

HENRY COUNTY, OHIO

***BASIC
FINANCIAL STATEMENTS***

***FOR THE YEAR ENDED
DECEMBER 31, 2005***

HONORABLE KEVIN NYE, AUDITOR



**Auditor of State
Betty Montgomery**

Board of Commissioners
Henry County
660 N. Perry St.
P.O. Box 546
Napoleon, OH 43545

We have reviewed the *Independent Auditors' Report* of Henry County prepared by Julian and Grube, Inc., for the audit period January 1, 2005 through December 31, 2005. 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. Henry County is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

October 24, 2006

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HENRY COUNTY

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditors' Report

Board of Commissioners
Henry County
660 North Perry Street
Napoleon, Ohio 43545

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henry County, Ohio, (the "County"), as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henry County, Ohio, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, Country View Haven, Motor Vehicle and Gas Tax, County Board of MRDD and Public Assistance funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3A. to the basic financial statements, the County has presented a prior period adjustment to net assets due to errors and omissions.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2006 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Julian & Grube, Inc.
August 24, 2006

HENRY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 UNAUDITED

The management's discussion and analysis of Henry County's (the "County") financial performance provides an overall review of the County's financial activities for the year ended December 31, 2005. The intent of this discussion and analysis is to look at the County's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the County's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- The total net assets of the County decreased \$715,345. Net assets of governmental activities decreased \$652,417, which represents a 1.37% decrease from fiscal year 2004. Net assets of business-type activities decreased \$62,928 or 12.26% from fiscal year 2004.
- General revenues accounted for \$13,454,180 or 51.29% of total governmental activities revenue. Program specific revenues accounted for \$12,779,044 or 48.71% of total governmental activities revenue.
- The County had \$26,882,770 in expenses related to governmental activities; \$12,779,044 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) \$13,454,180 were not adequate to provide for these programs.
- The County's major funds are the general fund, Country View Haven, Motor Vehicle and Gas Tax fund, County Board of Mental Retardation and Developmentally Disabled (MRDD), Public Assistance and Courthouse Project fund. The general fund, the County's largest major fund, had revenues of \$7,023,099 in 2005, an increase of \$311,631 or 4.64% from 2004 revenues. The general fund had expenditures of \$6,876,471 in 2005, an increase of \$673,320 or 10.85% from 2004. The increase in revenues and larger increase in expenditures contributed to the general fund balance decrease of \$634,394 from 2004 to 2005.
- The Country View Haven, a County major fund, had revenues of \$1,441,370 in 2005. The Country View Haven had expenditures of \$1,521,941 in 2005. The Country View Haven fund balance decreased \$80,571 from 2004 to 2005.
- The Motor Vehicle and Gas Tax fund, a County major fund, had revenues of \$4,419,361 in 2005. The Motor Vehicle and Gas Tax fund had expenditures of \$4,089,444 in 2005. The Motor Vehicle and Gas Tax fund balance increased \$336,104 from 2004 to 2005.
- The County Board of MRDD fund, a County major fund, had revenues of \$7,402,163 in 2005. The County Board of MRDD fund had expenditures of \$6,904,130 in 2005. The County Board of MRDD fund balance increased \$498,033 from 2004 to 2005.
- The Public assistance fund, a County major fund, had revenues of \$1,750,915 in 2005. The Public assistance fund had expenditures of \$1,800,297 in 2005. The Public assistance fund balance decreased \$49,382 from 2004 to 2005.
- The Courthouse project fund, a County major fund, had revenues of \$245,762 in 2005. The Courthouse project fund had expenditures of \$4,237,348 in 2005. The Courthouse project fund had proceeds from notes of \$3,735,000 in 2005. The Courthouse project fund balance decreased \$191,586 from 2004 to 2005.
- Net assets for the business-type activities, which include the Sanitary Landfill, Tower, Hahn Center and Monroe Township Landfill Fees enterprise funds, decreased in 2005 by \$62,928 or 12.26%.

HENRY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 UNAUDITED

Using this Basic Financial Statements (BFS)

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

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

Reporting the County as a Whole

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities answer the question, "How did we do financially during 2005?" These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the County is divided into two distinct kinds of activities:

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

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

The County's statement of net assets and statement of activities can be found on pages 13-15 of this report.

Reporting the County's Most Significant Funds

Fund Financial Statements

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

HENRY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 UNAUDITED

Fund financial reports provide detailed information about the County's major funds. The County uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the County's most significant funds. The County's major governmental funds are the General Fund, Country View Haven, Motor Vehicle and Gas Tax, County Board of Mental Retardation and Developmentally Disabled (MRDD), Public Assistance and Courthouse Project Fund. The analysis of the County's major governmental and proprietary funds begins on page 9.

Governmental Funds

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

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

The County maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the major funds, which were identified earlier. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental financial statements can be found on pages 16-26 of this report.

Proprietary Funds

The County maintains proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its sanitary landfill, tower, Hahn center and Monroe Township landfill fees operations. The sanitary landfill is the County's only major enterprise fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County has no internal service funds. The basic proprietary fund financial statements can be found on pages 27-29 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statement can be found on page 30 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 31-68 of this report.

HENRY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

Government-Wide Financial Analysis

The Statement of Net Assets provides the perspective of the County as a whole. The table below provides a summary of the County's net assets for 2005 and 2004. Certain 2004 amounts have been restated due to a restatement of net assets described in Note 3.A. in the notes to the basic financial statements.

			Net Assets		2005 Total	2004 Total
	Governmental Activities	Business-type Activities	Restated			
			Governmental Activities	Business-type Activities		
	2005	2005	2004	2004		
<u>Assets</u>						
Current and other assets	\$ 26,398,438	\$ 1,838,508	\$ 27,675,917	\$ 1,687,691	\$ 28,236,946	\$ 29,363,608
Capital assets, net	<u>36,824,821</u>	<u>468,793</u>	<u>36,752,712</u>	<u>488,555</u>	<u>37,293,614</u>	<u>37,241,267</u>
Total assets	<u>63,223,259</u>	<u>2,307,301</u>	<u>64,428,629</u>	<u>2,176,246</u>	<u>65,530,560</u>	<u>66,604,875</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	8,211,415	2,227,567	8,886,921	2,025,059	10,438,982	10,911,980
Other liabilities	<u>8,140,256</u>	<u>655,842</u>	<u>8,017,703</u>	<u>664,367</u>	<u>8,796,098</u>	<u>8,682,070</u>
Total liabilities	<u>16,351,671</u>	<u>2,883,409</u>	<u>16,904,624</u>	<u>2,689,426</u>	<u>19,235,080</u>	<u>19,594,050</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	30,371,684	468,793	29,427,883	488,555	30,840,477	29,916,438
Restricted	14,801,507	-	14,905,119	-	14,801,507	14,905,119
Unrestricted	<u>1,698,397</u>	<u>(1,044,901)</u>	<u>3,191,003</u>	<u>(1,001,735)</u>	<u>653,496</u>	<u>2,189,268</u>
Total net assets	<u>\$ 46,871,588</u>	<u>\$ (576,108)</u>	<u>\$ 47,524,005</u>	<u>\$ (513,180)</u>	<u>\$ 46,295,480</u>	<u>\$ 47,010,825</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2005, the County's assets exceeded liabilities by \$46,295,480. This amounts to \$46,871,588 in governmental activities and a deficit of \$576,108 in business-type activities.

Capital assets reported on the government-wide statements represent the largest portion of the County's net assets. At year-end, capital assets represented 56.91% of total governmental and business-type assets. Capital assets include land, buildings and improvements, machinery and equipment, vehicles, construction in progress and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2005, were \$30,840,477. These capital assets are used to provide services to citizens and are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. Capital assets are discussed further on page 10.

As of December 31, 2005, the County is able to report positive balances in all categories of total net assets, for its governmental activities.

A portion of the County's net assets, \$14,801,507 or 31.97%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of total unrestricted net assets is \$653,496.

HENRY COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

The table below shows the changes in net assets for governmental activities and business-type activities for 2005 and 2004. Certain 2004 amounts have been restated due to a restatement of net assets described in Note 3.A. in the notes to the basic financial statements.

	Change in Net Assets					
			Restated			
	Governmental Activities 2005	Business-type Activities 2005	Governmental Activities 2004	Business-type Activities 2004	2005 Total	2004 Total
Revenues						
Program revenues:						
Charges for services and sales	\$ 4,432,754	\$ 1,143,386	\$ 3,949,378	\$ 1,078,134	\$ 5,576,140	\$ 5,027,512
Operating grants and contributions	7,789,043	-	10,477,130	-	7,789,043	10,477,130
Capital grants and contributions	557,247	-	105,976	-	557,247	105,976
Total program revenues	<u>12,779,044</u>	<u>1,143,386</u>	<u>14,532,484</u>	<u>1,078,134</u>	<u>13,922,430</u>	<u>15,610,618</u>
General revenues:						
Property taxes	5,582,843	-	5,974,834	-	5,582,843	5,974,834
Sales tax	4,696,846	-	4,959,405	-	4,696,846	4,959,405
Unrestricted grants	1,363,095	-	1,446,394	-	1,363,095	1,446,394
Investment earnings	613,750	36,369	404,066	20,590	650,119	424,656
Other	1,197,646	35,444	1,633,904	28,373	1,233,090	1,662,277
Total general revenues	<u>13,454,180</u>	<u>71,813</u>	<u>14,418,603</u>	<u>48,963</u>	<u>13,525,993</u>	<u>14,467,566</u>
Total revenues	<u>26,233,224</u>	<u>1,215,199</u>	<u>28,951,087</u>	<u>1,127,097</u>	<u>27,448,423</u>	<u>30,078,184</u>
Expenses						
Program Expenses:						
General government	4,854,758	-	4,639,704	-	4,854,758	4,639,704
Public safety	2,436,536	-	2,367,287	-	2,436,536	2,367,287
Public works	4,608,870	-	3,569,097	-	4,608,870	3,569,097
Health	2,123,428	-	1,734,475	-	2,123,428	1,734,475
Human services	11,208,919	-	10,937,683	-	11,208,919	10,937,683
Economic development	427,009	-	622,278	-	427,009	622,278
Transportation	225,544	-	30,363	-	225,544	30,363
Other	767,573	-	756,863	-	767,573	756,863
Interest and fiscal charges	230,133	-	201,821	-	230,133	201,821
Sanitary landfill	-	1,176,248	-	1,148,278	1,176,248	1,148,278
Tower fund	-	37,520	-	-	37,520	-
Hahn Center	-	57,975	-	52,664	57,975	52,664
Monroe Township Landfill Fees	-	9,255	-	7,682	9,255	7,682
Total expenses	<u>26,882,770</u>	<u>1,280,998</u>	<u>24,859,571</u>	<u>1,208,624</u>	<u>28,163,768</u>	<u>26,068,195</u>
Change in net assets before transfers	(649,546)	(65,799)	4,091,516	(81,527)	(715,345)	4,009,989
Transfers	(2,871)	2,871	(130,496)	130,496	-	-
Change in net assets	(652,417)	(62,928)	3,961,020	48,969	(715,345)	4,009,989
Net assets at beginning of year (restated)	<u>47,524,005</u>	<u>(513,180)</u>	<u>43,562,985</u>	<u>(562,149)</u>	<u>47,010,825</u>	<u>43,000,836</u>
Net assets at end of year	<u>\$ 46,871,588</u>	<u>\$ (576,108)</u>	<u>\$ 47,524,005</u>	<u>\$ (513,180)</u>	<u>\$ 46,295,480</u>	<u>\$ 47,010,825</u>

HENRY COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Governmental Activities

Governmental assets decreased by \$652,417 in 2005 from 2004. This decrease is due to slightly decreasing revenues and a increasing in expenses.

Human services, which supports the operations of the Country View Haven, County Board of MRDD and Public Assistance, accounts for \$11,208,919 of expenses, or 41.70% of total governmental expenses of the County. These expenses were funded by \$760,720 in charges to users of services and \$6,022,945 in operating grants in 2005. General government expenses which includes legislative and executive and judicial programs, totaled \$4,854,758 or 18.06% of total governmental expenses. General government expenses were covered by \$1,599,100 of direct charges to users in 2005.

The state and federal government contributed to the County revenues of \$7,789,043 in operating grants and contributions and \$557,247 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions \$6,022,945, or 77.33%, subsidized human services programs.

General revenues totaled \$13,564,180, and amounted to 51.71% of total revenues. These revenues primarily consist of property and sales tax revenue of \$10,279,689 or 76.41% of total general revenues in 2005. The other primary source of general revenues is grants and entitlements not restricted to specific programs of \$1,363,095.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2005 compared to 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Restated Net Cost of Services
	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>
Program Expenses:				
General government	\$ 4,854,758	\$ 2,854,458	\$ 4,639,704	\$ 2,964,850
Public safety	2,436,536	2,090,482	2,367,287	1,983,028
Public works	4,608,870	2,589,903	3,569,097	1,347,075
Health	2,123,428	1,118,963	1,734,475	1,091,564
Human services	11,208,919	4,425,254	10,937,683	2,327,160
Economic development and assistance	427,009	30,497	622,278	(167,799)
Transportation	225,544	63	30,363	30,363
Other	767,573	767,573	756,863	655,001
Interest and fiscal charges	<u>230,133</u>	<u>226,533</u>	<u>201,821</u>	<u>201,821</u>
Total	<u>\$ 26,882,770</u>	<u>\$ 14,103,726</u>	<u>\$ 24,859,571</u>	<u>\$ 10,433,063</u>

The dependence upon general revenues for governmental activities is apparent, with 52.46% of expenses supported through taxes and other general revenues during 2005.

HENRY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 UNAUDITED

Business-Type Activities

The Sanitary Landfill, Tower Fund, Hahn Center and Monroe Township Landfill Fees are the County's enterprise funds. These programs had revenues of \$1,215,199, expenses of \$1,280,998 and transfers in of \$2,871 for fiscal year 2005. The business-type activities net assets decreased \$62,928 during fiscal year 2005.

Financial Analysis of the Government's Funds

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

Governmental Funds

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

The County's governmental funds (as presented on the balance sheet on pages 16-17) reported a combined fund balance of \$13,431,971, which is \$706,092 under last year's total of \$14,138,063. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2005 for all major and nonmajor governmental funds.

	<u>Fund Balance</u> <u>December 31, 2005</u>	<u>Fund Balance</u> <u>December 31, 2004</u>	<u>Increase</u> <u>(Decrease)</u>
Major Funds:			
General	\$ 1,763,126	\$ 2,397,520	\$ (634,394)
Country View Haven Fund	2,000,172	2,080,743	(80,571)
Motor Vehicle and Gas Tax	1,428,785	1,092,681	336,104
County Board of MRDD	1,850,333	1,352,300	498,033
Public Assistance	353,099	402,481	(49,382)
Courthouse Project	215,365	406,951	(191,586)
Other Nonmajor Governmental Funds	<u>5,821,091</u>	<u>6,405,387</u>	<u>(584,296)</u>
Total	<u>\$ 13,431,971</u>	<u>\$ 14,138,063</u>	<u>\$ (706,092)</u>

General Fund

The general fund is the operating fund of the County. At the end of the fiscal year, the fund balance of the general fund was \$1,763,126, a 26.46% decrease from 2004. The decrease of the general fund balance in 2005 was primarily due to an increase in revenues of 4.64% in 2005 compared to 2004 and a larger increase in expenditures of 10.85% in 2005 compared to 2004. In addition, the general fund made \$781,022 in transfers to other funds.

Country View Haven Fund

The Country View Haven fund, a County major fund, had revenues of \$1,441,370 in 2005. The Country View Haven fund had expenditures of \$1,521,941 in 2005. The Country View Haven fund balance decreased \$80,571 or 3.87% from 2004 to 2005.

HENRY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 UNAUDITED

Motor Vehicle and Gas Tax Fund

The Motor Vehicle and Gas Tax fund, a County major fund, had revenues and other financing sources of \$4,425,548 in 2005. The Motor Vehicle and Gas Tax fund had expenditures of \$4,089,444 in 2005. The Motor Vehicle and Gas Tax fund balance increased \$336,104 or 30.76% from 2004 to 2005.

County Board of Mental Retardation and Developmental Disabled (MRDD)

The County Board of MRDD fund, a County major fund, had revenues of \$7,402,163 in 2005. The County Board of MRDD fund had expenditures of \$6,904,130 in 2005. The County Board of MRDD fund balance increased \$498,033 or 36.83% from 2004 to 2005. This increase is due to increase tax and intergovernmental revenues.

Public Assistance Fund

The Public assistance fund, a County major fund, had revenues of \$1,750,915 in 2005. The Public assistance fund had expenditures of \$1,800,297 in 2005. The Public Assistance fund balance decreased \$49,382 or 12.27% from 2004 to 2005.

Courthouse Project Fund

The Courthouse project fund, a County major fund, had revenues and other financing sources of \$4,045,762 in 2005. The Courthouse project fund had expenditures of \$4,237,348 in 2005. The Courthouse Project fund balance decreased \$191,586 or 47.08% from 2004 to 2005.

Budgeting Highlights - General Fund

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

Budgetary information is presented for the general fund, Country View Haven, motor vehicle and gas tax, County Board of MRDD and public assistance. In the general fund, there were no significant changes between the original and final budget. Actual revenues of \$6,650,331 were more than final budgeted revenues by \$3,355 or 0.05%. The difference between the final budget and actual expenditures was a \$459,464 or 6.50% decrease in expenditures. Actual expenditures being lower than final budgeted expenditures are a result of the County's conservative budgeting practices.

In the Country View Haven fund, actual revenues were the same as final budgeted revenues and actual expenditures of \$1,501,325 were less than final budgeted expenditures by \$64,936. In the Motor Vehicle and Gas Tax fund, actual revenues of \$4,350,477 were less than final budgeted revenues by \$130,455 and actual expenditures of \$4,444,708 were less than final budgeted expenditures by \$278,153. In the County Board of MRDD fund, actual revenues of \$7,719,199 were less than final budgeted revenues by \$5,000 and actual expenditures of \$7,139,653 were less than final budgeted expenditures by \$508,980. In the Public Assistance fund, actual revenues of \$1,656,976 were less than final budgeted revenues by \$100,002 and actual expenditures of \$2,134,775 were less than final budgeted expenditures by \$406,681.

HENRY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are internal balances due to governmental activities. The only interfund activity reported in the government wide statements are those between business-type activities and governmental activities (reported as internal balances and transfers) whereas interfund amounts between various enterprise funds are reported in the proprietary fund statements. Activity within the County's major fund is described below:

Sanitary Landfill Fund

The Sanitary Landfill fund, a major proprietary fund, had operating revenues of \$1,087,302 in 2005, an increase of \$69,935 or 6.87% from 2004 revenues. The Sanitary Landfill fund had operating expenses of \$1,162,464 in 2005, an increase of \$19,817 or 1.73% from 2004. There were no transfers made to the Landfill fund during 2005 which contributed to the decrease in net assets of \$59,706 during 2005.

Capital Assets and Debt Administration

Capital Assets

At the end of 2005, the County had \$37,293,614 (net of accumulated depreciation) invested in land, buildings and improvements, machinery and equipment, vehicles, construction in progress and infrastructure. Of this total, \$36,824,821 was reported in governmental activities and \$468,793 was reported in business-type activities. The following table shows fiscal 2005 balances compared to 2004:

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 1,762,289	\$ 1,732,289	\$ 277,435	\$ 277,435	\$ 2,039,724	\$ 2,009,724
Building and improvements	12,996,903	13,391,778	16,444	17,939	13,013,347	13,409,717
Machinery and equipment	515,902	497,771	33,327	36,041	549,229	533,812
Vehicles	2,251,255	2,222,255	141,587	157,140	2,392,842	2,379,395
Infrastructure	18,995,426	18,554,128	-	-	18,995,426	18,554,128
Construction in progress	303,046	354,491	-	-	303,046	354,491
Total	\$ 36,824,821	\$ 36,752,712	\$ 468,793	\$ 488,555	\$ 37,293,614	\$ 37,241,267

The overall increase in capital assets is due to the completion of building improvements to the courthouse project and MRDD. In the governmental activities, capital asset additions of \$2,100,119 exceeded depreciation expense of \$2,028,010.

See Note 10 to the basic financial statements for detail on governmental activities and business-type activities capital assets.

HENRY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 UNAUDITED

Debt Administration

At December 31, 2005 the County had \$10,438,982 in general obligation bonds, special assessment bonds, revenue bonds, OWDA loans, mortgage loan, capital leases, notes payable, estimated liability for landfill/post closure and compensated absences payable outstanding. Of this total \$4,815,145 is due within one year and \$5,623,837 is due within greater than one year. The following table summarizes the outstanding debt at year end.

Outstanding Debt, at Year End

	Governmental Activities 2005	Business-type Activities 2005	Total 2005
Long-Term Obligations			
General obligation bonds	\$ 25,000	\$ -	\$ 25,000
Special assessment bonds	242,809	-	242,809
Revenue bonds	1,779,000	-	1,779,000
OWDA loans	601,063	-	601,063
Ridgeville Turn Lane	150,000	-	150,000
Mortgage loan	83,334	-	83,334
Capital lease	20,265	-	20,265
Notes payable	3,785,000	-	3,785,000
Estimated liability for landfill closure/post closure	-	2,205,773	2,205,773
Compensated absences payable	<u>1,524,944</u>	<u>21,794</u>	<u>1,546,738</u>
Total	<u>\$ 8,211,415</u>	<u>\$ 2,227,567</u>	<u>\$ 10,438,982</u>

At December 31, 2005 the County's overall legal debt margin was \$13,557,450. See Note 14 to the basic financial statements for detail on governmental activities and business-type activities long term debt.

Economic Factors and Next Year's Budgets and Rates

The following economic factors were taken into consideration in preparing the budget for fiscal year 2006.

The County's unemployment rate is currently 5.2%, compared to the 5.1% state average and 4.63 national average.

State funding and sales are expected to decline, but our sales tax revenue and investment earnings are increasing.

These economic factors were considered in preparing the County's budget for fiscal year 2006. Budgeted revenues and other financing sources in the general fund for fiscal year 2006 is \$7,045,153. Even with the continuation of conservative budgeting practices, the County's financial position will continue to worsen without additional local reserve.

Contacting the County's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Honorable Kevin Nye, Henry County Auditor, Courthouse, 660 N. Perry Street, P.O. Box 546, Napoleon, Ohio 43545.

**BASIC
FINANCIAL STATEMENTS**

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HENRY COUNTY, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 10,997,047	\$ 707,955	\$ 11,705,002
Cash in segregated accounts	25,943	-	25,943
Investments	290,000	-	290,000
Receivables (net of allowances for uncollectibles):			
Sales taxes	874,201	-	874,201
Property taxes	6,900,410	-	6,900,410
Accounts	105,129	2,691	107,820
Due from other governments	5,489,770	-	5,489,770
Special assessments	437,020	-	437,020
Accrued interest	104,220	7,438	111,658
Loans receivable	952,413	-	952,413
Prepayments	89,072	-	89,072
Materials and supplies inventory	133,213	192	133,405
Restricted assets:			
Equity in pooled cash and cash equivalents	-	1,120,232	1,120,232
Capital assets:			
Land and construction-in-progress	2,065,335	277,435	2,342,770
Depreciable capital assets, net	34,759,486	191,358	34,950,844
Total capital assets, net	<u>36,824,821</u>	<u>468,793</u>	<u>37,293,614</u>
Total assets	<u>63,223,259</u>	<u>2,307,301</u>	<u>65,530,560</u>
Liabilities:			
Accounts payable	491,387	28,053	519,440
Contracts payable	13,062	-	13,062
Retainage payable	17,695	-	17,695
Accrued wages and benefits	180,696	2,867	183,563
Pension obligation payable	119,125	1,741	120,866
Due to other governments	287,711	18,800	306,511
Deferred revenue	6,893,914	-	6,893,914
Deposits held and due to others	25,800	-	25,800
Amounts to be repaid to claimants	7,008	-	7,008
Accrued interest payable	103,858	14,381	118,239
Notes payable	-	590,000	590,000
Long-term liabilities:			
Due within one year	4,810,306	4,839	4,815,145
Due in more than one year	<u>3,401,109</u>	<u>2,222,728</u>	<u>5,623,837</u>
Total liabilities	<u>16,351,671</u>	<u>2,883,409</u>	<u>19,235,080</u>
Net assets:			
Invested in capital assets, net of related debt	30,371,684	468,793	30,840,477
Restricted for:			
Capital projects	627,954	-	627,954
Debt service	1,702,143	-	1,702,143
Public safety programs	141,283	-	141,283
Public works projects	2,499,318	-	2,499,318
Human services programs	4,545,951	-	4,545,951
Health programs	2,117,569	-	2,117,569
Economic development programs	1,773,097	-	1,773,097
Other purposes	1,394,192	-	1,394,192
Unrestricted (deficit)	<u>1,698,397</u>	<u>(1,044,901)</u>	<u>653,496</u>
Total net assets	<u>\$ 46,871,588</u>	<u>\$ (576,108)</u>	<u>\$ 46,295,480</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government:				
Legislative and executive	\$ 3,676,658	\$ 1,241,230	\$ 401,200	\$ -
Judicial	1,178,100	357,870	-	-
Public safety	2,436,536	191,144	154,910	-
Public works	4,608,870	1,039,814	421,906	557,247
Health	2,123,428	612,895	391,570	-
Human services	11,208,919	760,720	6,022,945	-
Economic development and assistance	427,009	-	396,512	-
Transportation	225,544	225,481	-	-
Other	767,573	-	-	-
Interest and fiscal charges	230,133	3,600	-	-
Total governmental activities	26,882,770	4,432,754	7,789,043	557,247
Business-Type Activities:				
Sanitary Landfill	1,176,248	1,065,397	-	-
Nonmajor:				
Tower Fund	37,520	22,573	-	-
Hahn Center	57,975	46,686	-	-
Monroe Township Landfill Fees	9,255	8,730	-	-
Total business-type activities	1,280,998	1,143,386	-	-
Total primary government	\$ 28,163,768	\$ 5,576,140	\$ 7,789,043	\$ 557,247

General Revenues:

Property taxes levied for:

General fund
Human services - County Board of MRDD
Human services - Country View Haven
Sales taxes
Grants and entitlements not restricted to specific programs
Investment earnings
Miscellaneous

Total general revenues

Transfers

Change in net assets

Net assets at beginning of year (restated)

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (2,034,228)	\$ -	\$ (2,034,228)
(820,230)	-	(820,230)
(2,090,482)	-	(2,090,482)
(2,589,903)	-	(2,589,903)
(1,118,963)	-	(1,118,963)
(4,425,254)	-	(4,425,254)
(30,497)	-	(30,497)
(63)	-	(63)
(767,573)	-	(767,573)
(226,533)	-	(226,533)
<u>(14,103,726)</u>	<u>-</u>	<u>(14,103,726)</u>
-	(110,851)	(110,851)
-	(14,947)	(14,947)
-	(11,289)	(11,289)
-	(525)	(525)
<u>-</u>	<u>(137,612)</u>	<u>(137,612)</u>
<u>(14,103,726)</u>	<u>(137,612)</u>	<u>(14,241,338)</u>
1,611,429	-	1,611,429
3,161,651	-	3,161,651
809,763	-	809,763
4,696,846	-	4,696,846
1,363,095	-	1,363,095
613,750	36,369	650,119
<u>1,197,646</u>	<u>35,444</u>	<u>1,233,090</u>
13,454,180	71,813	13,525,993
<u>(2,871)</u>	<u>2,871</u>	<u>-</u>
(652,417)	(62,928)	(715,345)
<u>47,524,005</u>	<u>(513,180)</u>	<u>47,010,825</u>
<u>\$ 46,871,588</u>	<u>\$ (576,108)</u>	<u>\$ 46,295,480</u>

HENRY COUNTY, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	<u>General</u>	<u>Country View Haven</u>	<u>Motor Vehicle and Gas Tax</u>	<u>County Board of MRDD</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,170,353	\$ 2,072,772	\$ 815,164	\$ 1,816,580
Cash in segregated accounts	-	143	-	-
Investments	-	-	-	-
Receivables (net of allowance for uncollectibles):				
Sales taxes	874,201	-	-	-
Property taxes	2,264,693	943,549	-	3,692,168
Accounts	20,043	-	13,627	4,186
Special assessments	-	-	-	-
Due from other funds	10,722	-	4,761	4,000
Due from other governments	484,475	43,533	2,005,450	530,529
Accrued interest	87,785	-	4,642	-
Loans receivable	-	-	-	-
Prepayments	28,959	-	-	57,920
Materials and supplies inventory	36,416	-	68,389	16,290
Total assets	<u>\$ 4,977,647</u>	<u>\$ 3,059,997</u>	<u>\$ 2,912,033</u>	<u>\$ 6,121,673</u>
Liabilities:				
Accounts payable	\$ 87,146	\$ 17,089	\$ 37,057	\$ 167,123
Contracts payable	-	-	13,062	-
Retainage payable	-	-	17,695	-
Accrued wages and benefits	46,440	17,765	20,568	55,298
Compensated absences payable	-	-	-	13,991
Due to other funds	9,112	84	287	10,654
Due to other governments	91,201	26,716	28,631	83,789
Pension obligation	34,235	11,089	15,518	32,810
Deposits held and due to others	-	-	-	-
Deferred revenue	2,939,379	987,082	1,350,430	3,907,675
Amount to be repaid to claimants	7,008	-	-	-
Total liabilities	<u>3,214,521</u>	<u>1,059,825</u>	<u>1,483,248</u>	<u>4,271,340</u>
Fund Balances:				
Reserved for encumbrances	12,628	1,677	307,149	-
Reserved for prepayments	28,959	-	-	57,920
Reserved for materials and supplies inventory	36,416	-	68,389	16,290
Reserved for loans	-	-	-	-
Unreserved, undesignated, reported in:				
General fund	1,685,123	-	-	-
Special revenue funds	-	1,998,495	1,053,247	1,776,123
Debt service fund	-	-	-	-
Capital projects funds	-	-	-	-
Total fund balances	<u>1,763,126</u>	<u>2,000,172</u>	<u>1,428,785</u>	<u>1,850,333</u>
Total liabilities and fund balances	<u>\$ 4,977,647</u>	<u>\$ 3,059,997</u>	<u>\$ 2,912,033</u>	<u>\$ 6,121,673</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Public Assistance</u>	<u>Courthouse Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 174,327	\$ 218,397	\$ 4,729,454	\$ 10,997,047
-	-	25,800	25,943
-	-	290,000	290,000
-	-	-	874,201
-	-	-	6,900,410
45,201	-	22,072	105,129
-	-	437,020	437,020
34,786	-	14,333	68,602
1,801,857	-	623,926	5,489,770
-	-	11,793	104,220
-	-	952,413	952,413
1,288	-	905	89,072
6,857	-	5,261	133,213
<u>\$ 2,064,316</u>	<u>\$ 218,397</u>	<u>\$ 7,112,977</u>	<u>\$ 26,467,040</u>
\$ 33,534	\$ 3,032	\$ 146,406	\$ 491,387
-	-	-	13,062
-	-	-	17,695
16,923	-	23,702	180,696
-	-	-	13,991
3,805	-	44,660	68,602
24,085	-	33,289	287,711
11,393	-	14,080	119,125
-	-	25,800	25,800
1,621,477	-	1,003,949	11,809,992
-	-	-	7,008
<u>1,711,217</u>	<u>3,032</u>	<u>1,291,886</u>	<u>13,035,069</u>
-	863	151,234	473,551
1,288	-	905	89,072
6,857	-	5,261	133,213
-	-	952,413	952,413
-	-	-	1,685,123
344,954	-	2,934,796	8,107,615
-	-	1,485,926	1,485,926
-	214,502	290,556	505,058
<u>353,099</u>	<u>215,365</u>	<u>5,821,091</u>	<u>13,431,971</u>
<u>\$ 2,064,316</u>	<u>\$ 218,397</u>	<u>\$ 7,112,977</u>	<u>\$ 26,467,040</u>

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HENRY COUNTY, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005

Total governmental fund balances		\$ 13,431,971
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		36,824,821
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Special assessments	\$ 437,020	
Sales tax	330,089	
Intergovernmental revenues	4,085,265	
Interest revenue	<u>63,704</u>	
Total		4,916,078
In the statement of activities interest is accrued on outstanding loans, notes and bonds whereas in governmental funds, interest expenditures are reported when due.		(103,858)
Long-term liabilities, including bonds and loans payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(25,000)	
Special assessment bonds	(242,809)	
OWDA loan payable	(601,063)	
Revenue bonds payable	(1,779,000)	
Mortgage loan payable	(83,334)	
Notes payable	(3,935,000)	
Compensated absences	(1,510,953)	
Capital leases payable	<u>(20,265)</u>	
Total		<u>(8,197,424)</u>
Net assets of governmental activities		<u><u>\$ 46,871,588</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>General</u>	<u>Country View Haven</u>	<u>Motor Vehicle and Gas Tax</u>	<u>County Board of MRDD</u>
Revenues:				
Sales taxes	\$ 2,487,529	\$ -	\$ 2,447,681	\$ -
Property taxes	1,947,956	809,763	-	3,161,651
Charges for services	829,902	512,953	864,527	259,590
Licenses and permits	2,716	-	-	-
Fines and forfeitures	76,095	-	55,287	-
Intergovernmental	983,689	82,754	904,940	3,707,351
Special assessments	-	-	-	-
Investment income	480,927	-	24,248	-
Rental income	-	28,818	-	-
Other	214,285	7,082	122,678	273,571
Total revenues	<u>7,023,099</u>	<u>1,441,370</u>	<u>4,419,361</u>	<u>7,402,163</u>
Expenditures:				
Current:				
General government:				
Legislative and executive	2,408,291	-	-	-
Judicial	994,956	-	-	-
Public safety	2,115,274	-	-	-
Public works	213,001	-	4,080,782	-
Health	15,676	1,521,941	-	-
Human services	322,941	-	-	6,890,060
Economic development and assistance	-	-	-	-
Transportation	-	-	-	-
Other	757,622	-	-	-
Capital outlay	48,710	-	6,187	-
Debt service:				
Principal retirement	-	-	2,193	11,007
Interest and fiscal charges	-	-	282	3,063
Total expenditures	<u>6,876,471</u>	<u>1,521,941</u>	<u>4,089,444</u>	<u>6,904,130</u>
Excess (deficiency) of revenues over (under) expenditures	<u>146,628</u>	<u>(80,571)</u>	<u>329,917</u>	<u>498,033</u>
Other financing sources (uses):				
Note issuance	-	-	-	-
Loan issuance	-	-	-	-
Capital lease transaction	-	-	6,187	-
Transfers in	-	-	-	-
Transfers out	(781,022)	-	-	-
Total other financing sources (uses)	<u>(781,022)</u>	<u>-</u>	<u>6,187</u>	<u>-</u>
Net change in fund balances	(634,394)	(80,571)	336,104	498,033
Fund balances at beginning of year	<u>2,397,520</u>	<u>2,080,743</u>	<u>1,092,681</u>	<u>1,352,300</u>
Fund balances at end of year	<u>\$ 1,763,126</u>	<u>\$ 2,000,172</u>	<u>\$ 1,428,785</u>	<u>\$ 1,850,333</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Public Assistance	Courthouse Project	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 4,935,210
-	-	-	5,919,370
-	110,000	1,309,465	3,886,437
-	-	-	2,716
-	-	45,529	176,911
1,653,317	124,827	2,551,449	10,008,327
-	-	179,720	179,720
-	-	86,093	591,268
-	10,000	303,520	342,338
97,598	935	169,322	885,471
<u>1,750,915</u>	<u>245,762</u>	<u>4,645,098</u>	<u>26,927,768</u>
-	-	457,466	2,865,757
-	-	142,333	1,137,289
-	-	253,566	2,368,840
-	-	92,189	4,385,972
-	-	525,304	2,062,921
1,800,297	-	2,125,926	11,139,224
-	-	427,009	427,009
-	-	225,544	225,544
-	-	31,180	788,802
-	594,872	635,434	1,285,203
-	3,580,000	1,079,907	4,673,107
-	62,476	150,925	216,746
<u>1,800,297</u>	<u>4,237,348</u>	<u>6,146,783</u>	<u>31,576,414</u>
<u>(49,382)</u>	<u>(3,991,586)</u>	<u>(1,501,685)</u>	<u>(4,648,646)</u>
-	3,735,000	200,000	3,935,000
-	-	4,238	4,238
-	-	-	6,187
-	65,000	782,898	847,898
-	-	(69,747)	(850,769)
<u>-</u>	<u>3,800,000</u>	<u>917,389</u>	<u>3,942,554</u>
(49,382)	(191,586)	(584,296)	(706,092)
402,481	406,951	6,405,387	14,138,063
<u>\$ 353,099</u>	<u>\$ 215,365</u>	<u>\$ 5,821,091</u>	<u>\$ 13,431,971</u>

HENRY COUNTY, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

Net change in fund balances - total governmental funds	\$ (706,092)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$2,100,119) exceeded depreciation expense (\$2,028,010) in the current period.	72,109
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(694,544)
Proceeds of notes, loans and capital lease transaction are other financing sources in the governmental funds, however these activities increase long-term liabilities on the statement of net assets.	(3,945,425)
Repayment of bond, loan, note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.	4,673,107
In the statement of activities, interest is accrued on outstanding outstanding bonds and loans, whereas in governmental funds, an interest expenditure is reported when due.	(13,387)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(38,185)</u>
Change in net assets of governmental activities	<u>\$ (652,417)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Sales taxes	\$2,000,000	\$2,313,958	\$2,313,958	\$ -
Property and other taxes	1,808,850	1,975,407	1,975,407	-
Charges for services	788,292	829,958	829,958	-
Licenses and permits	2,580	2,716	2,716	-
Fines and forfeitures	67,050	70,594	70,594	-
Intergovernmental	934,305	983,689	983,689	-
Investment income	445,352	468,892	468,892	-
Other	1,674	1,762	5,117	3,355
Total revenues	<u>6,048,103</u>	<u>6,646,976</u>	<u>6,650,331</u>	<u>3,355</u>
Expenditures:				
Current:				
General government:				
Legislative and executive	2,628,016	2,538,717	2,402,703	136,014
Judicial	944,941	1,000,013	986,779	13,234
Public safety	2,180,627	2,207,105	2,108,566	98,539
Public works	219,201	249,252	220,425	28,827
Health	43,592	43,592	14,195	29,397
Human services	321,905	324,905	318,251	6,654
Other	499,971	628,205	521,138	107,067
Capital outlay	77,327	77,327	37,595	39,732
Total expenditures	<u>6,915,580</u>	<u>7,069,116</u>	<u>6,609,652</u>	<u>459,464</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(867,477)</u>	<u>(422,140)</u>	<u>40,679</u>	<u>462,819</u>
Other financing sources (uses):				
Transfers in	49,843	52,478	52,478	-
Transfers out	(1,028,933)	(928,295)	(1,012,121)	(83,826)
Other financing sources	168,348	177,246	177,246	-
Total other financing sources (uses)	<u>(810,742)</u>	<u>(698,571)</u>	<u>(782,397)</u>	<u>(83,826)</u>
Net change in fund balance	(1,678,219)	(1,120,711)	(741,718)	378,993
Fund balance at beginning of year	1,687,974	1,687,974	1,687,974	-
Prior year encumbrances appropriated	<u>119,559</u>	<u>119,559</u>	<u>119,559</u>	<u>-</u>
Fund balance at end of year	<u>\$ 129,314</u>	<u>\$ 686,822</u>	<u>\$ 1,065,815</u>	<u>\$ 378,993</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 COUNTRY VIEW HAVEN
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Property taxes	\$ 761,460	\$ 825,390	\$ 825,390	\$ -
Charges for services	473,223	512,953	512,953	-
Intergovernmental	76,344	82,754	82,754	-
Rental income	26,586	28,818	28,818	-
Other	6,626	7,182	7,182	-
Total revenues	<u>1,344,239</u>	<u>1,457,097</u>	<u>1,457,097</u>	<u>-</u>
Expenditures:				
Current:				
Health	<u>1,566,261</u>	<u>1,566,261</u>	<u>1,501,325</u>	<u>64,936</u>
Total expenditures	<u>1,566,261</u>	<u>1,566,261</u>	<u>1,501,325</u>	<u>64,936</u>
Net change in fund balance.	(222,022)	(109,164)	(44,228)	64,936
Fund balance at beginning of year	2,061,022	2,061,022	2,061,022	-
Prior year encumbrances appropriated	<u>15,058</u>	<u>15,058</u>	<u>15,058</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 1,854,058</u>	<u>\$ 1,966,916</u>	<u>\$ 2,031,852</u>	<u>\$ 64,936</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 MOTOR VEHICLE AND GAS TAX
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Sales taxes	\$ 2,410,842	\$ 2,521,078	\$ 2,447,681	\$ (73,397)
Charges for services	851,515	890,451	864,527	(25,924)
Fines and forfeitures	54,455	56,945	55,287	(1,658)
Intergovernmental	826,624	864,421	839,255	(25,166)
Investment income.	21,153	22,120	21,476	(644)
Other	<u>120,411</u>	<u>125,917</u>	<u>122,251</u>	<u>(3,666)</u>
Total revenues	<u>4,285,000</u>	<u>4,480,932</u>	<u>4,350,477</u>	<u>(130,455)</u>
Expenditures:				
Current:				
Public works.	<u>4,722,861</u>	<u>4,722,861</u>	<u>4,444,708</u>	<u>278,153</u>
Total expenditures	<u>4,722,861</u>	<u>4,722,861</u>	<u>4,444,708</u>	<u>278,153</u>
Net change in fund balance.	(437,861)	(241,929)	(94,231)	147,698
Fund balance at beginning of year	447,907	447,907	447,907	-
Prior year encumbrances appropriated	<u>123,210</u>	<u>123,210</u>	<u>123,210</u>	<u>-</u>
Fund balance at end of year	<u>\$ 133,256</u>	<u>\$ 329,188</u>	<u>\$ 476,886</u>	<u>\$ 147,698</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 COUNTY BOARD OF MRDD
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Property taxes	\$ 3,200,000	\$ 3,229,804	\$ 3,229,804	\$ -
Charges for services	250,000	259,650	259,650	-
Intergovernmental	2,700,000	3,961,162	3,961,162	-
Other	57,000	273,583	268,583	(5,000)
Total revenues	<u>6,207,000</u>	<u>7,724,199</u>	<u>7,719,199</u>	<u>(5,000)</u>
Expenditures:				
Current:				
Human services	<u>6,778,611</u>	<u>7,648,633</u>	<u>7,139,653</u>	<u>508,980</u>
Total expenditures	<u>6,778,611</u>	<u>7,648,633</u>	<u>7,139,653</u>	<u>508,980</u>
Net change in fund balance.	(571,611)	75,566	579,546	503,980
Fund balance at beginning of year	1,122,298	1,122,298	1,122,298	-
Prior year encumbrances appropriated	<u>3,311</u>	<u>3,311</u>	<u>3,311</u>	<u>-</u>
Fund balance at end of year	<u>\$ 553,998</u>	<u>\$ 1,201,175</u>	<u>\$ 1,705,155</u>	<u>\$ 503,980</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 PUBLIC ASSISTANCE
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intergovernmental	\$ 2,015,072	\$ 1,662,278	\$ 1,562,276	\$ (100,002)
Other	145,128	94,700	94,700	-
Total revenues	<u>2,160,200</u>	<u>1,756,978</u>	<u>1,656,976</u>	<u>(100,002)</u>
Expenditures:				
Current:				
Human services	<u>2,541,456</u>	<u>2,541,456</u>	<u>2,134,775</u>	<u>406,681</u>
Total expenditures	<u>2,541,456</u>	<u>2,541,456</u>	<u>2,134,775</u>	<u>406,681</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(381,256)</u>	<u>(784,478)</u>	<u>(477,799)</u>	<u>306,679</u>
Other financing sources:				
Transfer in	<u>377,000</u>	<u>377,000</u>	<u>377,000</u>	<u>-</u>
Total other financing sources	<u>377,000</u>	<u>377,000</u>	<u>377,000</u>	<u>-</u>
Net change in fund balance.	(4,256)	(407,478)	(100,799)	306,679
Fund balance at beginning of year	270,869	270,869	270,869	-
Prior year encumbrances appropriated	<u>4,257</u>	<u>4,257</u>	<u>4,257</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ 270,870</u>	<u>\$ (132,352)</u>	<u>\$ 174,327</u>	<u>\$ 306,679</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2005

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Sanitary Landfill</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents.	\$ 583,257	\$ 124,698	\$ 707,955
Receivables (net of allowance for uncollectibles):			
Accounts	2,648	43	2,691
Accrued interest	7,438	-	7,438
Restricted assets:			
Equity in pooled cash and cash equivalents	1,120,232	-	1,120,232
Materials and supplies inventory	192	-	192
Total current assets	<u>1,713,767</u>	<u>124,741</u>	<u>1,838,508</u>
Noncurrent assets:			
Capital assets:			
Land	277,435	-	277,435
Depreciable capital assets, net	191,358	-	191,358
Total capital assets, net	<u>468,793</u>	<u>-</u>	<u>468,793</u>
Total noncurrent assets	<u>468,793</u>	<u>-</u>	<u>468,793</u>
Total assets	<u>2,182,560</u>	<u>124,741</u>	<u>2,307,301</u>
Liabilities:			
Current liabilities:			
Accounts payable.	27,406	647	28,053
Compensated absences payable.	4,839	-	4,839
Accrued wages and benefits	2,867	-	2,867
Due to other governments	16,087	2,713	18,800
Pension obligation payable	1,741	-	1,741
Accrued interest payable	11,578	2,803	14,381
Notes payable	475,000	115,000	590,000
Total current liabilities	<u>539,518</u>	<u>121,163</u>	<u>660,681</u>
Long-term liabilities:			
Compensated absences.	16,955	-	16,955
Estimated accrued liability for landfill closure and post closure costs	2,205,773	-	2,205,773
Total long-term liabilities	<u>2,222,728</u>	<u>-</u>	<u>2,222,728</u>
Total liabilities	<u>2,762,246</u>	<u>121,163</u>	<u>2,883,409</u>
Net assets:			
Invested in capital assets, net of related debt	468,793	-	468,793
Unrestricted (deficit)	<u>(1,048,479)</u>	<u>3,578</u>	<u>(1,044,901)</u>
Total net assets (deficit)	<u>\$ (579,686)</u>	<u>\$ 3,578</u>	<u>\$ (576,108)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	Business-type Activities - Enterprise Funds		
	Sanitary Landfill	Other Enterprise Funds	Total
Operating revenues:			
Charges for services	\$ 1,065,397	\$ 77,989	\$ 1,143,386
Other	21,905	13,539	35,444
Total operating revenues	<u>1,087,302</u>	<u>91,528</u>	<u>1,178,830</u>
Operating expenses:			
Personal services	199,489	-	199,489
Contract services	67,945	6,426	74,371
Materials and supplies	369,280	9,351	378,631
Depreciation	27,262	-	27,262
Landfill closure and postclosure care costs	194,258	-	194,258
Utilities	4,496	33,000	37,496
Other	299,734	52,630	352,364
Total operating expenses.	<u>1,162,464</u>	<u>101,407</u>	<u>1,263,871</u>
Operating loss	<u>(75,162)</u>	<u>(9,879)</u>	<u>(85,041)</u>
Nonoperating revenues (expenses):			
Interest revenue	36,369	-	36,369
Interest expense and fiscal charges	(13,784)	(3,343)	(17,127)
Total nonoperating revenues (expenses)	<u>22,585</u>	<u>(3,343)</u>	<u>19,242</u>
Loss before transfers	(52,577)	(13,222)	(65,799)
Transfers in	-	10,000	10,000
Transfers out	(7,129)	-	(7,129)
Change in net assets	(59,706)	(3,222)	(62,928)
Net assets (deficit) at beginning of year	<u>(519,980)</u>	<u>6,800</u>	<u>(513,180)</u>
Net assets (deficit) at end of year.	<u>\$ (579,686)</u>	<u>\$ 3,578</u>	<u>\$ (576,108)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2005

Business-Type Activities - Enterprise Funds

	Sanitary Landfill	Other Enterprise Funds	Total
Cash flows from operating activities:			
Cash received from sales/service charges	\$ 1,065,234	\$ 77,988	\$ 1,143,222
Cash received from other operating revenue	21,066	13,539	34,605
Cash payments for personal services	(188,845)	-	(188,845)
Cash payments for contract services.	(67,945)	(6,426)	(74,371)
Cash payments for materials and supplies.	(369,358)	(6,648)	(376,006)
Cash payments for utilities	(4,496)	(33,000)	(37,496)
Cash payments for other expenses	(275,059)	(51,973)	(327,032)
Net cash provided by (used in) operating activities. . .	<u>180,597</u>	<u>(6,520)</u>	<u>174,077</u>
Cash flows from noncapital financing activities:			
Transfers out to other funds.	(7,129)	-	(7,129)
Transfers in from other funds.	-	10,000	10,000
Net cash provided by (used in) noncapital financing activities.	<u>(7,129)</u>	<u>10,000</u>	<u>2,871</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets.	(7,500)	-	(7,500)
Principal retirement on notes	(510,000)	(125,000)	(635,000)
Issuance of notes	475,000	115,000	590,000
Interest and fiscal charges.	(8,900)	(2,181)	(11,081)
Net cash used in capital and related financing activities	<u>(51,400)</u>	<u>(12,181)</u>	<u>(63,581)</u>
Cash flows from investing activities:			
Interest received	32,944	-	32,944
Net cash provided by investing activities	<u>32,944</u>	<u>-</u>	<u>32,944</u>
Net increase (decrease) in cash and cash equivalents	155,012	(8,701)	146,311
Cash and cash equivalents at beginning of year	<u>1,548,477</u>	<u>133,399</u>	<u>1,681,876</u>
Cash and cash equivalents at end of year.	<u>\$ 1,703,489</u>	<u>\$ 124,698</u>	<u>\$ 1,828,187</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	\$ (75,162)	\$ (9,879)	\$ (85,041)
Adjustments:			
Depreciation.	27,262	-	27,262
Changes in assets and liabilities:			
Increase in accounts receivable.	(1,002)	(1)	(1,003)
Increase in materials and supplies inventory	(78)	-	(78)
Increase in accounts payable	12,051	647	12,698
Decrease in accrued wages and benefits	(1,062)	-	(1,062)
Increase in due to other governments.	15,970	2,713	18,683
Increase in pension obligation payable.	110	-	110
Increase in landfill closure and postclosure care liability .	194,258	-	194,258
Increase in compensated absences payable	8,250	-	8,250
Net cash provided by (used in) operating activities	<u>\$ 180,597</u>	<u>\$ (6,520)</u>	<u>\$ 174,077</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 DECEMBER 31, 2005

	Agency
Assets:	
Equity in pooled cash and cash equivalents	\$ 3,690,875
Cash in segregated accounts	228,535
Receivables:	
Real estate and other taxes.	23,972,952
Due from other governments	542,830
Special assessments	499,089
	28,934,281
Total assets	\$ 28,934,281
 Liabilities:	
Due to other governments.	\$ 1,777,644
Deposits held and due to others	27,156,637
	28,934,281
Total liabilities	\$ 28,934,281

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 1 - DESCRIPTION OF THE COUNTY

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

Based on the foregoing criteria, the County has no component units. The following organizations are described due to their relationship to the County:

JOINTLY GOVERNED ORGANIZATIONS

Maumee Valley Planning Organization - The County is a member of the Maumee Valley Planning Organization (MVPO) which is a jointly governed organization between Defiance, Fulton, Henry, Paulding, and Williams Counties and the respective townships and municipalities in each of those counties. The purpose of MVPO is to act as a joint regional planning commission to write and administer Community Development Block Grant (CDBG) grants and help with housing rehabilitation in the area.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

MVPO is governed by a Board consisting of fifteen members. The Board is made up of one County Commissioner from each member county as well as one township representative and one municipal representative for each of the five member counties. The main sources of revenue are fees charged by MVPO to administer CDBG grants and a per capita amount from each county. In 2005, the County paid administrative fees of \$16,500 and per capita charges of \$35,645 to MVPO.

Fulton-Henry Counties Council - The County is a member of the Fulton-Henry Counties Council (the "Council") which is a jointly governed organization between Fulton and Henry Counties. The Council was formed under Ohio Revised Code Section 167.04 as a regional council of governments. The purpose of the Council is to foster cooperation among the two member counties in all areas of services. Total expenditures made by the County to the Council in 2005 were \$1,748,719. Sky Insurance currently administers the Council's activities.

JOINT VENTURES - WITHOUT EQUITY INTEREST

Northwest Ohio Correctional Center - Henry County is a member of Northwest Ohio's Multicounty - Municipal Correctional Center, which is a joint venture between Defiance, Fulton, Henry, Lucas and Williams counties and the City of Toledo. The purpose of the center is to provide additional jail space for convicted criminals in the 5 counties and the City of Toledo, and to provide a correctional center for the inmates. The Corrections Commission joint venture was created in 1986 and construction was finished and occupancy was taken December 31, 1991.

The Corrections Commission is governed by a Commission Team made up of 18 members. These members consist of one judge, one chief law enforcement officer, and one county commissioner or administrative official from each entity. Sources of revenue include operating costs and capital costs contributed by Members and rental revenue. The County does not have an explicit, measurable right to the net resources of the Commission. Total expenditures made by the County to the Corrections Commission in 2005 were \$834,144. Complete financial statements for the Corrections Commission can be obtained from the Corrections Commission's administrative office on County Road 24 in Stryker, Ohio.

Four County ADAMHS Board - The Four County Board of Alcohol, Drug Addiction and Mental Health Services (ADAMHS Board) is a joint venture between Fulton, Defiance, Henry and Williams counties. The purpose of this board is to provide alcohol, drug addiction, and mental health services to individuals in the four counties.

The Four County ADAMHS Board is governed by a board consisting of 18 members. The breakdown is as follows: 4 members are appointed by the Ohio Director of Alcohol and Drug Addiction Services, 4 are appointed by the Ohio Director of Mental Health Services, 3 each are appointed by the Defiance and Fulton County Commissioners, and 2 each are appointed by the Henry and Williams County Commissioners.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

The main sources of revenue for the Board are state and federal grants, and a property tax levy covering the entire four county areas. Outside agencies are contracted by the Board to provide services for the Board. The Board operates autonomously from the County and the County has no financial responsibility for the operations of the Board. The County does have indirect access to the net resources of the Board. In the event the County withdrew from the Board, it would be entitled to a share of state and federal grants that is currently being received by the Board. This access to the net resources of the Board has not been explicitly defined, nor is it currently measurable. Total expenditures made by the County to the ADAMHS Board in 2005 were \$610,562. Complete financial statements for the Board can be obtained from the Board at its offices located at State Routes 34 and 66, Archbold, Ohio.

Quadco Rehabilitation Center, Administrative Board - The County is a participant with Defiance, Fulton and Williams Counties in a joint venture to operate Quadco Rehabilitation Center, Administrative Board (Quadco). Quadco, a nonprofit corporation, provides services and facilities for training physically and mentally disabled persons. Quadco is responsible for contracting with various agencies to obtain funding to operate the organization.

Quadco is governed by an eight-member board composed of two appointees made by each of the four County Boards of Mental Retardation and Developmental Disabilities (County Boards of MR/DD). This board, in conjunction with the County Boards of MRDD assess the need of the adult mentally retarded and developmentally disabled residents in each County and set priorities based on available funds. The County provides subsidies to the Board based on units of service provided to it. For the year ended December 31, 2005, the County remitted \$980,242 to Quadco to supplement its operations.

The Board operates autonomously from the County and the County has no financial responsibility for the operations of the Board. Should Quadco dissolve, the property and equipment of the corporation would revert back to the four counties. This access to the net resources of the Board has not been explicitly defined, nor is it currently measurable. Complete financial statements can be obtained from Quadco's administrative office at 427 N. Defiance Street, Stryker, Ohio.

Northwest Ohio Juvenile Detention, Training, and Rehabilitation District - The County is a participant with Defiance, Fulton, and Williams Counties in a joint venture to operate the Northwest Ohio Juvenile Detention, Training, and Rehabilitation District (NWOJDD), established to operate both detention and training and rehabilitation facilities for juveniles.

NWOJDD is governed and operated by a thirteen member board of trustees consisting of three trustees from each county and one at large member. Revenue sources are from member counties and rental revenue. The County has no ongoing financial responsibility for NWOJDD. Total expenditures made by the County to NWOJDD in 2005 were \$189,161. Defiance County acts as the fiscal agent for NWOJDD.

RELATED ORGANIZATIONS

Henry County Metropolitan Housing Authority - The Henry County Metropolitan Housing Authority (the "Housing Authority") is a related organization of the County. The County appoints a majority of the five members of the Housing Authority. The Housing Authority adopts its own budget and operates autonomously from the County.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

B. Basis of Presentation and Measurement Focus

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the enterprise fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

Fund Financial Statements - Fund financial statements report detailed information about the County. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the County's proprietary funds are charges for sales and services. Operating expenses for the enterprise funds include personnel and other expenses related to the operations of the enterprise activity. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

C. Fund Accounting

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

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

General Fund - The general fund is used to account for all activities of the County not required to be included 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.

Country View Haven - This fund accounts for taxes and state grants, as well as charges for services and related expenditures of the Country View Haven.

Motor Vehicle and Gas Tax - This fund accounts for revenues derived from motor vehicle licenses, and gasoline taxes. Expenditures are restricted by State law to County road and bridge repair and maintenance programs.

County Board of Mental Retardation and Developmentally Disabled (MRDD) - This fund accounts for the operation of a school and the costs of administering a workshop for the mentally retarded and developmentally disabled. Revenue sources include a countywide property tax levy and federal and state grants.

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

Courthouse Project - This fund is to account for activity related to the courthouse improvement project, including proceeds of notes and construction expenditures.

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

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the County's ongoing activities which are similar to those found in the private sector. The following is the County's only proprietary fund type:

Enterprise Funds - The enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises. The intent of the County is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The County has presented the following major enterprise fund:

Sanitary Landfill - This fund accounts for user charges and related expenses, as well as the estimated liability for closure and post closure costs.

Other enterprise funds of the County are used to account for the provision of radio tower charges, Hahn Center operations and Monroe Township landfill fees. These funds are nonmajor funds whose activity has been aggregated and presented in a single column in the BFS.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the County under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the County's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The County's only fiduciary funds are agency funds which account for monies held for other governments and undistributed assets. The County uses agency funds to account for assets held in a purely custodial capacity as fiscal agent for other entities, and for various taxes, state-shared revenues, and fines and forfeitures collected on behalf of and distributed to other local governments. Agency fund transactions typically involve only the receipt, temporary investment and distribution of these resources.

D. Basis of Accounting

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

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

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: sales tax (see Note 7), interest, federal and state grants and subsidies, state-levied locally shared taxes (including motor vehicle license fees and gasoline taxes), fees and rentals.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met also are recorded as deferred revenue.

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

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

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

E. Budgetary Process

Outlined below are the procedures followed by the County to establish the annual operating budget and budgetary data reported in the combined financial statements:

1. Following submission of requests by various offices and departments, the Board of County Commissioners holds budget hearings during the Fall with respective officeholders and department heads.
2. Shortly after the beginning of the fiscal year, the County Commissioners pass an Appropriation Resolution which legally authorizes the expenditure of funds for respective officeholders and department heads.
3. The County is accorded discretion in its method of appropriating federal funds. Appropriations are provided in the amounts of approved grants by the Board of County Commissioners.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

4. The revised budget figures reflected in the combined financial statements include the prior year appropriations carried over for liquidations against prior year encumbrances, and any amendments to the original Appropriation Resolution.
5. The Commissioners appropriate at the fund level. For funds which are directly appropriated by the Commissioners, transfers of appropriations at the fund level requires a resolution signed by at least two Commissioners.
6. Supplemental appropriations are made when needed, subject to approval by at least two Commissioners. Supplemental appropriations were made during 2005.
7. Unencumbered appropriations lapse at year-end. Contracts and purchase-type encumbrances outstanding at year-end carry their appropriations with them into the next year. Contracts and purchase-type encumbrances outstanding at year-end are recorded as expenditures on the budget basis of accounting.
8. The budgetary procedures described herein apply to all funds except the trust and agency funds.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the appropriated governmental and proprietary funds. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures on the modified accrual basis of accounting. Encumbrances outstanding at year-end are reported as expenditures on the budgetary basis of accounting.

F. Cash and Investments

To improve cash management, cash received by the County other than cash in segregated accounts is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the County's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" (both unrestricted and restricted) and "Investments" on the financial statements.

During fiscal year 2005, investments were limited to repurchase agreements and nonnegotiable certificates of deposit. Nonparticipating investment contracts, such as repurchase agreements and certificates of deposit, are reported at cost.

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 fiscal year 2005 amounted to \$480,927 which includes \$427,025 assigned from other County funds.

The County has segregated bank accounts for monies held separately from the County's central bank account. These interest-bearing depository accounts are presented on the financial statements as "Cash in Segregated Accounts" since they are not required to be deposited into the County treasury.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the County are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

G. Inventories of Materials and Supplies

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

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

H. Capital Assets

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

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings and improvements	15 - 100 years	20 - 40 years
Machinery and equipment	5 - 25 years	10 - 25 years
Vehicles	4 - 20 years	10 years
Infrastructure	20 - 50 years	-

Interest is capitalized on enterprise fund assets acquired with tax-exempt debt. The County's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from temporary investment of the debt proceeds over the same period.

Capitalized interest is amortized on the straight-line method over the estimated useful life of the asset. For 2005, the net interest expense incurred on proprietary fund construction projects was not material.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

I. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is based on the sick leave accumulated at December 31, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. Sick leave benefits are accrued using the "Vesting" method.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at December 31, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments.

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

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

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. At year-end, because payments are not available to finance future governmental fund expenditures the fund balance is reserved by an amount equal to carrying value of the asset.

K. Accrued Liabilities and Long-term Obligations

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

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

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

L. Interfund Transactions

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

During the normal course of operations, the County has numerous transactions between funds.

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

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivable/interfund payable" for the current portion of interfund loans or advances to/from other funds for the non-current portion of interfund loans. All other outstanding balances between funds are reported as "due to/from other funds." These amounts are eliminated in the statement of net assets, except for any residual balances outstanding between the governmental activities and business-type activities, which are reported in the government-wide financial statements as "internal balances". The County had only due to/from other funds at December 31, 2005.

Advances between funds, as reported in the governmental fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

M. Fund Balance Reserves

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

The County reports amounts representing encumbrances outstanding, prepayments, materials and supplies inventories, and loans receivable as reservations of fund balance in the governmental fund financial statements.

N. Net Assets

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

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

HENRY COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

O. Restricted Assets

Restricted assets in the business-type activities and on the enterprise fund financial statements represent investments required to be set aside by state and federal laws and regulations to finance closure and postclosure care costs of the County's landfill.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the County, these revenues are charges for services for landfill, Hahn Center purchase and Tower lease programs. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of County Administration and that are either unusual in nature or infrequent in occurrence. During fiscal year 2005, the County did not have any transactions that would be classified as either a special item or an extraordinary item.

R. Estimates

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustment

The County has presented a prior period adjustment to correct an understatement of intergovernmental receivables reported in the prior year which had the following effect on the County's governmental activities net assets as previously reported:

Governmental activities net assets, December 31, 2004	\$ 45,642,598
Adjustment for intergovernmental receivables	<u>1,881,407</u>
Restated governmental activities net assets, December 31, 2004	<u>\$ 47,524,005</u>

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Change in Accounting Principle

For fiscal year 2005, the County has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the County, however additional note disclosure can be found in Note 4.

C. Deficit Fund Balances/Net Assets

	<u>Deficit</u>
<u>Major Business-Type Fund</u>	
Sanitary Landfill	\$ 579,686
<u>Nonmajor Governmental Funds</u>	
Department of Youth Services	589
Solid Waste Management	1,388
<u>Nonmajor Business-Type Funds</u>	
Hahn Center	102,368
Monroe Township Landfill Fees	19

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit net asset balance in the Sanitary Landfill fund was due to the recording of a liability for closure and post closure costs associated with the landfill. The deficit net asset balance in the Hahn Center fund was due to the recording of the notes payable as a fund liability. The deficit fund balances/net assets in the nonmajor governmental funds and the other nonmajor business-type fund resulted from adjustments for accrued liabilities.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

- D. The County had appropriations exceeding estimated resources in the following funds, in noncompliance with Ohio Revised Code Section 5705.39:

<u>Fund</u>	<u>Excess</u>
<u>Major Fund</u>	
Public Assistance	\$ 132,352
<u>Nonmajor Funds</u>	
Child Service	122,181
Election Board Fees	245
Litter Control - II	4,350
Litter Control - JJ	3,968
Sheriff Grant	15,050
Operations 911	11,385
Local Emergency Planning Commission	2,300
Concealed Weapons - Sheriff Department	598
Solid Waste Management	4,893
Block Grants	493,634
Civil Defense	51,020
Transportation Network	6,974,945
WIA	197,600
Grelton Waterline	22,012
Country View Capital Fund	25,627
Capital Projects	172,109
Hahn Center Purchase	69,765

- E. The County had expenditures exceeding appropriations in the following line item in noncompliance with Ohio Revised Code Section 5705.41(B).

<u>Major Fund/Item</u>	
General	
Transfers out	\$ 83,826

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the County into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such 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.

Inactive deposits are public deposits that the County Commissioner has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Interim deposits are deposits of interim monies. Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the County;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in 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 Asset Reserve of Ohio Investment Pool (STAR Ohio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;
9. High grade commercial paper for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the County's total average portfolio; and
10. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the County's total average portfolio.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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

A. Cash on Hand

At year-end, the County had \$2,920 in undeposited cash on hand, of which \$520 is included on the financials statements as "Cash in Segregated Accounts" and \$2,400 is included on the financial statements of the County as part of "Equity in Pooled Cash and Cash Equivalents."

B. Cash in Segregated Accounts

At year-end, the County had \$253,958 cash and cash equivalents deposited separate from the County's internal investment pool. This amount is included in the amount of "deposits with fiscal institutions" below.

C. Restricted Assets

The County had \$1,120,232 in restricted assets associated with the County landfill. This amount is included in the amount of "deposits with financial institutions" below.

D. Deposits with Financial Institutions

At December 31, 2005, the carrying amount of all County deposits was \$15,154,667 exclusive of the \$1,903,000 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2005, \$15,747,179 of the County's bank balance of \$16,334,349 was exposed to custodial risk as discussed below, while \$587,170 was covered by Federal Deposit Insurance Corporation.

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

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

E. Investments

As of December 31, 2005, the County had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
Repurchase Agreement	<u>\$ 1,903,000</u>	<u>\$ 1,903,000</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the County's investment policy limits investment portfolio maturities to five years or less.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The County has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payments for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee. The County's investment in repurchase agreements is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the County. Ohio law requires the market value of the securities subject to a repurchase agreement must exceed the principal value of securities subject to a repurchase agreement by 2%.

Concentration of Credit Risk: The County places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the County at December 31, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreement	<u>\$ 1,903,000</u>	<u>100.00%</u>

E. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 15,154,667
Investments	1,903,000
Cash on hand	<u>2,920</u>
Total	<u>\$ 17,060,587</u>

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 11,312,990
Business type activities	1,828,187
Agency funds	<u>3,919,410</u>
Total	<u>\$ 17,060,587</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended December 31, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:	
General fund	\$ 706,022
Landfill fund	7,129
Nonmajor governmental funds	<u>69,747</u>
Total Transfers to Nonmajor Governmental Funds	<u>782,898</u>
Transfers to Courthouse Project fund from:	
General fund	<u>65,000</u>
Transfers to nonmajor enterprise funds from:	
General fund	<u>10,000</u>
Total transfers	<u>\$ 857,898</u>

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

The County's transfers were in compliance with Ohio Revised Code 5705.14, 5705.15 and 5705.16.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

B. Due from/to other funds consisted of the following at December 31, 2005, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	MVG&T	\$ 287
General	MRDD	2,941
General	Public Assistance	3,805
General	Nonmajor governmental funds	3,689
MVG&T	General fund	3,882
MVG&T	Counry View Home	84
MVG&T	Nonmajor governmental funds	795
Public assistance	General fund	5,230
Public assistance	Nonmajor governmental funds	29,556
MRDD	Nonmajor governmental funds	4,000
Nonmajor governmental funds	MRDD	7,713
Nonmajor governmental funds	Nonmajor governmental funds	<u>6,620</u>
Total due to/due from other funds		<u>\$ 68,602</u>

Amounts due from/to other funds represent amounts owed between funds for goods or services provided. The balances resulted from the time lag between the dates that payments between the funds are made.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the County. Real property taxes and public utility taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value. Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at 88% of true value for taxable transmission and distribution property and 25% of true value for all other taxable property. Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25% of true value.

The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

<u>Real Property</u>	
Agricultural	\$ 71,798,350
Residential	325,413,140
Commercial/Industrial/Mineral	58,380,580
Tangible personal property	62,334,884
<u>Public Utility</u>	
Real	626,210
Personal	<u>23,614,210</u>
Total assessed value	<u>\$542,167,374</u>

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 6 - PROPERTY TAXES – (Continued)

The full tax rate for all County operations applied to real property for fiscal year ended December 31, 2005, was \$13.40 per \$1,000 of assessed valuation. The full tax rate for debt service is \$1.40 per \$1,000 of assessed valuation.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due March 1. If paid semi-annually, the first payment is due March 1 and the remainder payable July 15. Under certain circumstances, State statute permits earlier or later payment dates to be established.

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portions of the taxes collected. Collections of the taxes and remittance of them to the taxing districts are accounted for in various agency funds of the County. Tangible personal property taxes for unincorporated and single county businesses are due semi-annually, with the first payment due May 10 and the remainder payable by September 20. Due dates are normally extended an additional 30 days. The due date for the entire tax for inter-county businesses is September 20 or the extended date. The first \$10,000 of taxable value is exempt from taxation for each business by state law.

The lien date is either December 31 or the end of their fiscal year (for incorporated businesses in operation more than one year). Since each business must file a return to the County Auditor, the tangible personal taxes are not known until all the returns are received.

"Real estate and other taxes" receivable represents delinquent real and tangible personal property and public utility taxes outstanding as of December 31 (net of allowances for estimated uncollectibles) and real and public utility taxes which were measurable as of the year end.

Since the current levy is not intended to finance 2005 operations, the receivable is offset by a credit to "deferred revenue". The delinquent real, public utility and tangible personal property taxes that will become available to the County within the first 31 days of 2006 are shown as 2005 revenue; the remainder is shown as "deferred revenue". The eventual collection of significantly all real and public utility property taxes (both current and delinquent) is reasonably assured due to the County's ability to force foreclosure of the properties on which the taxes are levied.

NOTE 7 - PERMISSIVE SALES AND USE TAX

In 1987, the County Commissioners by resolution imposed a 1% percent tax on all retail sales (except sales of motor vehicles) made in the County, and on the storage, use, or consumption in the County of tangible personal property, including automobiles 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 of collection. 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 and Motor Vehicle and Gas Tax fund. A receivable is recognized at year-end for amounts that will be received from sales which occurred during 2005 and amounts that are measurable and available at year-end are accrued as revenue. Amounts received outside the available period are recorded as deferred revenue on the fund financial statements and as revenue on the government-wide financial statements. Sales and use tax for 2005 amounted to \$4,935,210 as reported on the fund financial statements.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 8 - RECEIVABLES

Receivables at December 31, 2005, consisted of taxes, accrued interest, loans, accounts (billings for user charged services), special assessments, interfund transactions related to charges for goods and services rendered, interfund loans not related to charges for goods and services and intergovernmental receivables arising from grants, entitlements and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the financial statements. All interfund transactions related to charges for goods and services rendered have been classified as "Due From Other Funds" on the fund financial statements which are eliminated on the government-wide statements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds.

A summary of the principal items of receivables as reported on the statement of net assets follows:

	<u>Amount</u>
<u>Governmental Activities:</u>	
Sales taxes	\$ 874,201
Property taxes	6,900,410
Accounts	105,129
Due from other governments	5,489,770
Special assessments	437,020
Accrued interest	104,220
Loans receivable	952,413
 <u>Business-Type Activities:</u>	
Accounts	2,691
Accrued interest	7,438

Receivables have been disaggregated on the face of the financial statements. The only receivables not expected to be collected within the subsequent year are the special assessments and the loans. The special assessments are collected over the term of the assessment and the loans receivable which will be collected annually through 2020 (see Note 9).

NOTE 9 - LOANS RECEIVABLE

The County maintains a revolving loan program for local businesses to encourage business development in the County. A summary of the City's loan activity for 2005 is as follows:

	<u>Balance at</u> <u>12/31/2004</u>	<u>Issued</u>	<u>Received</u>	<u>Balance at</u> <u>12/31/2005</u>
Revolving Loans	<u>\$ 1,322,095</u>	<u>\$ 45,000</u>	<u>\$ (414,682)</u>	<u>\$ 952,413</u>

The loans are reported in the nonmajor governmental funds as "Loans receivable". Fund balance has been reserved for the outstanding balance due at year-end on the fund financial statements.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended December 31, 2005, was as follows:

	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/05</u>
<i>Governmental Activities:</i>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,732,289	\$ 30,000	\$ -	\$ 1,762,289
Construction in progress	<u>354,491</u>	<u>303,046</u>	<u>(354,491)</u>	<u>303,046</u>
Total capital assets, not being depreciated	<u>2,086,780</u>	<u>333,046</u>	<u>(354,491)</u>	<u>2,065,335</u>
<i>Capital assets, being depreciated:</i>				
Building and improvements	24,041,116	304,315	-	24,345,431
Machinery and equipment	1,265,074	112,739	-	1,377,813
Vehicles	4,197,198	298,010	-	4,495,208
Infrastructure	<u>28,213,399</u>	<u>1,406,500</u>	<u>-</u>	<u>29,619,899</u>
Total capital assets, being depreciated	<u>57,716,787</u>	<u>2,121,564</u>	<u>-</u>	<u>59,838,351</u>
<i>Less: accumulated depreciation:</i>				
Building and improvements	(10,649,338)	(699,190)	-	(11,348,528)
Machinery and equipment	(767,303)	(94,608)	-	(861,911)
Vehicles	(1,974,943)	(269,010)	-	(2,243,953)
Infrastructure	<u>(9,659,271)</u>	<u>(965,202)</u>	<u>-</u>	<u>(10,624,473)</u>
Total accumulated depreciation	<u>(23,050,855)</u>	<u>(2,028,010)</u>	<u>-</u>	<u>(25,078,865)</u>
Total capital assets being depreciated, net	<u>34,665,932</u>	<u>93,554</u>	<u>-</u>	<u>34,759,486</u>
Governmental activities capital assets, net	<u>\$ 36,752,712</u>	<u>\$ 426,600</u>	<u>\$ (354,491)</u>	<u>\$ 36,824,821</u>

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 10 - CAPITAL ASSETS - (Continued)

	Balance			Balance
<u>Business-Type Activities:</u>	<u>12/31/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/05</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 277,435	\$ -	\$ -	\$ 277,435
Total capital assets, not being depreciated	<u>277,435</u>	<u>-</u>	<u>-</u>	<u>277,435</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	74,745	-	-	74,745
Machinery and equipment	52,183	-	-	52,183
Vehicles	<u>787,799</u>	<u>7,500</u>	<u>-</u>	<u>795,299</u>
Total capital assets, being depreciated	<u>914,727</u>	<u>7,500</u>	<u>-</u>	<u>922,227</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(56,806)	(1,495)	-	(58,301)
Machinery and equipment	(16,142)	(2,714)	-	(18,856)
Vehicles	<u>(630,659)</u>	<u>(23,053)</u>	<u>-</u>	<u>(653,712)</u>
Total accumulated depreciation	<u>(703,607)</u>	<u>(27,262)</u>	<u>-</u>	<u>(730,869)</u>
Total capital assets, being depreciated net	<u>211,120</u>	<u>(19,762)</u>	<u>-</u>	<u>191,358</u>
Business-type activities capital assets, net	<u>\$ 488,555</u>	<u>\$ (19,762)</u>	<u>\$ -</u>	<u>\$ 468,793</u>

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

Governmental Activities:

Legislative and executive	\$ 563,128
Judicial	29,739
Public safety	86,467
Public works	1,108,775
Health	55,336
Human services	168,611
Miscellaneous	<u>15,954</u>
Total depreciation expense - governmental activities	<u>\$ 2,028,010</u>

Business-Type Activities:

Landfill	<u>\$ 27,262</u>
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HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 11 - CAPITAL LEASES - LESSEE DISCLOSURE

During 2005, the County entered into a capital lease for acquisition of survey equipment. During a prior year, the County entered into capital lease agreements for the acquisition of copier equipment. The leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. At inception, on the governmental fund financial statements, capital lease transactions are accounted for as a capital outlay expenditure and other financing source in the appropriate fund. On the government-wide financial statements, a capital asset and corresponding liability has been recorded for the present value of the future minimum lease payments. The copiers have been capitalized in the amount of \$26,716 and as of December 31, 2005, recorded accumulated depreciation of \$11,570. The survey equipment has been capitalized in the amount of \$6,187 and as of December 31, 2005, has recorded accumulated depreciation of \$416.

Principal payments in 2005 totaled \$5,017 in the County Board of MRDD fund and \$2,193 in the Motor Vehicle and Gas Tax fund. Capital lease payments have been reclassified on the fund financial statements to reflect debt principal and interest payments. These payments are reported as program expenditures on the budgetary statement and as a reduction to the liability of the government-wide financial statements.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of December 31, 2005.

<u>Year Ending</u> <u>December 31,</u>	<u>Copier</u> <u>Equipment</u>	<u>Survey</u> <u>Equipment</u>	<u>Total</u>
2006	\$ 6,348	\$ 2,991	\$ 9,339
2007	6,348	1,247	7,595
2008	<u>5,290</u>	<u>-</u>	<u>5,290</u>
Total future minimum lease payments	17,986	4,238	22,224
Less: amount representing interest	<u>(1,715)</u>	<u>(244)</u>	<u>(1,959)</u>
Present value of net minimum lease payments	<u>\$ 16,271</u>	<u>\$ 3,994</u>	<u>\$ 20,265</u>

NOTE 12 - OPERATING LEASE

The County leases a building under a noncancellable operating lease to Henry County Hospital, Incorporated. The hospital building is included in the County's governmental capital assets at a value of \$8,911,353 (see Note 10). The County has obtained bonded debt for hospital improvements. The Henry County Hospital, Incorporated must make lease payments until the bonds are paid off in 2019. Any interest earned on the lease payments are used to pay the bonds and thus reduces the amount of the lease payments required by the Henry County Hospital, Incorporated.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 12 - OPERATING LEASE - (Continued)

The following is a schedule by years of the future minimum lease payments:

<u>Year Ending</u> <u>December 31</u>	
2006	\$ 289,950
2007	289,900
2008	289,350
2009	291,350
2010	290,600
Thereafter	<u>750,450</u>
Total future minimum lease payments	<u>\$ 2,201,600</u>

NOTE 13 - COMPENSATED ABSENCES

Vacation leave is earned at rates which vary depending upon length of service and standard workweek. County employees earn vacation at varying rates ranging from two to five weeks per year. Current policies credit vacation leave on a pay period basis except for new employees who are required to complete one year of service prior to their accrual becoming available. Employees may also accrue compensatory time for hours worked in excess of forty per week. County employees are paid for earned, unused vacation leave and compensatory time upon termination of employment. Accumulated vacation cannot exceed three times the annual accumulation rate for an employee

Sick leave is accumulated at the rate of 4.6 hours per 80 hours worked and is accumulated on an hours worked basis. Sick leave is vested upon eligibility for retirement.

Each employee of the County with ten or more years of service with any Ohio local government or the State of Ohio is paid 25% of his or her accumulated unused sick leave, up to a maximum of 240 hours upon retirement from the County. Each employee of the County Board of Mental Retardation and Developmental Disabilities with ten or more years of service with any Ohio local government or the State of Ohio is paid 25% of his or her accumulated unused sick leave, up to a maximum of 360 hours upon retirement from the County.

At December 31, 2005, vested benefits for vacation leave for governmental activities employees totaled \$551,678 and vested benefits for sick leave totaled \$296,241. These amounts represent the total vested benefits and are reported in the government-wide financial statements. For business-type activities, vested benefits for vacation leave totaled \$4,839. These amounts represent the total portion of the vested benefits and are reported as a liability of the fund from which the employee is paid. In accordance with GASB Statement No. 16, an additional liability of \$16,955 for governmental activities employees and \$451,600 for business-type activities employees was accrued to record termination (severance) payments for employees expected to become eligible to retire in the future.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 14 - LONG-TERM OBLIGATIONS

A. Governmental Activities Long-Term Obligations

During the fiscal year 2005, the following changes occurred in the County's governmental long-term obligations:

	Original Amount <u>Issued</u>	Balance at <u>12/31/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>12/31/05</u>	Amount Due in <u>One Year</u>
<u>General Obligation Bonds:</u>						
1996 - 5.25% general obligation bond	\$ 4,000,000	\$ 490,000	\$ -	\$ (490,000)	\$ -	\$ -
2003 - 5% Grelton waterline bond	<u>27,000</u>	<u>26,000</u>	<u>-</u>	<u>(1,000)</u>	<u>25,000</u>	<u>1,000</u>
Total general obligation bonds	<u>4,027,000</u>	<u>516,000</u>	<u>-</u>	<u>(491,000)</u>	<u>25,000</u>	<u>1,000</u>
<u>OWDA Loans:</u>						
1990 - 2% Texas Waterline Project	291,706	127,808	-	(12,353)	115,455	12,600
2002 - 3% Silgan Can Waterline	398,038	398,038	-	-	398,038	-
2002 - 5.64% Water and Sewer District	<u>87,570</u>	<u>83,332</u>	<u>4,238</u>	<u>-</u>	<u>87,570</u>	<u>-</u>
Total OWDA loans	<u>777,314</u>	<u>609,178</u>	<u>4,238</u>	<u>(12,353)</u>	<u>601,063</u>	<u>12,600</u>
<u>Special Assessment Bonds with Governmental Commitment:</u>						
1995 - 6.15% to 9.9%	345,000	105,000	-	(20,000)	85,000	25,000
1998 - 4.75%	<u>211,925</u>	<u>167,363</u>	<u>-</u>	<u>(9,554)</u>	<u>157,809</u>	<u>9,554</u>
Total special assessment bonds	<u>556,925</u>	<u>272,363</u>	<u>-</u>	<u>(29,554)</u>	<u>242,809</u>	<u>34,554</u>
<u>Revenue Bonds:</u>						
1989 - 5% Hospital Addition	375,000	253,000	-	(12,000)	241,000	12,000
1992 - 5% Hospital Improvement	<u>4,025,000</u>	<u>1,718,000</u>	<u>-</u>	<u>(180,000)</u>	<u>1,538,000</u>	<u>189,000</u>
Total revenue bonds	<u>4,400,000</u>	<u>1,971,000</u>	<u>-</u>	<u>(192,000)</u>	<u>1,779,000</u>	<u>201,000</u>

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

	Original Amount <u>Issued</u>	Balance at 12/31/04	<u>Additions</u>	<u>Reductions</u>	Balance at 12/31/05	Amount Due in <u>One Year</u>
<u>Notes Payable:</u>						
Courthouse Project - 1.75%	\$ 3,580,000	\$ 3,580,000	\$ -	\$ (3,580,000)	\$ -	\$ -
Certificate of Title Building - 1.75%	55,000	55,000	-	(55,000)	-	-
Ridgeville Turn Lane - 1.75%	300,000	300,000	-	(300,000)	-	-
Courthouse Project - 3.25%	3,735,000	-	3,735,000	-	3,735,000	3,735,000
Certificate of Title Building - 3.25%	50,000	-	50,000	-	50,000	50,000
Ridgeville Turn Lane - 3.25%	150,000	-	150,000	-	150,000	150,000
Total notes payable	<u>7,870,000</u>	<u>3,935,000</u>	<u>3,935,000</u>	<u>(3,935,000)</u>	<u>3,935,000</u>	<u>3,935,000</u>
<u>Other Obligations:</u>						
Compensated absences	N/A	1,472,768	625,968	(573,792)	1,524,944	611,890
Mortgage Loan - 2%	100,000	89,324	-	(5,990)	83,334	6,111
Capital lease obligation	26,716	21,288	6,187	(7,210)	20,265	8,151
Total other obligations	<u>126,716</u>	<u>1,583,380</u>	<u>632,155</u>	<u>(586,992)</u>	<u>1,628,543</u>	<u>626,152</u>
Total governmental activities long-term obligations	<u>\$ 17,757,955</u>	<u>\$ 8,886,921</u>	<u>\$ 4,571,393</u>	<u>\$ (5,246,899)</u>	<u>\$ 8,211,415</u>	<u>\$ 4,810,306</u>

General Obligation Bonds

The 1996 bonds were issued to provide resources for building renovations and improvements including energy conservation measures to the County Courthouse. Principal and interest are being paid from the Courthouse improvement debt service fund (a nonmajor governmental fund). During 2003, the County issued \$27,000 in bonds to repay notes for the Grelton waterline extension project. Principal and interest are being paid from the Grelton Waterline Extension debt service fund (a nonmajor governmental fund). The general obligation bonds are supported by the full faith and credit of the County.

Special Assessment Bonds

During 1998, the County issued \$211,925 in special assessment bonds to finance a Grelton waterline project. These bonds are payable from special assessments levied against property owners who benefit from the project. During 1995, the County issued \$345,000 in special assessment bonds to finance three waterline projects; Country View Haven, Okolona and Texas waterline extensions. These bonds are payable from special assessments levied against property owners who benefit from the projects. In the event that special assessments are not sufficient to pay the annual principal and interest payments, the County is responsible for providing the resources to meet the payments as the full faith and credit of the County has been pledged for repayment.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

Ohio Water Development Authority Loans - 2002 Series

During 2002, the County entered into a loan agreement with the Ohio Water Development Authority (OWDA) as an incentive for the location of a new waterline for the Silgan Can Company. Repayment of this loan will be funded through tax increment financing (TIF) payments made by Silgan Can Company. Beginning July 1, 2007, semi-annual TIF payments will be made to the County and subsequently remitted to the OWDA. The loan is amortized over a period of ten years. Also, during 2002, the County also entered into a loan agreement with the Ohio Water Development Authority (OWDA) for the formation of a water and sewer district. Repayment of this loan will be funded by user charges collected by the County. The project was not completed during 2005, however, the County will be required to make a balloon payment in 2008 which is included in the future debt service requirement schedule below.

Mortgage Loan

During 2003, County Board of MRDD fund received a mortgage loan from HARC and is required to make monthly payments over the next fifteen years to repay the \$100,000 loan which has an interest rate of 2%. Principal and interest payments are being made from the County Board of MRDD fund.

Revenue Bonds

The revenue bonds are supported by rental income charged to leases of the hospital building. The bonds were issued to finance an addition to the hospital and for various improvements to the hospital building. These bonds bear a 5% interest rate and mature in 2012 and 2019.

Notes Payable

During 2004, the County issued \$3,580,000 of bond anticipation notes at 1.75% for the purchase and renovation of a courthouse building at Oakwood Commons, which were retired during 2005 and notes were reissued for \$3,735,000 at 3.25%. The proceeds have been recorded in the Courthouse Project capital projects fund. During 2004, the County issued \$55,000 in notes at 1.75% which were retired during 2005, and reissued at 3.25% in the amount of \$50,000. These notes are for improvements of the Certificate of Title Building and are repaid from the Certificate of Title Building special revenue fund. During 2004, the County issued \$300,000 in notes at 2.9% for improvements of the Ridgedale Turn Lane. These notes were retired during 2005, and reissued for \$150,000 at 3.25%. Proceeds have been recorded and principal payments will be made in nonmajor governmental funds. These notes have been recorded as long-term in accordance with FASB Statement No. 6 "Classification of Short-Term Obligations Expect to be Refinanced", which states that bond anticipation notes should be included as long-term liabilities if they have been replaced by debt that extends at least one year beyond the date of the balance sheet. See Note 24 for details regarding the reissuance of notes.

Compensated Absences

Compensated absences will be paid from the fund from which the person is paid.

Capital Leases Payable

Capital lease principal and interest payments are being made from the County Board of MRDD fund and a non-major fund. See Note 11 for further detail on the capital lease obligations.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

Future Debt Service Requirements

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

<u>Year Ended</u>	<u>General Obligation Bonds</u>			<u>Special Assessment Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,000	\$ 104	\$ 1,104	\$ 34,554	\$ 12,396	\$ 46,950
2007	1,000	100	1,100	29,554	10,834	40,388
2008	1,000	96	1,096	24,554	9,584	34,138
2009	2,000	92	2,092	26,554	8,646	35,200
2010	2,000	83	2,083	15,050	5,089	20,139
2011 - 2015	10,000	292	10,292	65,069	24,005	89,074
2016 - 2019	<u>8,000</u>	<u>83</u>	<u>8,083</u>	<u>47,474</u>	<u>2,059</u>	<u>49,533</u>
Total	<u>\$ 25,000</u>	<u>\$ 850</u>	<u>\$ 25,850</u>	<u>\$ 242,809</u>	<u>\$ 72,613</u>	<u>\$ 315,422</u>

<u>Year Ended</u>	<u>OWDA Loans</u>			<u>Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	12,600	2,309	14,909	201,000	88,950	289,950
2007	50,042	8,028	58,070	211,000	78,900	289,900
2008	176,742	12,059	188,801	221,000	68,350	289,350
2009	91,733	9,498	101,231	234,000	57,350	291,350
2010	94,368	6,862	101,230	245,000	45,600	290,600
2011 - 2014	175,578	6,084	181,662	581,000	72,450	653,450
2015 - 2019	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,000</u>	<u>11,000</u>	<u>97,000</u>
Total	<u>\$ 601,063</u>	<u>\$ 44,840</u>	<u>\$ 645,903</u>	<u>\$ 1,779,000</u>	<u>\$ 422,600</u>	<u>\$ 2,201,600</u>

<u>Year Ended</u>	<u>Mortgage Loan</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 6,111	\$ 1,611	\$ 7,722
2007	6,235	1,487	7,722
2008	6,360	1,362	7,722
2009	6,489	1,233	7,722
2010	6,620	1,102	7,722
2011 - 2015	35,158	3,552	38,710
2016 - 2018	<u>16,361</u>	<u>370</u>	<u>16,731</u>
Total	<u>\$ 83,334</u>	<u>\$ 10,717</u>	<u>\$ 94,051</u>

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

B. Business-Type Long-Term Obligations

During fiscal year 2005, the following changes occurred in the County's business-type long-term obligations:

	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/05</u>	<u>Due in</u> <u>One Year</u>
Landfill closure and postclosure care liability	\$ 2,011,515	\$ 194,258	\$ -	\$ 2,205,773	\$ -
Compensated absences	<u>13,544</u>	<u>13,089</u>	<u>(4,839)</u>	<u>21,794</u>	<u>4,839</u>
Total	<u>\$ 2,025,059</u>	<u>\$ 207,347</u>	<u>\$ (4,839)</u>	<u>\$ 2,227,567</u>	<u>\$ 4,839</u>

Landfill Closure and Postclosure Care Liability

See Note 23 for information on this liability.

Compensated Absences

Compensated absences will be paid from the Landfill fund.

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

The Code further provides that the total voted and unvoted net debt of the County, less the same exempt debt, shall never exceed a sum equal to three percent of the first \$100,000,000 of the assessed valuation, plus one and one-half percent of such valuation in excess of \$100,000,000 and net in excess of \$300,000,000, plus two and one-half percent of such valuation in excess of \$300,000,000. Based on this calculation, the County's legal debt margin was \$13,557,450 as of December 31, 2005.

NOTE 15 - NOTES PAYABLE

The County had the following bond anticipation notes outstanding at December 31, 2005:

	<u>Issue</u> <u>Date</u>	<u>Balance at</u> <u>12/31/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>12/31/05</u>
Bond Anticipation Notes:					
<u>Enterprise Funds</u>					
County Facilities - 1.75%	03/26/04	\$ 125,000	\$ -	\$ (125,000)	\$ -
Landfill Improvement - 1.75%	03/26/04	510,000	-	(510,000)	-
County Facilities - 5.5%	03/26/05	-	115,000	-	115,000
Landfill Improvement - 5.5%	03/26/05	<u>-</u>	<u>475,000</u>	<u>-</u>	<u>475,000</u>
Total enterprise funds-bond anticipation notes		<u>\$ 635,000</u>	<u>\$ 590,000</u>	<u>\$ (635,000)</u>	<u>\$ 590,000</u>

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 15 - NOTES PAYABLE – (Continued)

Bond Anticipation Notes - During 2005, the County repaid \$635,000 in bond anticipation notes in the enterprise funds and received \$590,000 in notes for landfill and the Hahn Center projects. The proceeds and note retirement payment have been recorded in the Landfill and Hahn Center enterprise funds.

NOTE 16 - RISK MANAGEMENT

A. Property and Liability Insurance

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During 2005, the County contracted with the County Risk Sharing Authority, Inc. (CORSA) for liability, property, automotive, and crime insurance. The CORSA program has a \$2,500 deductible. Coverage provided by CORSA is as follows:

	<u>Amount</u>
General Liability (per occurrence)	\$ 3,000,000
Law Enforcement Liability (per occurrence)	3,000,000
Automobile Liability and Physical Damage Liability (per occurrence)	3,000,000
Medical Payments	
Per Person	5,000
Per Occurrence	50,000
Uninsured Motorist (per person)	250,000
Physical Damage	Actual Cost
Flood and Earthquake (pool limit)	100,000,000
Other Property Insurance:	
Extra Expense	1,000,000
EDP Media	Replacement Cost
Contractors' Equipment	Actual Cash Value
Valuable Papers and Records	1,000,000
Inland Marine	Actual Cash Value
Automatic Acquisition	3,000,000
Motor Truck Cargo	100,000
Crime Insurance:	
Faithful Performance	1,000,000
Money and Securities (inside and outside)	1,000,000
Depositor's Forgery	1,000,000
Money Orders and Counterfeit Paper Currency	1,000,000
Boiler and Machinery	100,000,000
Public Officials (per occurrence)	1,000,000
Umbrella (per occurrence)	5,000,000

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

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 16 - RISK MANAGEMENT - (Continued)

B. Fulton-Henry Counties Employee Insurance Benefits Program

The County participates in the Fulton-Henry Counties Employee Insurance Benefits Program (the "Program"), a public entity shared risk pool consisting of Fulton and Henry Counties. The purpose of the plan is for its members to pool funds or resources to purchase health and dental insurance products and enhance the wellness opportunities for employees.

Each member pays a monthly premium amount, which is established annually by the Board, to Reliance Financial Services ("Reliance"). Reliance is the fiscal agent for the Council and has a trust agreement with the Council to account for all Council finances and assets. The Program is governed by a Board consisting of one representative from each member County's Board of Commissioners. The degree of control exercised by any participating member is limited to its representation on the Board. Upon withdrawal from the Program, a program agreement shall govern the disposition of any contributions by the withdrawing member to each program of the Council in excess of that member's share of the costs of that program.

NOTE 17 - PENSION PLANS

A. Ohio Public Employees Retirement System

The County participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, 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 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 that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2005 the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5% of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1% of their annual covered salary; members in public safety contributed 9%. The County's contribution rate for pension benefits for 2005 was 9.55%, except for those plan members in law enforcement or public safety. For those classifications, the County's pension contributions were 12.7% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 17 - PENSION PLANS - (Continued)

The County's required contributions to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$1,431,881, \$1,390,310, and \$914,140, respectively; 93% has been contributed for 2005 and 100% has been contributed for 2004 and 2003. The unpaid contribution to fund pension obligations for 2005, in the amount of \$95,975, is recorded as a liability in the respective funds.

B. State Teachers Retirement System

Certified teachers, employed by the school for Mental Retardation and Developmental Disabilities, participate in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries.

Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

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

For the year ended December 31, 2005, plan members were required to contribute 10 percent of their annual covered salary and the County was required to contribute 14 percent; 9.09 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The County's required contribution for pension obligations for the DBP for the years ended December 31, 2005, 2004, and 2003 was \$143,921, \$143,985, and \$85,250, respectively; 100% has been contributed for fiscal years 2005, 2004 and 2003. There were no contributions for the DCP and CP for the fiscal year ended December 31, 2005.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 18 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55% of covered payroll (16.70% for public safety and law enforcement); 4.00% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPER's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 1% to 6.00% annually for the next eight years and 4.00% in subsequent years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109 as of December 31, 2005. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$659,586. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 18 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System

Comprehensive health care benefits are provided to retired teachers and their dependents through the State Teachers Retirement System (STRS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the STRS based on authority granted by State statute. STRS is funded on a pay-as-you-go basis.

The number of active contributing participants for both plans used in the December 31, 2004, actuarial valuation was 355,287.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended December 31, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the County, this amount was \$11,071.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254.780 million, and STRS had 115,395 eligible benefit recipients.

NOTE 19 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund and major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 19 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balances

	Governmental Fund Types				
	<u>General</u>	<u>Country View Haven</u>	<u>Motor Vehicles and Gas Tax</u>	<u>County Board of MRDD</u>	<u>Public Assistance</u>
Budget basis	\$ (741,718)	\$ (44,228)	\$ (94,231)	\$ 579,546	\$(100,799)
Net adjustment for revenue accruals	372,768	(15,727)	68,884	(317,036)	93,939
Net adjustment for expenditure accruals	(316,969)	(38,784)	16,986	212,985	334,478
Net adjustment for other financing sources/(uses) accruals	1,375	-	6,187	-	(377,000)
Encumbrances (budget basis)	<u>50,150</u>	<u>18,168</u>	<u>338,278</u>	<u>22,538</u>	<u>-</u>
GAAP basis	<u>\$ (634,394)</u>	<u>\$ (80,571)</u>	<u>\$ 336,104</u>	<u>\$ 498,033</u>	<u>\$ (49,382)</u>

NOTE 20 - CONTINGENCIES

A. Grants

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 the terms of the grant. Based on prior experience, the County Commissioners believe such disallowance, if any, will be immaterial.

B. Litigation

The County is not party to any legal proceedings which, in the opinion of management, would have a material impact upon the financial statements.

NOTE 21 - PUBLIC ENTITY RISK POOL

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

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 21 - PUBLIC ENTITY RISK POOL - (Continued)

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

CORSA has issued certificates of participation in order to provide adequate cash reserves. The certificates are secured by the member counties' obligations to make coverage payments to CORSA. The participating counties have no responsibility for the payment of the certificates. The County does not have an equity interest in CORSA. The County's payment for insurance to CORSA in 2005 was \$147,768.

NOTE 22 - CONDUIT DEBT OBLIGATIONS

To provide funds to finance the cost of acquiring, constructing, equipping, and furnishing a 40 unit assisted living facility at the Lutheran Orphans' and Old Folks Home Society in Napoleon, Ohio, the County has issued health care facility revenue bonds, series 1999. These bonds are special limited obligations of the County, payable solely from and secured by a trust estate including payments under the GNMA securities, the special funds and pledged receipts. The bonds do not constitute a debt or pledge of the faith and credit of the County or the State, accordingly have not been reported in the accompanying financial statements.

At December 31, 2005, health care facility revenue bonds outstanding aggregated \$2,491,200.

NOTE 23 - CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require that the County place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$2,205,773 as of December 31, 2005, which is based on 82.29% usage (filled) of the landfill. It is estimated that an additional \$474,736 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2012). The estimated total current cost of \$2,680,509 for landfill closure and postclosure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2005. However, the actual costs of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The County is required by state and federal laws and regulations to make annual contributions to finance closure and postclosure care. The County is in compliance with these requirements, and at December 31, 2005, cash and cash equivalents of \$1,120,232 are held for these purposes. These investments are held and managed by the County and are presented on the County's financial statements as "Restricted Assets: Equity in Pooled Cash and Cash Equivalents". It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

HENRY COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 24 - SIGNIFICANT SUBSEQUENT EVENTS

A. Debt

On March 23, 2006, the County reissued the Certificate of Title Building notes by retiring \$50,000 and reissuing \$45,000 at 5.0%.

On March 23, 2006, the County reissued the Courthouse Project at Oakmeadows notes by retiring \$3,735,000 and reissuing \$3,145,000 at 5.0%.

On March 23, 2006, the County reissued the Ridgeville Turn Lane notes by retiring \$150,000 and reissuing \$115,000 at 5.0%.

B. County Auditor

On February 28, 2006, the County Auditor, Ida Bostleman, resigned her position. Her term expires on December 31, 2006, and interim County Auditor, Kevin Nye, has been appointed to complete her term.

C. Sales Tax

During 2005, an increase to the County's sales tax of .5% was passed, but voters repealed the sales tax increase which became effective on April 1, 2006.

SUPPLEMENTAL DATA

HENRY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(C) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:				
Nutrition Cluster:				
(A)(D) Food Donation	10.550	N/A	\$ -	\$ 6,584
(B)(D) National School Lunch Program	10.555	065946-03-PU-02	23,435	-
Total U.S. Department of Agriculture and Nutrition Cluster			23,435	6,584
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASSED THROUGH THE OHIO DEPARTMENT OF DEVELOPMENT OFFICE OF HOUSING AND COMMUNITY PARTNERSHIP:				
Community Development Block Grants/State's Program	14.228	B-C-04-032-1	32,200	-
Community Development Block Grants/State's Program	14.228	B-F-03-032-1	90,900	-
Community Development Block Grants/State's Program	14.228	B-F-04-032-1	25,700	-
Total Community Development Block Grant			148,800	-
HOME Investment Partnerships Program	14.239	B-C-04-032-2	247,712	-
Total U.S. Department of Housing and Urban Development			396,512	-
U.S. DEPARTMENT OF LABOR PASSED THROUGH THE OHIO DEPARTMENT OF JOBS AND FAMILY SERVICES:				
Unemployment Insurance	17.225	N/A	59,031	-
(F) WIA Adult Program	17.258	N/A	105,441	-
(F) WIA Adult Program - Adult Administration	17.258	N/A	10,348	-
Total Workforce Investment Act - Adult			115,789	-
(F) WIA Youth Activities	17.259	N/A	101,290	-
(F) WIA Youth Activities - Youth Activities Administration	17.259	N/A	4,378	-
Total Workforce Investment Act - Youth Activities			105,668	-
(F) WIA Dislocated Workers	17.260	N/A	61,774	-
(F) WIA Dislocated Workers - Dislocated Workers Administration	17.260	N/A	5,174	-
Total Workforce Investment Act - Dislocated Workers			66,948	-
Total Workforce Investment Cluster			288,405	-
Total U.S. Department of Labor			347,436	-
OHIO DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:				
Special Education Cluster:				
(E) Special Education- Grants to States	84.027	066365-6B-SF-05P	29,976	-
(E) Special Education- Preschool Grants	84.173	066365-PG-S1-05P	33,287	-
(E) Special Education- Preschool Grants	84.173	066365-PG-S1-06P	23,038	-
Total Special Education- Preschool Grants			56,325	-
Total Special Education Cluster			86,301	-
State Grants for Innovative Programs	84.298	066365-C2S1-2005	284	-
State Grants for Innovative Programs	84.298	066365-C2S1-2006	374	-
Total State Grants for Innovative Programs			658	-
Total U.S. Department of Education			86,959	-

HENRY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

- Continued from Pg. 69

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(C) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
OHIO DEPARTMENT OF PUBLIC SAFETY				
Help America Vote Act of 2002	93.044	N/A	271,757	-
Total Ohio Department of Public Safety			271,757	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE AREA OFFICE OF AGING:				
Special Programs for the Aging-Title III, Part B- Grants for Supportive Services and Senior Centers	93.044	N/A	29,245	-
PASSED THROUGH QUADCO REHABILITATION CENTER:				
Social Services Block Grant	93.667	N/A	35,276	-
Medical Assistance Program - Medicaid Title XIX	93.778	N/A	201,744	-
PASSED THROUGH THE OHIO DEVELOPMENT OF MENTAL RETARDATION AND DEVELOPMENT DISABILITIES:				
State Children's Insurance Program	93.767	N/A	5,667	-
Targeted Case Management - Medicaid Title XIX	93.778	N/A	107,875	-
Medical Assistance Program - Medicaid Title XIX	93.778	N/A	434,450	-
Total Medical Assistance Program			542,325	-
Total U.S. Department of Health and Human Services			814,257	-
U.S. DEPARTMENT OF FEDERAL EMERGENCY MANAGEMENT DISASTER ASSISTANCE PASSED THROUGH THE OHIO DEPARTMENT OF EMERGENCY MANAGEMENT DISASTER ASSISTANCE:				
State Homeland Security Program	97.073	2005-GE-T5-0001	84,895	-
State Domestic Preparedness Equipment Support Program	97.004	2004-GE-T4-0025	54,236	-
Emergency Management Performance Grants	97.042	EMC-2004-GR-7007	109,224	-
Emergency Management Performance Grants	97.042	2005-EM-T5-0001	22,233	-
Total Emergency Management			131,457	-
Total U.S. Department of Homeland Security			270,588	-
Total Federal Financial Assistance			\$ 2,210,944	\$ 6,584

- (A) The Food Distribution Program is a noncash, federal grant.
 (B) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
 (C) This schedule was prepared on the cash basis of accounting.
 (D) Included as part of "Nutrition Grant Cluster" in determining major programs.
 (E) Included as part of the "Special Education Grant Cluster" in determining major programs.
 (F) Included as part of the Workforce Investment Act Cluster and prepared on the accrual basis of accounting.



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Serving Ohio Local Governments

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Commissioners
Henry County
660 North Perry Street
Napoleon, Ohio 43545

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henry County, Ohio (the “County”) as of and for the year ended December 31, 2005, which collectively comprise the County’s basic financial statements, and have issued our report thereon dated August 24, 2006. As disclosed in Note 3A. to the basic financial statements, the County has presented a prior period adjustment to net assets due to errors and omissions. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2005-HC-002.

Board of Commissioners
Henry County

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the management of the County in a separate letter dated August 24, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2005-HC-001 and 2005-HC-003. We also noted certain immaterial instances of noncompliance or other matters that we have reported to the management of the County in a separate letter dated August 24, 2006.

This report is intended solely for the information and use of the management, the Board of Commissioners of Henry County, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
August 24, 2006



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

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

Board of Commissioners
Henry County
660 North Perry Street
Napoleon, Ohio 43545

Compliance

We have audited the compliance of Henry County, Ohio (the "County") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. As disclosed in Note 3A. to the basic financial statements, the County has presented a prior period adjustment to net assets due to errors and omissions. The County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Board of Commissioners
Henry County

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to its major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over compliance, which we have reported to the management of Henry County in a separate letter dated August 24, 2006.

This report is intended for the information and use of the management, the Board of Commissioners of Henry County, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Julian & Grube, Inc.
August 24, 2006

HENRY COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2005

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for the major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Program's Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program:	Medicaid Title XIX; CFDA #93.778
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

HENRY COUNTY

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2005**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2005-HC-001

Ohio Revised Code Section 5705.39 requires that no subdivision is to appropriate more monies than estimated resources.

It was noted during the audit that the County had appropriations exceeding estimated resources in the following funds:

<u>Fund</u>	<u>Excess</u>
<u>Major Fund</u>	
Public Assistance	\$ 132,352
<u>Nonmajor Funds</u>	
Child Service	122,181
Election Board Fees	245
Litter Control - II	4,350
Litter Control - JJ	3,968
Sheriff Grant	15,050
Operations 911	11,385
Local Emergency Planning Commission	2,300
Concealed Weapons - Sheriff Department	598
Solid Waste Management	4,893
Block Grants	493,634
Civil Defense	51,020
Transportation Network	6,974,945
WIA	197,600
Grelton Waterline	22,012
Country View Capital Fund	25,627
Capital Projects	172,109
Hahn Center Purchase	69,765

With appropriations exceeding estimated resources, the County is spending monies that are not appropriated for those purposes and thus could result in a fund deficit.

We recommend that the County comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by keeping more accurate appropriations versus estimated resources records and amending the budget prior to year-end. If it is determined that estimated revenues will be greater than initially anticipated, the County should amend its official estimate in order to provide for any additional appropriations; however, appropriations should not exceed estimated resources.

Client Response: The County Auditor is attempting to obtain additional amended certificates when new monies are known and become available.

HENRY COUNTY

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2005**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2005-HC-002

The County over collected approximately \$700,000 on the Courthouse Improvement Levy. This was the result of the County Auditor not reducing the millage as the principal was being paid down throughout the years. In addition, the County Auditor did not inform the Henry County Budget Commission the need to remove the levy from the assessed taxes. Upon the County Auditor noticing that the taxes would be over collected it was realized that the tax bills had already been processed and sent. The Budget Commission relies on the County Auditor to determine when levies are added and removed. We recommend the Budget Commission assist the County Auditor in reviewing all voted debt and the outstanding balances to determine the need to reduce/increase millage or add/remove levies.

Client Response: The current County Auditor is reviewing all debt and related levies on a continual basis to avoid over/under collection.

Finding Number	2005-HC-003
----------------	-------------

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

It was noted during the audit that the County had expenditures in excess of appropriations for the year ended December 31, 2005:

Major Fund/Item

General	
Transfers out	\$ 83,826

With expenditures exceeding appropriations, the County is unlawfully expending monies that have not been appropriated.

We recommend that the County comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations. This may be achieved by monitoring the budget more closely on a continual basis and making appropriation amendments as necessary.

Client response: The County Auditor is attempting to request additional appropriations prior to expenditures being made.

HENRY COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2005

3. FINDINGS FOR FEDERAL AWARDS

None

HENRY COUNTY

STATUS OF PRIOR AUDIT FINDINGS

OMB CIRCULAR A-133 § .315(b)

DECEMBER 31, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer <u>Valid</u>; Explain:
2004-HC-001	Ohio Revised Code Section 5705.39 prohibiting a subdivision from having appropriations in excess of estimated resources.	No	Finding repeated as 2005-HC-001



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FINANCIAL CONDITION

HENRY 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 9, 2006**