

MORGAN COUNTY
ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012

Wolfe, Wilson, & Phillips, Inc.
37 South Seventh Street
Zanesville, Ohio 43701



Dave Yost • Auditor of State

Board of County Commissioners
Morgan County
155 East Main Street
Room 217
McConnelsville, Ohio 43756-1297

We have reviewed the *Independent Auditors' Report* of Morgan County, prepared by Wolfe, Wilson & Phillips, Inc., for the audit period January 1, 2012 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

November 4, 2013

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MORGAN COUNTY

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WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701

INDEPENDENT AUDITORS' REPORT

Morgan County
155 East Main Street
Room 217
McConnelsville, Ohio 43756-1297

To the Board of County Commissioners:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Morgan County as of December 31, 2012, and the respective changes in cash and the respective budgetary comparison for the General Fund, Job and Family Services Fund, Motor Vehicle and Gasoline Tax Fund, Board of Developmental Disabilities Fund and 911 Funds thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2012, the County adopted new accounting guidance in Government Accounting Standards Board Statement No. 60, *Accounting and Financial Reporting for Service Concessions Arrangements*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, Statement No. 63, *Financing Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and Statement No.66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. We did not modify our opinion regarding this matter.

Other Matters

Supplementary and Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated August 30, 2013, on our consideration of the Morgan County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
August 30, 2013

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

The discussion and analysis of Morgan County's financial performance provides an overview 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 to enhance their understanding of the County's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- At the end of the current year, the County's governmental funds reported a combined ending fund balance of \$4,445,289, an increase of \$115,765 from the prior year.

Using This Annual Financial Report

This discussion and analysis is intended to serve as an introduction to Morgan County's Cash Financial Statements. Morgan County's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

County-Wide Financial Statements

The County-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The *Statement of Net Position - Cash Basis* presents information on Morgan County's Cash assets.

The *Statement of Activities - Cash Basis* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs.

Both of the government-wide financial statements identify functions of Morgan County that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of Morgan County include general government, public safety, public works, health, human services, and community and economic development.

Governmental Activities - Most of the County's programs and services are funded primarily by taxes and intergovernmental revenues, including federal and State grants and other shared revenues.

Component Units - The County's financial statements include financial data of the Regional Airport Authority, Inc. and the Mary Hammond Adult Activity Center, Inc. These component units are described in the notes to the financial statements. Component units are separate legal entities which may buy, sell, lease, and mortgage property and sue or be sued in their own name.

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 two categories: governmental funds and fiduciary funds. Fund financial statements provide detailed information about the County's major funds. Based on the restriction on the use of moneys, the County has established many funds that account for the multitude of services provided to our

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

residents. The County's major governmental funds are the General Fund and the Job and Family Services, Motor Vehicle and Gasoline Tax, Board of Developmental Disabilities, and 911 Funds Special Revenue Funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities on the government-wide financial statements. Most of the County's basic services are reported in these funds that focus on how money flows into and out of the funds and the year end balances available for spending.

The County maintains a multitude of individual governmental funds. Information is presented separately on the governmental fund *Statement of Receipts, Disbursements and Changes in Cash Basis Fund Balance* for the major funds, which were identified earlier. Data from the other governmental funds are combined into a single, aggregated presentation.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the County's programs.

Notes to the Basic Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided on the government-wide and fund financial statements.

Government-Wide Financial Analysis

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

Table 1
 Net Position - Cash Basis

	Governmental Activities		Change
	2012	2011	
Assets			
Equity in Pooled Cash and Cash Equivalents	\$4,142,106	\$4,021,095	\$121,011
Cash and Cash Equivalents with Fiscal Agent	366,047	330,468	35,579
<i>Total Assets</i>	<u>\$4,508,153</u>	<u>\$4,351,563</u>	<u>\$156,590</u>
Net Position			
Restricted for:			
Capital Projects	\$1,239	\$1,239	\$0
Job and Family Services	91,283	107,551	(16,268)
Motor Vehicle and Gasoline Tax	444,110	816,405	(372,295)
Board of Developmental Disabilities	1,509,196	1,191,915	317,281
Emergency Services	504,077	0	504,077
Senior Citizen Services	71,740	70,792	948
Child Support Enforcement Agency	66,625	100,953	(34,328)
Children Services	137,759	161,830	(24,071)
Unclaimed Monies	10,077	21,446	(11,369)
Other Purposes	1,173,775	1,619,641	(445,866)
Unrestricted	498,272	259,791	238,481
<i>Total Net Position</i>	<u>\$4,508,153</u>	<u>\$4,351,563</u>	<u>\$156,590</u>

Morgan County, Ohio
Management's Discussion and Analysis
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A portion of the County's net position, \$4,009,881 or 89 percent, represents resources that are subject to restrictions on how they can be used. The remaining balance, unrestricted assets of \$498,272, or 11 percent, is to be used to meet the County's ongoing obligations to citizens and creditors.

Table 2 shows the changes in net position for 2012 compared to 2011:

Table 2
Changes in Net Position

	Governmental Activities	
	2012	2011
Receipts:		
Program Receipts		
Charges for Services	\$1,570,733	\$1,536,729
Operating Grants and Contributions	10,698,133	9,976,308
Capital Grants and Contributions	702,475	619,125
<i>Total Program Receipts</i>	<u>12,971,341</u>	<u>12,132,162</u>
General Receipts:		
Property Taxes	2,146,627	2,064,069
Conveyance Fees	61,731	61,817
Permissive Sales Taxes	1,310,211	1,223,955
Intergovernmental	410,183	410,090
Interest	135,302	122,071
Rent	198,403	234,267
Payment in Lieu of Taxes	1,174	1,100
Proceeds from Loan	75,000	75,000
Proceeds from OWDA Loan	119,796	0
Miscellaneous	63,395	77,180
<i>Total General Receipts</i>	<u>4,521,822</u>	<u>4,269,549</u>
<i>Total Receipts</i>	<u>17,493,163</u>	<u>16,401,711</u>
Program Disbursements		
General Government:		
Legislative and Executive	1,469,526	1,274,913
Judicial	500,565	537,287
Public Safety	2,208,378	2,087,868
Public Works	5,275,235	3,103,126
Health	1,671,601	1,692,458
Human Services	3,637,803	3,738,023
Community and Economic Development	1,609,542	1,596,090
Capital Outlay	0	619,125
Intergovernmental	209	2,824
Other	564,258	542,715
Debt Service:		
Principal	305,287	332,589
Interest and Fiscal Charges	94,169	97,798
<i>Total Disbursements</i>	<u>17,336,573</u>	<u>15,624,816</u>
<i>Increase in Net Position</i>	156,590	776,895
<i>Net Position Beginning of Year</i>	<u>4,351,563</u>	<u>3,574,668</u>
<i>Net Position End of Year</i>	<u><u>\$4,508,153</u></u>	<u><u>\$4,351,563</u></u>

Morgan County, Ohio
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Operating grants were the largest program revenues, accounting for \$10,698,133 or 61.2 percent of total governmental activities receipts. The major recipients of intergovernmental program receipts were the Job and Family Services, Motor Vehicle and Gasoline Tax, and Board of Developmental Disabilities program disbursements.

Property tax revenues account for \$2,146,627 or 12.3 percent of total governmental revenues. Another major component of governmental receipts is permissive sales taxes, which accounted for \$1,310,211 or 7.5 percent of total receipts.

The County's direct charges to users of governmental services made up \$1,570,733 or 9 percent of total governmental receipts. These charges are for fees associated with the collection of property taxes, fines and forfeitures related to judicial activity, and licenses and permits.

Public works programs accounted for \$5,275,235, or 30.4 percent of total disbursements for governmental activities. Other major program disbursements for governmental activities include human services programs, which accounted for \$3,637,803, or 21 percent of total disbursements.

Table 3, for governmental activities, indicates the total cost of services and the net cost of services for 2012 and 2011. The statement of activities reflects the cost of program services and the charges for services, and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues.

Table 3
 Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2012	2012	2011	2011
General Government:				
Legislative and Executive	\$1,469,526	\$731,472	\$1,274,913	\$645,957
Judicial	500,565	155,520	537,287	216,229
Public Safety	2,208,378	1,619,769	2,087,868	1,524,066
Public Works	5,275,235	301,646	3,103,126	(1,050,639)
Health	1,671,601	456,883	1,692,458	627,861
Human Services	3,637,803	158,506	3,738,023	(71,910)
Community and Economic Development	1,609,542	1,233	1,596,090	8,755
Capital Outlay	0	0	619,125	619,125
Intergovernmental	209	(23,511)	2,824	108
Other	564,258	564,258	542,715	542,715
Debt Service:				
Principal	305,287	305,287	332,589	332,589
Interest and Fiscal Charges	94,169	94,169	97,798	97,798
Total Expenses	<u>\$17,336,573</u>	<u>\$4,365,232</u>	<u>\$15,624,816</u>	<u>\$3,492,654</u>

Charges for services, operating grants, and capital grants of \$12,971,341, or 74.8 percent of the total costs of services, are received and used to fund general governmental disbursements of the County. The remaining governmental disbursements are funded by property taxes, permissive sales taxes, intergovernmental revenues, interest, and miscellaneous revenues.

The \$456,883 in net cost of services for Health demonstrates the costs of services that are not supported from State and federal resources. As such, the taxpayers have approved property tax levies for several programs including the Board of Developmental Disabilities, Senior Citizen Services, and Ambulance Services.

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

Financial Analysis of County 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 the end of the year.

As of December 31, 2012, the County's governmental funds reported a combined ending fund balance of \$4,445,289, an increase of \$115,765 in comparison with the prior year. \$145,594 or 3.3 percent of this total constitutes unassigned fund balance. The remainder of the fund balance is nonspendable, restricted, committed, and assigned to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior year or for unclaimed money payouts. While the bulk of the governmental fund balances are restricted in the governmental fund statements, they lead to restricted net position on the Statement of Net Position due to expenditure restrictions mandated by the source of the resource, such as the State or federal government.

The General Fund is the primary operating fund of the County. At the end of 2012, unassigned fund balance was \$145,594, while total fund balance was \$440,204. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 4.3 percent to total General Fund disbursements, while total fund balance represents 13 percent of that same amount.

During 2012, the fund balance of the County's General Fund increased by \$186,287. The primary causes of the increase include an increase in charges for services revenue and permissive sales taxes being collected.

At the end of 2012, the Job and Family Services Special Revenue Fund had a fund balance of \$91,283, a decrease of \$16,268 from 2011.

At the end of 2012, the Motor Vehicle and Gasoline Tax Special Revenue Fund had a fund balance of \$444,110, in comparison to a fund balance of \$816,405 at the end of 2011. This is a decrease of \$372,295.

At the end of 2012, the Board of Developmental Disabilities Special Revenue Fund had a fund balance of \$1,509,196. This is an increase of \$317,281 from the fund balance of \$1,191,915 at the end of 2011.

At the end of 2012, the 911 Funds Special Revenue Fund had a fund balance of \$504,077, an increase of \$121,572 from 2011.

Budgetary Highlights

The County's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Board of County Commissioners adopts a permanent annual operating budget for the County on or about January 1.

For the General Fund, changes from the original budget to the final budget have been minimal. Fluctuations in growth and diversity have typically not occurred in Morgan County, allowing department managers the ability to consistently predict revenues and expenditures.

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

Capital Assets and Debt Administration

Capital Assets - The County had an appraisal of their capital assets in 1995. No updates to the County's capital assets have been made since 1995 and no information relating to capital assets is being presented.

Long-Term Obligations - As of December 31, 2012, the County had total general obligation bonded debt outstanding of \$1,651,522. All of this debt is expected to be repaid through governmental activities. Other outstanding long-term debt included an OWDA Loan of \$51,523, a First National Bank Loan of \$90,584, and a Tax Increment Financing Loan of \$59,068.

Additional information on the County's long-term obligations can be found in Note 14 of this report.

Economic Factors

The County's \$275,395 million tax base has increased 1.8 percent over the last three years. This increase is attributed to an increase in the County's real estate tax values. Real property values within the County have risen over the past several years and are now at an all time high.

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Gary Woodward, Morgan County Auditor, 155 East Main Street, Room 217, McConnelsville, Ohio 43756.

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

	Primary Government	Component Units	
	Governmental Activities	Morgan County Regional Airport Authority	Mary Hammond Adult Activity Center, Inc.
Assets			
Equity in Pooled Cash and Cash Equivalents	\$4,142,106	\$6,228	(\$275)
Cash and Cash Equivalents with Fiscal Agents	366,047	0	0
<i>Total Assets</i>	<u>\$4,508,153</u>	<u>\$6,228</u>	<u>(\$275)</u>
Net Position			
Restricted for:			
Capital Projects	\$1,239	\$0	\$0
Job and Family Services	91,283	0	0
Motor Vehicle and Gasoline Tax	444,110	0	0
Board of Developmental Disabilities	1,509,196	0	0
Emergency Services	504,077	0	0
Senior Citizen Services	71,740	0	0
Child Support Enforcement Agency	66,625	0	0
Children Services	137,759	0	0
Unclaimed Monies	10,077	0	0
Other Purposes	1,173,775	0	0
Unrestricted	498,272	6,228	(275)
<i>Total Net Position</i>	<u>\$4,508,153</u>	<u>\$6,228</u>	<u>(\$275)</u>

See accompanying notes to the basic financial statements

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

Program Receipts

	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government:				
Legislative and Executive	\$1,469,526	\$705,372	\$32,682	\$0
Judicial	500,565	274,848	70,197	0
Public Safety	2,208,378	144,879	443,730	0
Public Works	5,275,235	178,865	4,092,249	702,475
Health	1,671,601	24,412	1,190,306	0
Human Services	3,637,803	195,603	3,283,694	0
Community and Economic Development	1,609,542	46,754	1,561,555	0
Intergovernmental	209	0	23,720	0
Other	564,258	0	0	0
Debt Service:				
Principal Retirement	305,287	0	0	0
Interest and Fiscal Charges	94,169	0	0	0
<i>Total Governmental Activities</i>	<u>\$17,336,573</u>	<u>\$1,570,733</u>	<u>\$10,698,133</u>	<u>\$702,475</u>
Component Unit				
Morgan County Regional Airport Authority	\$13,797	\$16,755	\$0	\$0
Mary Hammond Adult Activity Center, Inc.	\$127,339	\$112,530	\$0	\$0

General Receipts

Property Taxes Levied for:
General Purposes
Board of Developmental Disabilities
Senior Citizen Services
Ambulance Services
Conveyance Fees
Permissive Sales Taxes Levied for General Purposes
Grants and Entitlements not Restricted to Specific Programs
Interest
Rent
Payment in Lieu of Taxes
Proceeds from Loan
Proceeds of OWDA Loan
Miscellaneous

Total General Receipts

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts
and Changes in Net Position
Component Units

Primary Government	Morgan County	Mary Hammond
Governmental Regional Activities	Airport Authority	Adult Activity Center, Inc.
(\$731,472)	\$0	\$0
(155,520)	0	0
(1,619,769)	0	0
(301,646)	0	0
(456,883)	0	0
(158,506)	0	0
(1,233)	0	0
23,511	0	0
(564,258)	0	0
(305,287)	0	0
(94,169)	0	0
<u>(4,365,232)</u>	<u>0</u>	<u>0</u>
\$0	\$2,958	\$0
<u>\$0</u>	<u>\$0</u>	<u>(\$14,809)</u>
763,747	0	0
743,511	0	0
49,128	0	0
590,241	0	0
61,731	0	0
1,310,211	0	0
410,183	0	0
135,302	31	0
198,403	0	0
1,174	0	0
75,000	0	0
119,796	0	0
63,395	5	3,355
<u>4,521,822</u>	<u>36</u>	<u>3,355</u>
156,590	2,994	(11,454)
<u>4,351,563</u>	<u>3,234</u>	<u>11,179</u>
<u><u>\$4,508,153</u></u>	<u><u>\$6,228</u></u>	<u><u>(\$275)</u></u>

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

	<u>General</u>	<u>Job and Family Services</u>	<u>Motor Vehicle and Gasoline Tax</u>	<u>Board of Developmental Disabilities</u>	<u>911 Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets							
Equity in Pooled Cash and Cash Equivalents	\$435,408	\$91,283	\$444,110	\$1,143,149	\$504,077	\$1,451,138	\$4,069,165
Cash With Fiscal Agent	0	0	0	366,047	0	0	366,047
Restricted Assets:							
Equity in Pooled Cash and Cash Equivalents	<u>4,796</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,281</u>	<u>10,077</u>
<i>Total Assets</i>	<u>\$440,204</u>	<u>\$91,283</u>	<u>\$444,110</u>	<u>\$1,509,196</u>	<u>\$504,077</u>	<u>\$1,456,419</u>	<u>\$4,445,289</u>
Fund Balances							
Nonspendable	\$4,796	\$0	\$0	\$0	\$0	\$5,281	\$10,077
Restricted	0	91,283	444,110	1,509,196	504,077	1,449,899	3,998,565
Committed	0	0	0	0	0	1,239	1,239
Assigned	289,814	0	0	0	0	0	289,814
Unassigned	<u>145,594</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>145,594</u>
<i>Total Fund Balances</i>	<u>\$440,204</u>	<u>\$91,283</u>	<u>\$444,110</u>	<u>\$1,509,196</u>	<u>\$504,077</u>	<u>\$1,456,419</u>	<u>\$4,445,289</u>

See accompanying notes to the basic financial statements

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

	General	Job and Family Services	Motor Vehicle and Gasoline Tax	Board of Developmental Disabilities	911 Funds	Other Governmental Funds	Total Governmental Funds
Receipts							
Property Taxes	\$763,747	\$0	\$0	\$743,511	\$0	\$639,369	\$2,146,627
Permissive Sales Taxes	1,310,211	0	0	0	0	0	1,310,211
Payment in Lieu of Taxes	1,174	0	0	0	0	0	1,174
Charges for Services	768,786	0	173,186	0	42,517	383,039	1,367,528
Licenses and Permits	550	0	0	0	0	52,719	53,269
Fines and Forfeitures	101,904	0	5,679	0	0	104,084	211,667
Intergovernmental	483,891	2,665,464	3,942,841	1,188,532	90,000	3,426,664	11,797,392
Interest	135,302	0	10,424	1,774	0	1,201	148,701
Rent	9,250	0	0	0	0	189,153	198,403
Miscellaneous	21,000	4,235	0	5,074	0	33,086	63,395
Total Receipts	3,595,815	2,669,699	4,132,130	1,938,891	132,517	4,829,315	17,298,367
Disbursements							
Current:							
General Government:							
Legislative and Executive	1,050,322	0	0	0	0	419,204	1,469,526
Judicial	433,657	0	0	0	0	66,908	500,565
Public Safety	1,156,812	0	0	0	10,945	1,040,621	2,208,378
Public Works	0	0	4,454,435	0	0	820,800	5,275,235
Health	27,255	0	0	1,621,610	0	22,736	1,671,601
Human Services	142,430	2,727,600	0	0	0	767,773	3,637,803
Community and Economic Development	0	0	0	0	0	1,650,367	1,650,367
Intergovernmental	0	0	0	0	0	209	209
Other	564,258	0	0	0	0	0	564,258
Debt Service:							
Principal Retirement	16,011	0	45,291	0	0	243,985	305,287
Interest and Fiscal Charges	4,030	0	4,699	0	0	85,440	94,169
Total Disbursements	3,394,775	2,727,600	4,504,425	1,621,610	10,945	5,118,043	17,377,398
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>201,040</u>	<u>(57,901)</u>	<u>(372,295)</u>	<u>317,281</u>	<u>121,572</u>	<u>(288,728)</u>	<u>(79,031)</u>
Other Financing Sources (Uses)							
Proceeds from Loan	0	0	0	0	0	75,000	75,000
Proceeds from OWDA Loan	0	0	0	0	0	119,796	119,796
Advances In	57,168	0	0	0	0	30,288	87,456
Advances Out	(30,288)	0	0	0	0	(57,168)	(87,456)
Transfers In	0	41,633	0	0	0	0	41,633
Transfers Out	(41,633)	0	0	0	0	0	(41,633)
Total Other Financing Sources (Uses)	<u>(14,753)</u>	<u>41,633</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>167,916</u>	<u>194,796</u>
Net Change in Fund Balances	186,287	(16,268)	(372,295)	317,281	121,572	(120,812)	115,765
Fund Balances Beginning of Year	<u>253,917</u>	<u>107,551</u>	<u>816,405</u>	<u>1,191,915</u>	<u>382,505</u>	<u>1,577,231</u>	<u>4,329,524</u>
Fund Balances End of Year	<u>\$440,204</u>	<u>\$91,283</u>	<u>\$444,110</u>	<u>\$1,509,196</u>	<u>\$504,077</u>	<u>\$1,456,419</u>	<u>\$4,445,289</u>

See accompanying notes to the basic financial statements

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

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Property Taxes	\$708,200	\$708,200	\$758,059	\$49,859
Permissive Sales Taxes	1,200,000	1,253,000	1,310,211	57,211
Payment in Lieu of Taxes	1,000	1,000	1,174	174
Charges for Services	650,855	689,471	768,786	79,315
Licenses and Permits	800	800	550	(250)
Fines and Forfeitures	67,800	67,800	101,904	34,104
Intergovernmental	430,069	430,069	483,891	53,822
Interest	119,125	119,125	135,302	16,177
Rent	25,700	25,700	9,250	(16,450)
Miscellaneous	101,650	101,650	21,000	(80,650)
<i>Total Receipts</i>	<u>3,305,199</u>	<u>3,396,815</u>	<u>3,590,127</u>	<u>193,312</u>
Disbursements				
Current:				
General Government:				
Legislative and Executive	929,703	1,050,436	1,050,322	114
Judicial	459,393	447,585	439,341	8,244
Public Safety	1,114,416	1,159,220	1,159,220	0
Health	27,364	27,255	27,255	0
Human Services	144,998	143,930	143,930	0
Other	696,201	649,638	564,258	85,380
Debt Service:				
Principal Retirement	16,011	16,011	16,011	0
Interest and Fiscal Charges	4,030	4,030	4,030	0
<i>Total Disbursements</i>	<u>3,392,116</u>	<u>3,498,105</u>	<u>3,404,367</u>	<u>93,738</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(86,917)	(101,290)	185,760	287,050
Other Financing Use				
Transfers Out	(74,326)	(41,633)	(41,633)	0
<i>Net Change in Fund Balance</i>	(161,243)	(142,923)	144,127	287,050
<i>Fund Balance Beginning of Year</i>	227,213	227,213	227,213	0
Prior Year Encumbrances Appropriated	30,566	30,566	30,566	0
<i>Fund Balance End of Year</i>	<u>\$96,536</u>	<u>\$114,856</u>	<u>\$401,906</u>	<u>\$287,050</u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
*Statement of Receipts, Disbursements and Changes
in Fund Balance - Budget and Actual (Budget Basis)
Job and Family Services 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>		
Receipts				
Intergovernmental	\$ 2,683,000	\$ 2,931,289	\$ 2,665,464	\$ (265,825)
Miscellaneous	<u>30,000</u>	<u>30,000</u>	<u>4,235</u>	<u>(25,765)</u>
<i>Total Receipts</i>	2,713,000	2,961,289	2,669,699	(291,590)
Disbursements				
Current:				
Human Services	<u>3,066,007</u>	<u>3,044,742</u>	<u>2,775,525</u>	<u>269,217</u>
<i>Excess of Receipts Under Disbursements</i>	(353,007)	(83,453)	(105,826)	(22,373)
Other Financing Source				
Transfers In	<u>45,000</u>	<u>45,000</u>	<u>41,633</u>	<u>(3,367)</u>
<i>Net Change in Fund Balance</i>	(308,007)	(38,453)	(64,193)	(25,740)
<i>Fund Balance Beginning of Year</i>	99,544	99,544	99,544	-
Prior Year Encumbrances Appropriated	<u>8,007</u>	<u>8,007</u>	<u>8,007</u>	<u>-</u>
<i>Fund Balance (Deficit) End of Year</i>	<u>\$ (200,456)</u>	<u>\$ 69,098</u>	<u>\$ 43,358</u>	<u>\$ (25,740)</u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
*Statement of Receipts, Disbursements and Changes
in Fund Balance - Budget and Actual (Budget Basis)
Motor Vehicle and Gasoline Tax 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>		
Receipts				
Charges for Services	\$ 79,500	\$ 79,500	\$ 173,186	\$ 93,686
Fines and Forfeitures	7,000	7,000	5,679	(1,321)
Intergovernmental	3,181,000	3,346,034	3,942,841	596,807
Interest	6,000	6,000	10,424	4,424
<i>Total Receipts</i>	3,273,500	3,438,534	4,132,130	693,596
Disbursements				
Current:				
Public Works	3,260,563	3,937,171	4,476,338	(539,167)
Debt Service:				
Principal Retirement	45,291	45,291	45,291	-
Interest and Fiscal Charges	4,699	4,699	4,699	-
<i>Total Disbursements</i>	3,310,553	3,987,161	4,526,328	(539,167)
<i>Net Change in Fund Balance</i>	(37,053)	(548,627)	(394,198)	154,429
<i>Fund Balance Beginning of Year</i>	779,352	779,352	779,352	-
Prior Year Encumbrances Appropriated	37,053	37,053	37,053	-
<i>Fund Balance End of Year</i>	<u>\$ 779,352</u>	<u>\$ 267,778</u>	<u>\$ 422,207</u>	<u>\$ 154,429</u>

See accompanying notes to the basic financial statements

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Property Taxes	\$ 737,000	\$ 737,000	\$ 737,692	\$ 692
Intergovernmental	893,100	893,100	1,188,532	295,432
Interest	-	-	1,774	1,774
Miscellaneous	9,500	9,500	5,074	(4,426)
<i>Total Receipts</i>	1,639,600	1,639,600	1,933,072	293,472
Disbursements				
Current:				
Health	1,697,911	1,697,911	1,645,910	52,001
<i>Net Change in Fund Balance</i>	(58,311)	(58,311)	287,162	345,473
<i>Fund Balance Beginning of Year</i>	1,115,865	1,115,865	1,115,865	-
Prior Year Encumbrances Appropriated	24,593	24,593	24,593	-
<i>Fund Balance End of Year</i>	<u>\$ 1,082,147</u>	<u>\$ 1,082,147</u>	<u>\$ 1,427,620</u>	<u>\$ 345,473</u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
*Statement of Receipts, Disbursements and Changes
in Fund Balance - Budget and Actual (Budget Basis)*
911 Funds
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>		
Receipts				
Charges for Services	\$ 30,000	\$ 30,000	\$ 42,517	\$ 12,517
Intergovernmental	90,000	90,000	90,000	-
<i>Total Receipts</i>	120,000	120,000	132,517	12,517
Disbursements				
Current:				
Public Safety	100,000	150,000	10,945	139,055
<i>Net Change in Fund Balance</i>	20,000	(30,000)	121,572	151,572
<i>Fund Balance Beginning of Year</i>	382,505	382,505	382,505	-
<i>Fund Balance End of Year</i>	<u>\$ 402,505</u>	<u>\$ 352,505</u>	<u>\$ 504,077</u>	<u>\$ 151,572</u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
Statement of Fund Net Position - Cash Basis
Internal Service Funds
December 31, 2012

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$62,864</u></u>
 Net Position	
Unrestricted	<u><u>\$62,864</u></u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
*Statement of Cash Receipts, Disbursements
and Change in Fund Net Position - Cash Basis
Internal Service Funds
For the Year Ended December 31, 2012*

Operating Receipts	
Charges for Services	\$157,016
Operating Disbursements	
Contractual Services	<u>116,191</u>
<i>Change in Net Position</i>	40,825
<i>Net Position Beginning of Year</i>	<u>22,039</u>
<i>Net Position End of Year</i>	<u><u>\$62,864</u></u>

See accompanying notes to the basic financial statements

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

Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$1,076,684</u></u>
Net Position	
Total Net Position	<u><u>\$1,076,684</u></u>

See accompanying notes to the financial statements

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2012

NOTE 1 - REPORTING ENTITY

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

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

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

Component units are legally separate organizations for which the County is financially accountable. The County is financially accountable for an organization if the County appoints a voting majority of the program's governing board and (1) the County is able to significantly influence the programs of services performed or provided by the organization; or (2) the County is legally entitled to or can access the organization's resources; the County is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the County is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the County in that the County approves the budget, the levying of taxes, or the issuance of debt, and there is a potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the primary government.

The Mary Hammond Adult Activity Center, Inc. (the Workshop) is a legally separate, not-for-profit corporation, served by a self-appointing Board of Trustees. The Workshop is under a contractual agreement with the Morgan County Board of Developmental Disabilities (BDD) to provide sheltered employment for developmentally disabled or handicapped adults in the County. BDD provides the Workshop with staff salaries, transportation, equipment (except that used directly in the production of goods or rendering of services), staff to administer and supervise training programs, and other funds as necessary for the operation of the Workshop. Based on the significant services and resources provided by the County to the Workshop and the sole purpose of the Workshop to provide assistance to the disabled and handicapped adults of the County, the Workshop is considered to be a component unit of Morgan County.

The Morgan County Regional Airport Authority (the Authority) was created by resolution of the County Commissioners under Ohio Rev. Code Section 308.01. The purpose of the Authority is the acquisition, construction, operation, and maintenance of airports and airport facilities in the County. The Authority operates under the direction of a three-member Board of Trustees, appointed by the County Commissioners. A Secretary-Treasurer is responsible for the fiscal accounting of the resources of the Authority. Services provided by the Authority include the means by which to aid the safe taking off and landing of aircraft, storage and maintenance of aircraft, and the safe and efficient operation and maintenance of the airport. Since the Authority's Board is appointed by the County Commissioners, the Authority is considered to be a component unit of Morgan County and is discretely presented. Additional disclosures can be found in Note 22.

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2012

As the custodian of public funds, the County Treasurer invests all 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 but is not financially accountable for their operations. Accordingly, the activity of the following districts and agencies is presented as agency funds within the County's financial statements:

The Morgan County Health District The District is governed by the Board of Health which oversees the operation of the District and is elected by a regional advisory council composed of township trustees, mayors of participating municipalities, and one County Commissioner. The council adopts its own budget and operates autonomously from the County. Funding is based on a rate per taxable valuation, along with State and Federal grants applied for by the District.

Morgan County Soil and Water Conservation District The Soil and Water Conservation District is statutorily created as a separate and distinct political subdivision of the State. The five supervisors of the Soil and Water Conservation District are elected officials authorized to contract and sue on behalf of the District. The supervisors adopt their own budget, authorize District expenditures, hire and fire staff, and do not rely on the County to finance deficits.

The County is associated with certain organizations which are defined as jointly governed organizations and insurance purchasing pools. These organizations are presented in Notes 17 and 18 to the Basic Financial Statements. The organizations are:

Buckeye Hills-Hocking Valley Regional Development District
Joint Solid Waste District
Morgan County Family and Children First Council
Community Action Program Corporation of Washington-Morgan Counties
Buckeye Hills Resource Conservation and Development Project
Mental Health and Recovery Services Board of Muskingum County
Mid Eastern Ohio Regional Council of Governments (MEORC)
Buckeye Joint-County Self-Insurance Council
County Commissioners Association of Ohio Workers' Compensation Group Rating Plan

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the County's accounting policies.

A. Basis of Presentation

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

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2012

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 activity of the internal service funds is eliminated to avoid “doubling up” receipts and disbursements. The statements distinguish between those activities of the County that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services, if any.

The statement of net position presents the cash balance of the governmental activities of the County at year end. The statement of activities compares disbursements with program receipts for each function or program of the County's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the County's general receipts.

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 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.

B. 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 utilized by the County: 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. The following are the County's major governmental funds:

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

Job and Family Services Fund The public assistance fund accounts for various federal and state grants as well as transfers from the General Fund used to provide public assistance to general relief recipients and to pay their providers of medical assistance and certain public social services.

Motor Vehicle and Gasoline Tax Fund This fund accounts for revenue derived from motor vehicle licenses, gasoline taxes, grants, permissive sales taxes, and interest. Expenditures in this fund are restricted by State law to County road and bridge repair/improvements programs.

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2012

Board of Developmental Disabilities Fund This fund accounts for the operation of a school and the costs of administering a sheltered workshop for the mentally handicapped and developmentally disabled residents of the County. Revenue sources are federal and state grant monies and a county-wide property tax levy.

911 Funds This fund accounts for the related costs associated with implementing and maintaining a 911 system. Revenue sources are from a surcharge assessed by the phone company and distributed to the County and State grant monies.

Proprietary Fund Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The County's proprietary funds are classified as internal service funds.

Internal Service Funds Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the County on a cost-reimbursement basis. The County has two internal service funds. A Grant Administration Fund accounts for grant monies received from the Commissioner's Development Office and administers the grants by paying for the payroll, fringe benefits, and related expenditures of the grant. A Broadband Fund accounts for monies received from different departments to pay for broadband services.

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's fiduciary funds are all classified as agency funds. The agency funds account for assets held by the County as agent for the Board of Health and other districts and entities and for various taxes, assessments, and state shared resources collected on behalf of and distributed to other local governments.

C. Basis of Accounting

The County's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the County's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the County are described in the appropriate section in this note.

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

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2012

D. Budgetary Process

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

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

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

E. Cash and Cash Equivalents

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. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the County are considered to be cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

During 2012, the County had investments in non-negotiable certificates of deposit, which are reported at cost.

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

Cash and cash equivalents that are held separately for the County by fiscal agents and not held with the County Treasurer are recorded as "Cash and Cash Equivalents with Fiscal Agents".

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 \$135,302, which includes \$127,187 assigned from other County funds.

F. Inventory and Prepaid Items

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

Morgan County, Ohio
Notes to the Basic Financial Statements
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G. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

H. Accumulated Leave

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

I. Employer Contributions to Cost-Sharing Pension Plans

The County recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 11 and 12, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Long-term Obligations

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

K. Fund Balance

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

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

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

Enabling legislation authorizes the County to assess, levy, charge, or otherwise mandates payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the County can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specific by the legislation.

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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 County Commissioners. Those committed amounts cannot be used for any other purpose unless the Commission removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by County Commissioners, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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

Unassigned Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit 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 either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

L. Restricted Assets

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

M. Net Position

Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for ambulance services, real estate assessment, economic development, community action, transportation, board of elections, marriage license, County court special projects, sheriff activities, public works activities, dog and kennel, and activities of the County's courts and corrections department.

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

Morgan County, Ohio
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N. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments of interfund services provided and used are not eliminated.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating receipts/disbursements in proprietary funds. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

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

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

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

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

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

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

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

NOTE 4 - FUND BALANCES

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

Fund Balances	General	Job and Family Services	Motor Vehicle and Gasoline Tax	Board of Developmental Disabilities	911 Funds	Nonmajor Governmental Funds	Total
<u>Nonspendable:</u>							
Unclaimed Monies	\$4,796	\$0	\$0	\$0	\$0	\$5,281	\$10,077
<u>Restricted for:</u>							
Job and Family							
Services Operations	0	91,283	0	0	0	0	91,283
Public Works	0	0	444,110	0	0	39,221	483,331
BDD Operations	0	0	0	1,509,196	0	0	1,509,196
Emergency Services	0	0	0	0	504,077	0	504,077
Public Safety	0	0	0	0	0	212,261	212,261
Court Operations	0	0	0	0	0	366,064	366,064
Court Improvements	0	0	0	0	0	234,465	234,465
Community Development	0	0	0	0	0	177,464	177,464
Children Services Operations	0	0	0	0	0	137,759	137,759
Real Estate Assessments	0	0	0	0	0	70,802	70,802
Child Support	0	0	0	0	0	66,625	66,625
Other Human Services	0	0	0	0	0	75,122	75,122
Other Health	0	0	0	0	0	27,502	27,502
Other Governments	0	0	0	0	0	41,182	41,182
Board of Elections Operations	0	0	0	0	0	1,432	1,432
<i>Total Restricted</i>	<u>0</u>	<u>91,283</u>	<u>444,110</u>	<u>1,509,196</u>	<u>504,077</u>	<u>1,449,899</u>	<u>3,998,565</u>
<u>Committed to:</u>							
Capital Projects	0	0	0	0	0	1,239	1,239
<u>Assigned to:</u>							
2013 Appropriations	280,222	0	0	0	0	0	280,222
Other purposes	9,592	0	0	0	0	0	9,592
<i>Total Assigned</i>	<u>289,814</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>289,814</u>
<u>Unassigned:</u>	<u>145,594</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>145,594</u>
Total Fund Balances	<u><u>\$440,204</u></u>	<u><u>\$91,283</u></u>	<u><u>\$444,110</u></u>	<u><u>\$1,509,196</u></u>	<u><u>\$504,077</u></u>	<u><u>\$1,456,419</u></u>	<u><u>\$4,445,289</u></u>

Morgan County, Ohio
Notes to the Basic Financial Statements
 December 31, 2012

NOTE 5 - COMPLIANCE

Statutory Compliance

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

The following account had expenditures in excess of final appropriations for the year ended December 31, 2012:

	<u>Appropriations</u>	<u>Actual Expenditures</u>	<u>Excess</u>
Motor Vehicle and Gasoline Tax Fund:			
Public Works			
Contractual Services	\$1,010,276	\$1,661,947	(\$651,671)

The following fund had original appropriations in excess of original estimated revenues plus available balances for the year ended December 31, 2012:

	<u>Estimated Revenues plus Balances</u>	<u>Appropriations plus Encumbrances</u>	<u>Excess</u>
Job and Family Services			
Special Revenue Fund	\$2,865,551	\$3,066,007	(\$200,456)

The County will more closely monitor budgetary procedures pertaining to violations of this nature in the future.

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

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2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations describe in division (1) or (2) 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. Securities lending agreements in which the County lends securities and the eligible institution agrees to simultaneously exchange similar securities or cash, equal value for equal value;
9. Up to twenty-five percent of the County's average portfolio in either of the following:
 - a. commercial paper notes in entities incorporated under the laws of Ohio or any other State that have assets exceeding five hundred million dollars rated at the time of purchase, which are rated in the highest qualification established by two nationally recognized standard rating services, which do not exceed ten percent of the value of the outstanding commercial paper of the issuing corporation and which mature within 270 days after purchase.
 - b. bankers acceptances eligible for purchase by the federal reserve system and which mature within 180 days after purchase;
10. Fifteen percent of the County's average portfolio in notes issued by U.S. corporations or by depository institutions that are doing business under authority granted by the U.S. provided that the notes are rated in the second highest or higher category by at least two nationally recognized standard rating services at the time of purchase and the notes mature within two years from the date of purchase;
11. No-load money market mutual funds rated in the highest category at the time of purchase by at least one nationally recognized standard rating service consisting exclusively of obligations guaranteed by the United States, securities issued by a federal government agency or instrumentality, and/or highly rated commercial paper; and,

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

Repurchase agreements, investments in derivatives, and investments in stripped principal or interest obligations that are not issued or guaranteed by the United States, are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Other than corporate notes, commercial paper, and bankers' acceptances, an investment must mature within five years from the date of settlement unless matched to a specific obligation or debt of the County. Investments must be purchased with the expectation that they will be held to maturity. 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.

Deposits Custodial credit risk for deposits 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. At year end, the County's bank balance was \$5,383,810. Of the bank balance \$500,000 was covered by Federal depository insurance and \$4,883,810 was collateralized with securities held by the pledging financial institution's trust department in the County's name. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirement could potentially subject the County to a successful claim by the FDIC.

The County has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the County or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

NOTE 7 - BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis for the General Fund and each major special revenue fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis are as follows:

1. Outstanding year end encumbrances are treated as expenditures (budgetary basis) rather than restricted, committed, or assigned fund balance (cash basis).
2. Unreported cash, including cash held in agency funds on behalf of County funds, are reported on the statement of modified receipts, disbursements, and changes in fund balances (cash basis), but not on the budgetary basis.
3. Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (cash basis).

Adjustments necessary to convert the results of operations at the end of the year on the budget basis to the cash basis are as follows:

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Net Change in Fund Balances
 General and Major Special Revenue Funds

	General	Job and Family Services	Motor Vehicle and Gasoline Tax	Board of Developmental Disabilities	911 Funds
Cash Basis	\$186,287	(\$16,268)	(\$372,295)	\$317,281	\$121,572
Agency Fund Distribution:					
Beginning of Year	53,306	0	0	51,457	0
End of Year	(58,994)	0	0	(57,276)	0
Advances In	(57,168)	0	0	0	0
Advances Out	30,288	0	0	0	0
Encumbrances	(9,592)	(47,925)	(21,903)	(24,300)	0
Budget Basis	\$144,127	(\$64,193)	(\$394,198)	\$287,162	\$121,572

NOTE 8 - PROPERTY TAXES

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

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

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

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

The full tax rate for all County operations for the year ended December 31, 2012, was \$13.15 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2012 property tax receipts were based are as follows:

Real Property	\$210,580,160
Public Utility Tangible Personal Property	64,815,110
Total Assessed Value	\$275,395,270

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

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Notes to the Basic Financial Statements
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NOTE 9 - PERMISSIVE SALES AND USE TAX

For the purposes of providing additional receipts, the County has levied a sales tax at the rate of one and one-half percent upon certain 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 Auditor 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. The State Auditor then has five days in which to draw the warrant payable to the County. Proceeds of the tax are credited to the General Fund.

NOTE 10 - RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; employee injuries; and natural disasters. During 2012, the County contracted with the Buckeye Joint-County Self-Insurance Council, an insurance purchasing pool, (see Note 18), for liability, auto, and crime insurance. Each member pays a premium for their coverage. The agreement provides that the Council will be self-sustaining through member premiums. In the event of losses, the first \$250 to \$2,500 of any valid claim, depending on type of loss, will be paid by the member. The next payment, with a maximum pay out ranging from \$100,000 to \$1,000,000 per occurrence, will come from the insurance purchasing pool based on the member's percentage of contribution. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments. Morgan County does not have any ongoing financial interest or responsibility. The agreement between the counties and the Council indicates that a voluntary withdrawal or termination by any county shall constitute a forfeiture of any pro rate share of the Council reserve fund. Current calculation of this potential residual interest is, therefore, not possible. During 2012, Morgan County paid \$158,741 to the Council for insurance coverage. Coverage provided to the County by the program is as follows:

	<u>Coverage</u>	<u>Deductible</u>
General Liability	\$1,000,000/3,000,000	\$0
Medical Expense Limit	10,000/50,000	0
Employer's Liability (Ohio Stop Gap)	1,000,000	0
Employee Benefits Liability	1,000,000/3,000,000	0
Property Damage Liability	21,105,996	1,000
Public Official Liability	1,000,000/3,000,000	5,000
Law Enforcement	1,000,000/3,000,000	5,000
Crime Coverage:		
Theft, Disappearance and Destruction	50,000	0
Public Dishonesty	250,000	0
Forgery or Alteration	5,000	0
Computer Fraud	50,000	100
Inland Marine	1,930,471	1,000
Electronic Equipment/Media Coverage:		
Electronic Equipment	500,000	1,000
Electronic Media	5,000	1,000
Extra Expense	5,000	1,000
Automobile	1,000,000 Per Occurrence	1,000

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Settled claims have not exceeded coverage in any of the last three years. There has been no significant reduction in coverage from the prior year.

For 2012, the County participated in the County Commissioners Association of Ohio Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool (see Note 18). The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The worker's compensation experience of the participating Counties is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. In order to allocate the savings derived by formation of the Plan, and to maximize the number of participants in the Plan, the Plan's executive committee annually calculates the total savings which accrued to the Plan through its formation. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants. Participation in the Plan is limited to Counties that can meet the Plan's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the Plan. Each year, the County pays an enrollment fee to the Plan to cover the costs of administering the program.

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

The County pays all elected official bonds by State statute.

NOTE 11 - DEFINED BENEFIT PENSION PLAN

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

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

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Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions and 12 percent for law enforcement and public safety members. For the year ended December 31, 2012, members in state and local divisions contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.5 percent and 12.1 percent, respectively. Effective January 1, 2013, the member contribution rates for public safety and law enforcement increased to 12 percent and 12.6 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2012, member and employer contribution rates were consistent across all three plans.

The County's 2012 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the County's contribution was 18.10 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.00 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Employer contribution rates are actuarially determined.

The County's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010, were \$452,465, \$466,082, and \$428,932, respectively; 98.93 percent has been contributed for 2012 and 100 percent for 2011 and 2010. Contributions to the member-directed plan for 2012 were \$4,858 made by the County and \$3,470 made by the plan members.

NOTE 12 - POST-EMPLOYMENT BENEFITS

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

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

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

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary.

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

The County’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010, were \$185,432, \$195,287 and \$230,154, respectively; 98.93 percent has been contributed for 2012 and 100 percent for 2011 and 2010.

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 SB 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.

NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the County has entered into agreements to lease office equipment. Such agreements are, in substance, lease purchases and are reflected as capital lease obligations in the financial statements. Capital lease payments are reflected as debt service in the financial statements for the Governmental Funds. The deductions to the capital leases include \$4,390 of debt service principal. The capital lease obligation represents the present value of the net future minimum lease payments on all capital leases.

Future minimum lease payments through 2016 are as follows:

Year	Governmental Activities	
	Principal	Interest
2013	\$4,593	\$1,031
2014	5,282	656
2015	1,133	125
2016	308	7
Total	\$11,316	\$1,819

Morgan County, Ohio
Notes to the Basic Financial Statements
 December 31, 2012

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in the County's long-term obligations during the year consisted of the following:

	Original Issue Amount	Principal Outstanding 12/31/11	Additions	Reductions	Principal Outstanding 12/31/12	Amounts Due within One Year
Governmental Activities:						
<u>General Obligation Debt:</u>						
2003 Sales Tax Supported Building Improvement Limited Tax General Obligation Bonds - 4.625%	\$2,000,000	\$1,697,603	\$0	\$46,081	\$1,651,522	\$48,212
1997 Ohio Water Development Authority Loan - 4.12%	190,884	63,144	0	11,621	51,523	5,990
2010 First National Bank Loan - 3.50%	226,457	135,875	0	45,291	90,584	45,291
Total General Obligation Debt		1,896,622	0	102,993	1,793,629	99,493
2011 Home Sewer Treatment System Loan - 0.00%	119,796	0	119,796	119,796	0	0
2001 Tax Increment Financing Loan - 4.98%	93,266	62,176	0	3,108	59,068	3,108
Capital Leases		15,706	0	4,390	11,316	4,593
Total Governmental Activities		<u>\$1,974,504</u>	<u>\$119,796</u>	<u>\$230,287</u>	<u>\$1,864,013</u>	<u>\$107,194</u>

The County issued a general obligation bond anticipation note in 2001 to finance the renovation of a county building to provide county offices. The County refinanced the note with the U.S. Department of Agriculture on February 27, 2003, by issuing \$2,000,000 in Sales Tax Supported Building Improvement Limited Tax General Obligation Bonds.

In 1997, the County entered into contract with the Ohio Water Development Authority. The loan was originally for \$190,884. The proceeds were used to pay for a study to determine the cap, leachate management, explosive gas monitoring, ground water monitoring, and other technical services to close the County's landfill. General Fund monies are being used to repay the debt.

On February 1, 2010, the County entered into a contract with the First National Bank. The loan was in the amount of \$226,457. The proceeds were used to purchase a new Asphalt Zipper and two new dump trucks. The loan has an interest rate of 3.5 percent and will be repaid using gas tax revenues.

The County obtained a Home Sewer Treatment System Loan on November 2, 2011, from the Ohio Water Development Authority. Proceeds from this loan were used to update inadequate wastewater systems in Morgan County. In 2012, the OWDA forgave the County's outstanding balance of \$119,796.

The County obtained a tax increment financing loan in 2001 for \$93,266. Proceeds from this loan will be used to pay for water line chlorination systems and a bulk station to provide potable water for industry. Tax Increment Financing service payments are being used to repay this debt.

Morgan County, Ohio
Notes to the Basic Financial Statements
 December 31, 2012

The following is a summary of the County's future annual principal and interest requirements to retire general obligation bonds:

Year Ended December 31,	Building Improvement General Obligation Bonds		
	Principal	Interest	Total
2013	\$48,212	\$76,383	\$124,595
2014	50,442	74,153	124,595
2015	52,775	71,820	124,595
2016	55,215	69,379	124,594
2017	57,770	66,826	124,596
2018-2022	331,483	291,492	622,975
2023-2027	415,564	207,411	622,975
2028-2032	520,974	102,001	622,975
2033	119,087	5,508	124,595
Total	\$1,651,522	\$964,973	\$2,616,495

The following is a summary of the County's future annual principal and interest requirements to retire the OWDA and Tax Increment Financing Loans:

Year Ended December 31,	Ohio Water Development Authority Loan			Tax Increment Financing Loan		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$5,990	\$1,061	\$7,051	\$3,108	\$2,942	\$6,050
2014	12,354	1,750	14,104	3,109	2,787	5,896
2015	12,867	1,236	14,103	3,109	2,632	5,741
2016	13,403	700	14,103	3,109	2,477	5,586
2017	6,909	143	7,052	3,109	2,322	5,431
2018-2022	0	0	0	15,544	9,290	24,834
2023-2027	0	0	0	15,544	5,419	20,963
2028-2031	0	0	0	12,436	1,548	13,984
Total	\$51,523	\$4,890	\$56,413	\$59,068	\$29,417	\$88,485

The County's annual principal and interest requirement to retire the First National Bank Loan is an annual principal payment of \$45,291 plus interest at a fixed rate of 3.50% for a period of 5 years. Interest is based on a 30/360 basis.

In April 2012, the County opened a line of credit with The Citizens National Bank for \$100,000 with an interest rate of 4.75 percent. Each year this line of credit is renewed. There was an outstanding balance of \$75,000 as of December 31, 2012, becoming due in April 2013. During 2012, the County paid off their outstanding 2011 balance of \$75,000 that became due in April 2012.

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2012

Debt Margin

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 valuation of the County. The Code further provides that the total 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 County's total debt margin was \$5,630,929 and the unvoted debt margin was \$3,837,300 at December 31, 2012.

NOTE 15 - INTERFUND TRANSFERS AND BALANCES

A. Transfers

During 2012, the General Fund transferred \$41,633 to the Job and Family Services Fund to move unrestricted revenues collected in the General Fund to finance the programs accounted for in the Cemetery Fund in accordance with budgetary authorizations.

B. Balances

At December 31, 2012, the Other Nonmajor Governmental Funds owed the General Fund \$90,381 due to cash deficits and lags between the dates transactions recorded in the accounting system and payments between funds were made.

NOTE 16 - SIGNIFICANT COMMITMENTS

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

Governmental Funds	
General	\$9,592
Job and Family Services	47,925
Motor Vehicle and Gasoline Tax	21,903
Board of Developmental Disabilities	24,300
Nonmajor Governmental Funds	<u>25,565</u>
Total	<u><u>\$129,285</u></u>

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2012

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

A. Buckeye Hills-Hocking Valley Regional Development District

The Buckeye Hills-Hocking Valley Regional Developmental District serves as the Area Agency on Aging for Washington, Athens, Hocking, Meigs, Monroe, Morgan, Noble, and Perry Counties. The District was created to foster a cooperative effort in regional planning, programming, and implementing plans and programs. The District is governed by a fifteen member board of directors. The board is composed of one County Commissioner from each county, one member from the City of Athens, one member from the City of Marietta, four at-large members appointed from the ten government members, and one member from the minority sector. The board has total control over budgeting, personnel, and all other financial matters. The District administers County Community Development Block Grant and Issue II monies. During 2012, the County contributed \$500 to the District. The continued existence of the District is not dependent on the County's continued participation and no equity interest exists.

B. Joint Solid Waste District

The County is a member of the Joint Solid Waste District which consists of Washington, Guernsey, Monroe, Morgan, Muskingum, and Noble Counties. The purpose of the District is to make disposal of waste in the six-county area more comprehensive in terms of recycling, incinerating, and land filling. The District was created in 1989 as required by Ohio Revised Code.

The Joint Solid Waste District is governed and operated through three groups. An eighteen-member board of directors, composed of the three Commissioners from each County, is responsible for the District's financial matters. Financial records were maintained by Muskingum County until May 1993 at which time Noble County assumed the responsibility. The District's sole revenue source is a waste disposal fee for in-district and out-of-district waste. Although the County contributed amounts to the District at the time of its creation, no contributions were received from the County in 2012. No future contributions by the County are anticipated. A thirty-one member policy committee composed of five members from each county and one at-large member appointed by the policy committee, is responsible for preparing the solid waste management plan of the District in conjunction with a Technical Advisory Council whose members are appointed by the Policy Committee. Continued existence of the District is not dependent on the County's continued participation, no equity interest exists, and no debt is outstanding.

C. Morgan County Family and Children First Council

The Morgan County Family and Children First Council provide services to multi-need youth in Morgan County. Members of the Cluster include the Morgan County Health Department, the Regional Office of Youth Services, the Morgan County Juvenile Court, the Morgan County Mental Health Board, Morgan County Children Services, the General Health District, and a representative of the Morgan County School Districts. The operation of the Council is controlled by an advisory committee which consists of a representative from each agency. The continued existence of the Council is not dependent on the County's continued participation and no equity interest exists.

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2012

D. Community Action Program Corporation of Washington-Morgan Counties

The Community Action Program Corporation of Washington-Morgan Counties, Ohio, is operated as a non-profit organization formed to provide various programs in Washington and Morgan Counties. Currently, the Corporation administers the Family Service and Outreach Program; the Community Action Bus Line (CABL); the Child Development Program; the Senior Nutrition Program; Women, Infants and Children's Supplemental Nutrition Program; the Home Weatherization Assistance and Energy Program; the Job Training and Partnership Act Program; Housing and Urban Development Section 8 Existing Housing Voucher/Certificate Program; and various other state and federal programs. The Corporation is the direct recipient of the federal and state monies. The Corporation is governed by a fifteen member council. The council is composed of the Mayor of the City of Marietta, the Mayor of the City of Belpre, two commissioners from Washington County, one Commissioner from Morgan County, five lower income representatives, and five private sector representatives from Washington and Morgan Counties selected by outreach workers. Currently, the Corporation, by contract, provides administrative services to these governments in specific programs. During 2012, the Corporation did not receive any administrative fees from the County. These fees were received by the Corporation directly from the granting agencies. The continued existence of the Corporation is not dependent on the County's continued participation and the County does not have an equity interest in the Corporation.

E. Buckeye Hills Resource Conservation and Development Project

The Buckeye Hills Resource Conservation and Development Project was organized to lead local efforts directed toward improving social and economic conditions of the Buckeye Hills RC&D Area through development, conservation, and proper use of all the resources of the area. It serves Athens, Belmont, Hocking, Meigs, Monroe, Morgan, Noble, Perry, and Morgan Counties. The Project is governed by an executive council. The Council is composed of one County Commissioner from each county, one member from the Soil and Water Conservation District of each county, a representative chosen jointly by the county commissioners and Soil and Water Conservation Districts of each county, a member from the Muskingum Watershed Conservancy District, and one member from the Rush Creek Conservancy District. The Council has total control over budgeting, personnel, and all other financial matters. During 2012, the Council did not received any administrative fees from Morgan County. The continued existence of the District is not dependent on the County's continued participation and no equity interest exists.

F. Mental Health and Recovery Services Board of Muskingum County

The Mental Health and Recovery Services Board of Muskingum County (the Board) provides alcohol, drug addiction and mental health services and programs, primarily through contracts with private and public agencies. The Board also provides forensic evaluation services to adult felony courts, and residential services to youth experiencing emotional problems which prevent them from living at home. The Board serves Coshocton, Guernsey, Morgan, Muskingum, Noble, and Perry Counties and operates under the direction of an eighteen-member appointed Board. Each participating county has agreed to levy a tax within their county to assist in the operation of the Board. The Board also directly receives state and federal funding for its operations. Although the Muskingum County Auditor and County Treasurer are responsible for fiscal control of the resources of the Board, the Board is responsible for budgeting and accounting for the resources at its disposal. Membership on the Board is based upon Ohio law. The continued existence of the Board is not dependent upon the County's continued participation and no equity interest exists. In 2012, the County contributed \$143,548 to the Board.

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2012

G. Mid Eastern Ohio Regional Council of Governments (MEORC)

The Mid Eastern Ohio Regional Council of Governments is a regional council of governments created pursuant to Ohio Revised Code Chapter 167. Participating counties include Belmont, Carroll, Coshocton, Fairfield, Guernsey, Harrison, Hocking, Holmes, Jefferson, Knox, Monroe, Morgan, Muskingum, Noble, Perry, Tuscarawas, and Washington Counties. MEORC was created to provide the best possible services to the developmental disabilities in their respective counties. Each county has representation on the MEORC board. Member counties have a contract between its county BDD board and the MEORC for MEORC to provide supported living services or housing to eligible persons in the member counties. To obtain financial information, write to the Mid East Ohio Regional Council, Cathy Henthorn, who serves as Director of Financial Operations, 1 Avalon Road, Mt. Vernon, Ohio 43050.

NOTE 18 - INSURANCE PURCHASING POOLS

A. Buckeye Joint-County Self-Insurance Council

The Buckeye Joint-County Self-Insurance Council is an insurance purchasing pool that serves Washington, Athens, Hocking, Jackson, Lawrence, Meigs, Monroe, Morgan, Noble, Perry, Pike, and Vinton Counties. It was formed as an Ohio not-for-profit corporation for the purpose of establishing an insurance pool to obtain general liability, law enforcement, professional, and fleet insurance. Member counties provide operating resources to the Council based on actuarially determined rates.

The degree of control exercised by any participating government is limited to its representation on the Council. The Governing Board is composed of at least one County Commissioner from each of the participating counties. The Governing Board annually elects officers who include a President, Vice President, Second Vice President, and two Governing Board members. The expenses and investment of funds by the officers must be approved by the Governing Board unless specific limits have been set by the Governing Board to permit otherwise.

B. County Commissioners Association of Ohio Workers' Compensation Group Rating Plan

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

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

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2012

NOTE 19 - FEDERAL FOOD STAMP PROGRAM

The County's Department of Job and Family Services distributes federal food stamps to entitled recipients within Morgan County. The receipt and issuance of food stamps have the characteristics of a federal grant. However, the Department of Job and Family Services merely acts in an intermediary capacity. The inventory value of these stamps is not reflected in the accompanying financial statements as the only economic interest related to the stamps rests with the ultimate recipient. The County's Department of Job and Family Services had no inventory of food stamps on hand at December 31, 2012.

NOTE 20 - CONTINGENT LIABILITIES

The County has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, the County Commissioners believe such disallowances, if any, will be immaterial.

There were no claims and lawsuits pending against the County as of December 31, 2012.

NOTE 21 - LANDFILL

The Commissioners leased land from F. E. and Eileen Haines to operate the Morgan County Landfill (the Facility). William Miller was the operator and license holder for the Facility from 1974 to 1988, when the Facility was closed. The Ohio Administrative Code requires the operator to complete certain environmental remediation to the Facility within sixty days after closing and to maintain the site after closure. Subsequent to the closure on September 1, 1988, the Ohio Environmental Protection Agency (OEPA) conducted inspections and documented various violations of closure requirements. On February 13, 1995, the Director of the OEPA issued Final Findings and Orders to the Morgan County Commissioners, F. E. and Eileen Haines, and William R. Miller concerning violations of closure and post-closure requirements. Post-closure requirements extend 30 years beyond the closure date.

As a result of the Directors Final Findings and Orders, the Commissioners contracted for a study to determine the cap, leachate management, explosive gas monitoring, ground water monitoring, and for other technical services relating to closure procedures for the Facility. During 1997, the County paid for the construction phase of capping the Facility. In 2001, the Commissioners contracted with an engineering firm to prepare a corrective measure plan to address the remaining OEPA concerns, including post-closure care. Other alternative plans ranging from approximately \$1.5 million to \$15.9 million have been documented and presented by Advanced Geo Services, who are employees of Gould, Inc., to the OEPA. Advanced GeoServices continues to monitor gas and groundwater pollutant levels for Gould. The Commissioners are also responsible for providing \$33,000 of in-kind contributions for illegal dump cleanup. To date, approximately \$26,423 of these in-kind contributions have been provided.

As of the date of this report, the Commissioners cannot determine which plan will be accepted, if any, or what portion of the remaining costs may have to be paid by the County. However, plans are being made to install a leachate collection tank.

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2012

NOTE 22 - COMPONENT UNIT DISCLOSURES

A. Morgan County Regional Airport Authority

The following are the Morgan County Regional Airport Authority (the Authority) notes to the financial statements for the year ended December 31, 2012:

Summary of Significant Accounting Policies

Basis of Presentation: The Summary of Significant Accounting Policies is presented to assist in understanding the Authority's financial statements. The financial statements and notes are representations of the Authority's management, who are responsible for their integrity and objectivity. These accounting policies conform to the provisions of GASB 34 for financial reporting on a cash basis.

Cash and Cash Equivalents: The Authority considers deposits with maturities of twelve months or less to be cash equivalents. At December 31, 2012, the carrying amount of the Authority's deposits was \$6,228 and the bank balance was \$6,728. The bank balance was covered by federal depository insurance

Property, Plant and Equipment: Capital assets acquired or constructed for the Authority are recorded as disbursements. Depreciation is not recorded for these capital assets.

Income Taxes: The Authority is exempt from income tax under Section 501(C)(3) of Internal Revenue Code.

Debt: In 2007, the Authority obtained a loan from First National Bank in the amount of \$35,000. As of December 31, 2012, the amount of the loan due was \$29,389. Payment will be made monthly. The first 60 months will be repaid in installments of \$293.46 per month and then \$315.19 over the next 120 months. The calculated nominal interest rate is 6.532%.

B. Mary Hammond Adult Activity Center, Inc.

The following are the Mary Hammond Adult Activity Center, Inc. (the Workshop) notes to the financial statements for the year ended December 31, 2012:

Summary of Significant Accounting Policies

Basis of Presentation: The Summary of Significant Accounting Policies is presented to assist in understanding the Workshop's financial statements. The financial statements and notes are representations of the Workshop's management, who are responsible for their integrity and objectivity. These accounting policies conform to provisions of GASB 34 for financial reporting on a cash basis.

Cash and Cash Equivalents: The Workshop considers deposits with maturities of twelve months or less to be cash equivalents. At December 31, 2012, the carrying amount of the Workshop's deposits totaled (\$275) and the bank balance was \$3,760. The bank balance was covered by federal depository insurance.

Income Taxes: The Workshop has applied for exemption from federal income taxes under 501(C)(3) of Internal Revenue Code and has been recognized as a nonprofit by the State of Ohio. Therefore, no provision has been made for federal or Ohio income taxes in the financial statements.

Debt: In 2004, the Workshop opened a line of credit with North Valley Bank for \$7,500 with an interest rate of 6.5 percent. Each year this line of credit is renewed. There was no outstanding balance as of December 31, 2012.

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2012

Related Party Transactions: During 2012, Morgan County provided facilities, certain equipment, transportation, and salaries for administration, implementation, and supervision of programs to the Workshop. These in-kind contributions were valued at \$275,615. This amount is not reflected in the cash basis financial statements.

Retirement System: All employees of the Workshop are covered by Social Security. The Workshop's liability is 6.2% of wages paid. Employees contribute a matching amount.

Property, Plant and Equipment: Capital assets acquired or constructed for the Workshop are recorded as disbursements. Depreciation is not recorded for these capital assets.

**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Morgan County
155 East Main Street
Room 217
McConnelsville, Ohio 43756-1297

To the Board of County Commissioners:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Morgan County as of and for the year ended December 31, 2012 and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated August 30, 2013, wherein we noted the County uses a special purpose framework other than generally accepted accounting principles. We also noted the County adopted Governmental Standards Board Statements No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989, FASB and AICPA Pronouncements*, No. 63, *Financing Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and Statement No.66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Morgan 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 the County's internal control. Accordingly, we have not opined on it.

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 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 the County's financial statements. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Morgan 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 such an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standard* which is described in the accompanying schedule of findings as item 2012-01.

We did note certain matters not requiring inclusion in this report that we reported to County management in a separate letter dated August 30, 2013.

Entity's Response to Findings

The County's response to the findings identified in the audit is described in the accompanying schedule of findings. We did not audit the County's response and accordingly, we express no opinion on it.

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 the County's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
August 30, 2013

**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Morgan County
155 East Main Street
Room 217
McConnelsville, Ohio 43756-1297

To the Board of County Commissioners:

Report on Compliance for Each Major Federal Program

We have audited the Morgan 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 the Morgan County's major federal programs for the year ended December 31, 2012. The Summary of Audit Results in the accompanying schedule of findings identifies the County's major federal programs.

Management's Responsibility

The Morgan 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 the Morgan County's compliance for each of the 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*. Those 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 program occurred. An audit includes examining, on a test basis, evidence about the Morgan County's compliance with these 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 the County's major programs. However, our audit does not provide a legal determination on the Morgan County's compliance.

Opinion

In our opinion, the Morgan 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

The Morgan 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 the Morgan County's internal control over compliance with the applicable requirements that could directly and materially affect on 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 the Morgan 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 the 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, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency, described in the accompanying schedule of findings as item 2012-02.

The County's response to the internal control over compliance finding we identified is described in the accompanying schedule of findings. We did not audit the County's response and, accordingly, we express no opinion on it.

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.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
August 30, 2013

**MORGAN COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION 505
December 31, 2012**

1. Summary of Auditor's Results

(d)(1)(I)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies In internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	NO
(d)(1)(iv)	Were there any other significant deficiencies In internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section. 510?	NO
(d)(1)(vii)	Major Programs:	TANF; CFDA #93.558 HOME Partnership, CFDA #14.239 SS Block Grant, CFDA #93.667 WIA Emergency Grant, CFDA #17.277 Highway Planning, CFDA #20.205
(d)(1)(viii)	Dollar Threshold: Type A\B Programs:	Type A: >\$300,000; Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	No

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

FINDING NUMBER 2012-01

Noncompliance Citation

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

**MORGAN COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION 505
December 31, 2012**

2. **Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS (continued)**

FINDING NUMBER 2012-01 (CONTINUED)

Ohio Admin. Code Section 117-2-03 (B) requires the County to file its annual report pursuant to generally accepted accounting principles. However, the County prepared its financial statements in accordance with standards established by the cash basis of accounting. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Revised Code Section 117.38, the County may be fined and subject to various other administrative remedies for its failure to file the required financial report.

We recommend the County take necessary steps to ensure the annual financial report is prepared in accordance with generally accepted accounting principles.

Client Response: Morgan County has not filed GAAP financial statements because we feel that the costs related to the GAAP filing requirements far outweigh the benefits that Morgan County would realize.

3. **Findings and Questioned Costs for Federal Awards**

FINDING NUMBER 2012-02

Grant Title – Highway Planning and Construction
CFDA #20.205
Federal Agency – U.S. Department of Transportation
Pass Through Agency – Ohio Department of Transportation

Significant Deficiency – Reporting

Auditor of State Bulletin 2000-08 provides the recommended accounting treatment for on-behalf of grants. When a local government enters into an on-behalf-of program agreement with another local government or the State (or the federal government, if applicable), whereby the local government or its residents are the beneficiaries under the agreement, the cash value of the program received under the agreement should be recorded as memorandum receipts and disbursements in the year on-behalf-of disbursements are made.

The County was awarded a Highway Planning and Construction grant and approximately \$663,448 of this grant was paid by the Ohio Department of Transportation directly to the contractor on-behalf-of the County. The financial activity was not reflected on the Schedule of Federal Award Expenditures. We adjusted the Schedule to reflect this activity.

Not recording this on-behalf-of grant activity on the Schedule of Federal Award Expenditures could result in an understatement of revenue and expenditures which in turn could result in inaccurate reporting to the grantor agency.

We recommend the County be aware of the receiving on-behalf-of grant from the State and Federal government, that the guidance of Auditor of State Bulletin 2000-08 is followed so the proper accounting treatment can be applied to the transaction.

Client Response: We will follow the guidance of Auditor of State Bulletin 2000-08 and make County employees who are responsible for grants to notify the County Auditor's office if on-behalf-of grants are received so that they came to recorded correctly.

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

Federal Grantor/ Sub-Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
(Pass through Ohio Department of Development)				
Community Development Block Grant	BF-10-053-1	14.228	\$ 41,100	\$ 41,223
	BC-10-053-1 Distress		161,400	162,080
	BC-10-053-1		54,586	62,874
	BF-11-053-1		75,700	84,252
	Program Income		23,720	209
			356,506	350,638
HOME Partnership Grant	BC-10-ACA	14.239	321,730	307,045
Total U.S. Department of Housing and Urban Development			678,236	657,683
<u>U.S. DEPARTMENT OF JUSTICE:</u>				
Pass through Ohio Attorney General's Office				
Crime Victim Assistance	2011-VA-GENE-336	16.575	30,512	32,450
			30,512	32,450
Edward Byrne Memorial Justice Assistance Grant	2011-JG-LLE 5145	16.738	10,000	10,000
			10,000	10,000
Pass through Ohio Office of Criminal Justice Services and the Village of McConnelville				
Violence Against Women Formula Grants	2011-WF-VA2-8423	16.588	32,550	35,745
Total U.S. Department of Justice			73,062	78,195
<u>U.S. DEPARTMENT OF LABOR:</u>				
Pass through Workforce Investment Act Area 15				
Workforce Investment Act Cluster:				
WIA Adult	n/a	17.258	92,800	82,050
WIA Youth Activities	n/a	17.259	64,963	65,072
WIA Dislocated Worker	n/a	17.278	42,000	43,978
WIA Rapid Response	n/a	17.261	21,389	21,286
			221,152	212,386
WIA National Emergency Grants	n/a	17.277	376,137	382,071
			376,137	382,071
Total U.S. Department of Labor			597,289	594,457
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Pass through Ohio Department of Transportation				
Highway Planning and Construction	PID 90189	20.205	8,553	8,553
Highway Planning and Construction	PID 91480	20.205	654,895	654,895
			663,448	663,448
Formula Grants for Other than Urbanized Areas-ARRA	PID 85766	20.509	6,547	6,547
Formula Grants for Other than Urbanized Areas	RPT0058031112	20.509	10,079	10,079
Formula Grants for Other than Urbanized Areas	RPT4058031111	20.509	33,076	33,076
Formula Grants for Other than Urbanized Areas	RPT4058032122	20.509	49,507	49,507
Formula Grants for Other than Urbanized Areas	RPT4058032121	20.509	283,382	283,382
			382,591	382,591
Total U.S. Department of Transportation			1,046,039	1,046,039

See notes to Schedule of Federal Awards Expenditures.

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

Federal Grantor/ Sub-Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>				
Pass through Ohio Department of Aging and the Area Agency on Aging				
Special Programs for the Aging - Title III, Part B	n/a	93.044	45,725	50,204
Pass through Ohio Department of DD				
Social Services Block Grant	n/a	93.667	12,461	12,461
Medical Assistance Program	n/a	93.778	48,339	48,339
Pass through Ohio Department of JFS				
Temporary Assistance to Needy Families (TANF)	n/a	93.558	612,252	636,087
Promoting Safe and Stable Families	n/a	93.556	7,651	10,281
Medical Assistance Program	n/a	93.778	411,857	288,616
Stephanie Tubbs Jones Child Welfare Services	n/a	93.645	20,466	45,958
Social Services Block Grant	n/a	93.667	311,039	283,754
Child Care Mandatory and Matching Fund-Child Care	n/a	93.596	14,202	16,000
Child Care Cluster	n/a	93.575	33,700	28,348
Child Support Enforcement Agency	n/a	93.563	186,145	170,197
Children Health Insurance Program	n/a	93.767	690	690
IV-E Foster Care Maintenance	n/a	93.658	20,642	68,760
IV-E Admin and Training Payment	n/a	93.659	24,988	35,955
Total U.S. Department of Health and Human Services			1,750,157	1,695,650
<u>DEPARTMENT OF HOMELAND SECURITY</u>				
Pass through Ohio EMA				
Public Assistance Grant	FEMA-DR-4002-OH	97.036	165,033	165,033
Total Department of Homeland Security			165,033	165,033
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
(Passed through Ohio Department of JFS)				
Supplemental Nutrition Assistance Program	n/a	10.551	187,981	155,710
Total U.S. Department of Agriculture			187,981	155,710
Total Federal Awards Expenditures			\$ 4,497,797	\$ 4,392,767

See notes to Schedule of Federal Awards Expenditures.

MORGAN COUNTY
NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTES A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the County's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain Federal programs require 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 is not included on the Schedule.

NOTE C - SUBRECIPIENTS

The County passes-through certain Federal assistance received from the U.S. Department of Housing and Urban Development to other governments or not-for-profit agencies (subrecipients). As described in Note A, the County records expenditures of Federal awards to subrecipients when paid in cash.

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

MORGAN COUNTY

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 SECTION 315(b)**

December 31, 2012

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2011-01	OAC 117-2-03B Not filing report in accordance with GAAP	No	Not Corrected. Cited in current report as finding 2012-01
2011-02	OMB Circular A-133 Section .300c not meeting filing deadline	Yes	Finding No Longer Valid

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Dave Yost • Auditor of State

MORGAN COUNTY

MORGAN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 14, 2013**