)	Major Programs (listed):	Social Services Block Grant, CFDA #93.667 and Medical Assistance Program, CFDA #93.778
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**MORROW COUNTY**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**OMB CIRCULAR A-133 § .505**  
**DECEMBER 31, 2012**

<b>2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>	
Finding Number	2012-MC-001

Material Weakness - 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 position balances for the year ended December 31, 2011. In addition, the County recognized a need to adjust the amount booked as real and other taxes receivable as of December 31, 2012 in the general real property tax agency fund. The restatement and adjustment are as follows:

Job and Family Services Building Restatement

A restatement of net position for governmental activities at December 31, 2011 was required to properly include the Job and Family Services building and related depreciation as a capital asset. This restatement resulted in an overall increase in governmental activities net position of \$2,856,554.

Agency Fund Adjustment

Increase real and other taxes receivable and due to other governments in the amount of \$4,384,545 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 2012:

Audit Adjustments:

General -

1. Decrease due to other funds and intergovernmental expense in the amount of \$404,273 to reverse an entry recorded related to out of home placement costs.

County Board of Developmental Disabilities -

1. Reclass miscellaneous revenue to charges for services and intergovernmental revenue in the amounts of \$67,086 and \$265,400, respectively, to properly classify revenues.

Public Assistance -

1. Increase due from other governments and deferred inflows of resources in the amount of \$163,500 to properly account for Job Access\_Reverse Commute grant receivable.
2. Increase accounts payable and human services expenditures in the amount of \$163,500 for services provided and not paid by December 31, 2012.
3. Increase human services expenditures and due from other funds in the amount of \$404,273 to reverse an entry recorded related to out of home placement costs.

Aggregate Remaining Fund Information -

1. Increase accounts receivable and deferred inflows of resources in the amount of \$163,500 in the Morrow County Transit Authority (MCTC) special revenue fund to properly record amounts due for transportation provided and not paid for as of December 31, 2012.

MORROW COUNTY

SCHEDULE OF FINDINGS AND RESPONSES  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2012

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2012-MC-001 - (Continued)

2. Increase accounts payable and human services expenditures in the amount of \$404,273 in the Children Services special revenue fund to account for out of home placement costs due as of December 31, 2012.

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.

Finding Number	2012-MC-002
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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.

MORROW COUNTY

SCHEDULE OF FINDINGS AND RESPONSES  
OMB CIRCULAR A-133 § .505  
DECEMBER 31, 2012

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2012-MC-002 - (Continued)

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.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None

MORROW COUNTY

STATUS OF PRIOR AUDIT FINDINGS  
 OMB CIRCULAR A-133 § .505  
 DECEMBER 31, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2011-MC-001	<u>Significant Deficiency - Capital Assets</u> - 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.	No	Repeated as finding 2012-MC-002
2011-MC-002	<u>Significant Deficiency - Restatement and Audit Adjustments</u> - 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. Additionally, misstatements in the financial statements were identified which were not initially identified by the County's internal control.	No	Repeated as finding 2012-MC-001