



**Auditor of State
Betty Montgomery**

**FINANCIAL CONDITION
MERCER COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements – December 31, 2004	
Government-Wide Financial Statements:	
Statement of Net Assets – Modified Cash basis – December 31, 2004.....	11
Statement of Activities – Modified Cash basis - for the year ended December 31, 2004.....	12
Fund Financial Statements:	
Statement of Modified Cash Basis Assets and Fund Balances Governmental Funds – December 31, 2004.....	14
Reconciliation of Total Governmental Fund Balances to Net Assets Of Governmental Activities – December 31, 2004.....	16
Statement of Cash Receipts, Cash Disbursements, and Changes in Modified Cash Fund Balances - Governmental Funds for the year ended December 31, 2004	17
Reconciliation of Statement of Cash Receipts, Cash Disbursements, and Changes in Modified Cash Basis Fund Balances of Governmental Funds To Statement of Activities For the year ended December 31, 2004.....	18
Statement of Receipts, Disbursements, and Changes in Modified Cash Fund Balance Budget and Actual – Budgetary Basis - General Fund For the year ended December 31, 2004.....	19
Statement of Receipts, Disbursements, and Changes in Modified Cash Fund Balance Budget and Actual – Budgetary Basis – Real Estate Special Revenue Fund For the year ended December 31, 2004.....	20
Statement of Receipts, Disbursements, and Changes in Modified Cash Fund Balance Budget and Actual – Budgetary Basis – Motor Vehicle Special Revenue Fund For the year ended December 31, 2004.....	21
Statement of Receipts, Disbursements, and Changes in Modified Cash Fund Balance Budget and Actual – Budgetary Basis – Mental Retardation and Developmental Disabilities Special Revenue Fund - For the year ended December 31, 2004.....	22
Statement of Fund Net Assets – Modified Cash basis – Proprietary Funds December 31, 2004.....	23
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Modified Cash Basis Proprietary Funds - For the year ended December 31, 2004.....	24
Statement of Cash Flows – Modified Cash Basis – Proprietary Funds For the year ended December 31, 2004.....	25

**FINANCIAL CONDITION
MERCER COUNTY**

**TABLE OF CONTENTS
(Continued)**

TITLE	PAGE
Statement of Modified Cash Basis Fiduciary Net Assets – Agency Fund For the year ended December 31, 2004	26
Notes to the Basic Financial Statements – December 31, 2004	27
Schedule of Federal Awards Expenditure.....	59
Notes to the Schedule of Federal Awards Expenditures	61
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Governmental Auditing Standards</i>	63
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	65
Schedule of Findings.....	67
Schedule of Prior Findings	71



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Mercer County
Central Services Building
220 West Livingston Street, Room A201
Celina, Ohio 45822

To the Board of County Commissioners:

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 Mercer County, (the County), as of and for the year ended December 31, 2004, 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 reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

Ohio Administrative Code § 117-2-03 (B) requires the County to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County, as of December 31, 2004, and the respective changes in modified cash financial position and the respective budgetary comparison for the General, Motor Vehicle Gas Tax, Mental Retardation and Development, and Real Estate Assessment funds thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended December 31, 2004, the County revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2006, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the County's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 6, 2006

**FINANCIAL CONDITION
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

The discussion and analysis of Mercer County's financial performance provides an overview of the County's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the County's financial performance as a whole.

Using this Annual Report

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the County's modified cash basis of accounting.

The County has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing receipts, disbursements, and the related assets and liabilities. Under the County's modified cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

As a result of using the modified cash basis of accounting, certain assets and their related receipts (such as accounts receivable) and certain liabilities and their related disbursements (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

The statement of net assets and the statement of activities provide information about the cash activities of the whole County.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the County's most significant funds, with all other non-major funds presented in total in a single column. The County's major funds are the General, Real Estate Assessment, Motor Vehicle, Mental Retardation and Developmental Disabilities, Sanitary Sewer, and Solid Waste funds.

Reporting the County as a Whole

The statement of net assets and the statement of activities reflect how the County did financially during 2004, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balance of the governmental activities of the County at fiscal year end. The statement of activities compares cash disbursements with program receipts for each department of the County's governmental activities. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental department draws from the County's general receipts.

These statements report the County's cash position and the changes in cash position. Factors which contribute to these changes may also include the County's property tax base and other factors.

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

**FINANCIAL CONDITION
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

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

Business-Type Activities - These services are provided on a charge for services basis and are intended to recover all or most of the costs of the services provided. The County's sanitary sewer, solid waste services, nursing home, and ambulance services are reported here.

Reporting the County's Most Significant Funds

Fund financial statements provide detailed information about the County's major funds, the General, Real Estate Assessment, Motor Vehicle, Mental Retardation and Developmental Disabilities, Sanitary Sewer, and Solid Waste funds. While the County uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - The County's governmental funds are used to account for essentially the same programs reported as governmental activities on the government-wide financial statements. Most of the County's basic services are reported in these funds and focus on how money flows into and out of the funds as well as the balances available for spending at year end. These funds are reported on the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services being provided.

Proprietary Funds - The County maintains two different types of proprietary funds: enterprise and internal service funds. Enterprise funds are used to report the operating activity as business-type activities on the government-wide financial statements. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's other programs and activities.

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

Government-Wide Financial Analysis

Table 1 provides a summary of the County's net assets for 2004 and 2003.

**Table 1
Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Assets						
Current and Other Assets	\$4,694,210	\$5,505,562	\$2,336,296	\$2,366,410	\$7,030,506	\$7,871,972
Net Assets						
Restricted	3,655,459	4,208,191	0	0	3,655,459	4,208,191
Unrestricted	1,038,751	1,297,371	2,336,296	2,366,410	3,375,047	3,663,781
Total Net Assets	\$4,694,210	\$5,505,562	\$2,336,296	\$2,366,410	\$7,030,506	\$7,871,972

**FINANCIAL CONDITION
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

The above table demonstrates that there was a decrease in net assets in governmental-type activities, in the amount of \$811,352 from 2003 to 2004. Net assets in the business-type activities decreased insignificantly from 2003 to 2004.

The decrease in restricted net assets was principally from the disbursement for road and bridge improvements during 2004 that was greater than actual cash receipts. Unrestricted net assets did not decrease significantly.

Table 2 reflects the change in net assets for 2004. Since the County did not prepare financial statements according to this basis of accounting in the prior year, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

**Table 2
Change in Net Assets**

	Governmental Activity	Business-Type Activity	Total
Receipts			
Program Receipts			
Charges for Services	\$2,601,500	\$1,765,167	\$ 4,366,667
Operating Grants, Contributions and Interest	10,351,493	2,125	10,353,618
Capital Grants, Contributions, and Interest	3,817,517	0	3,817,517
Total Program Receipts	16,770,510	1,767,292	18,537,802
General Receipts			
Property Taxes Levied for			
General Operating	\$1,652,088	\$0	\$1,652,088
Human Services-Mental Retardation and Developmental Disabilities	2,471,707	0	2,471,707
Permissive Sales Taxes	3,452,481	0	3,452,481
Grants and Entitlements not Restricted for Specific Programs	1,136,537	0	1,136,537
Interest	257,282	0	257,282
Notes Issued	647,100	167,700	814,800
OPWC Loans Issued	60,000	0	60,000
OWDA Loans Issued	0	248,037	248,037
Other	2,627,833	122,992	2,750,825
Total General Receipts	12,305,028	538,729	12,843,757
Total Receipts	29,075,538	2,306,021	31,381,559
Program Disbursements			
Current			
General Government			
Legislative and Executive	4,249,272	0	4,249,272
Judicial	1,241,522	0	1,241,522
Public Safety	3,229,078	0	3,229,078
Public Works	8,311,936	0	8,311,936
Health	415,945	0	415,945
Human Services	9,576,684	0	9,576,684
Conservation and Recreation	68,904	0	68,904
Economic Development and Assistance	998,973	0	998,973
Capital Outlay	226,443	0	226,443

**FINANCIAL CONDITION
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

**Table 2
Change in Net Assets
(Continued)**

	Governmental Activity	Business-Type Activity	Total
Debt Service			
Principal Retirement	847,080	0	847,080
Interest and Fiscal Charges	195,237	0	195,237
Sanitary Sewer	0	1,324,098	1,324,098
Solid Waste	0	176,502	176,502
Other Enterprise	0	1,361,351	1,361,351
Total Disbursements	<u>29,361,074</u>	<u>2,861,951</u>	<u>32,223,025</u>
Increase in Net Assets before Advances And Transfers	(285,536)	(555,930)	(841,466)
Advances	(425,356)	425,356	0
Transfers	(100,460)	100,460	0
Decrease in Net Assets	<u>(\$811,352)</u>	<u>(\$30,114)</u>	<u>(\$841,466)</u>
Net Assets Beginning of Year	5,505,562	2,366,410	7,871,972
Net Assets End of Year	<u>\$4,694,210</u>	<u>\$2,336,296</u>	<u>\$7,030,506</u>

Program receipts represented almost 58 percent of total receipts for governmental activities. The greatest portion of program receipts consists of operating grants and contributions. The public works program, primarily the Engineer, receives a significant amount of resources from state levied gasoline taxes and motor vehicle licenses. The human services program also received substantial grant resources to fund those programs. The primary sources of general receipts are property and sales taxes.

The programs which continue to account for the largest costs are legislative and executive (which are general government operations), public safety (the sheriff), public works (the engineer), and the human services programs of job and family services and mental retardation and developmental disabilities. These programs account for 91 percent of all governmental disbursements.

Business-type activities are primarily funded through program receipts, with approximately 77 percent of the receipts coming from charges for services in 2004.

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

**FINANCIAL CONDITION
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

**Table 3
Governmental Activities**

	Total Cost of Services	Net Cost of Services
Current		
General Government		
Legislative and Executive	\$4,249,272	\$3,113,919
Judicial	1,241,522	572,893
Public Safety	3,229,078	2,234,681
Public Works	8,311,936	184,138
Health	415,945	354,999
Human Services	9,576,684	3,977,149
Conservation and Recreation	68,904	15,763
Economic Development and Assistance	998,973	868,262
Capital Outlay	226,443	226,443
Debt Service		
Principal Retirement	847,080	847,080
Interest and Fiscal Charges	195,237	195,237
Total Disbursements	<u>\$29,361,074</u>	<u>\$12,590,564</u>

For 2004, almost 43 percent of the services provided by the County were paid for through general receipts. However, a review of the above table demonstrates that program receipts contributed significantly to several programs. The public works program was funded almost entirely with program receipts. Charges for services for the public works program consist of work performed by the County Engineer for townships and villages within the county. The public works program also receives a significant amount of operating and grants contributions from state levied shared gas taxes and motor vehicle licenses. In 2004, the County Engineer had also received a significant amount of capital grants.

Program receipts provided 58 percent of the funding for the human service program. A significant portion of the human services program is financed through a voted property tax levy for mental retardation and developmental disabilities.

The economic development and assistance program includes the revolving loan program. The program is supported mainly from the repayment of the outstanding loans and its related interest over a number of years.

**FINANCIAL CONDITION
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

Governmental Funds Financial Analysis

The County's major governmental funds are the General Fund, Real Estate Assessment, Motor Vehicle, and the Mental Retardation and Developmental Disabilities special revenue funds.

For the General Fund, receipts exceeded disbursements for the year; however, due to advances for cash flow purposes and transfers made to subsidize the operations of other funds, the fund balance for this fund decreased by 26 percent.

During 2004, Real Estate Assessment fund net assets decreased by 9.6 percent from the County purchasing new software that was partially funded from the fund and contracting for reappraisal of real estate property.

The Motor Vehicle fund experienced a 63 percent decrease in net assets from costs in repairing bridges and roads throughout the year.

While disbursements exceeded receipts in the Mental Retardation and Development Disabilities fund, the decrease in fund balance was not significant.

Business-Type Activities Financial Analysis

As can be seen on the statement of receipts, disbursements, and changes in fund net assets, the Sanitary Sewer and Solid Waste enterprise funds experienced an increase in net assets for 2004; however, the increases were not significant.

Other enterprise funds included the Ambulance enterprise fund which incurred a 33 percent decrease in net assets from the charges not being sufficient to cover operating costs. During 2005, the County Commissioners increased their rates for ambulance services to generate sufficient receipts to cover expected costs.

Budgetary Highlights

The County prepares an annual budget of receipts and disbursements for all funds of the County for use by County officials and department heads and such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of January.

The County's most significant budgeted fund is the General Fund. A review of this fund's activity reveals that modifications for disbursements from the original to final budget were very minor. The change from actual disbursements to the amounts in the final budget was 6 percent.

Current Issues

In 2004, the State legislature froze the local government and local government revenue assistance receipts at the 2004 level that was being received by local governments. This receipt is recorded within the General Fund and has continued to be frozen through 2006. Sales tax receipts have increased by five percent. Interest revenues have also increased from the increase in interest rates over the last seventeen months. During 2005, the County Auditor's office increased conveyance fees by \$1.50 per \$1,000 of property value. The additional fees increased General Fund revenues by approximately \$150,000.

A five-year 2.42 mill operating property tax levy was approved by the voters in 2005 for mental retardation and mental disabilities services. Collection on the levy began in 2006 and is expected to collect \$1,748,250 in additional property tax receipts for those operations.

**FINANCIAL CONDITION
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

Request for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's financial status. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Mark R. Giesige, County Auditor, 101 North Main Street, Room 105, Celina, Ohio 45822.

This page intentionally left blank.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2004**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$4,687,936	\$2,336,296	\$7,024,232
Cash and Cash Equivalents in Segregated Accounts	6,274		6,274
Total Assets	<u>\$4,694,210</u>	<u>\$2,336,296</u>	<u>\$7,030,506</u>
Net Assets			
Restricted for:			
Capital Projects	\$123,971		\$123,971
Debt Service	26,372		26,372
Other Purposes	3,505,116		3,505,116
Unrestricted	<u>1,038,751</u>	<u>2,336,296</u>	<u>3,375,047</u>
Total Net Assets	<u>\$4,694,210</u>	<u>\$2,336,296</u>	<u>\$7,030,506</u>

See accompanying notes to basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest
Governmental Activities				
General Government				
Legislative and Executive	\$4,249,272	\$1,071,881	\$63,472	
Judicial	1,241,522	492,096	176,533	
Public Safety	3,229,078	262,370	449,458	\$282,569
Public Works	8,311,936	626,948	3,965,902	3,534,948
Health	415,945	60,946		
Human Services	9,576,684	87,259	5,512,276	
Conservation and Recreation	68,904		53,141	
Economic Development and Assistance	998,973		130,711	
Capital Outlay	226,443			
Principal Retirement	847,080			
Interest and Fiscal Charges	195,237			
Total Governmental Activities	29,361,074	2,601,500	10,351,493	3,817,517
Business-Type Activities				
Sanitary Sewer	1,324,098	869,620		
Solid Waste	176,502	214,071		
Other Enterprise	1,361,351	681,476	2,125	
Total Business-Type Activities	2,861,951	1,765,167	2,125	
Total	\$32,223,025	\$4,366,667	\$10,353,618	\$3,817,517

General Revenues

Property Taxes Levied for:

 General Operating

 Human Services - Mental Retardation and Developmental Disabilities

Permissive Sales Taxes

Grants and Entitlements not Restricted for Specific Programs

Interest

Other

Proceeds of Notes Issued

Proceeds of OPWC Loans

Proceeds of OWDA Loans

Total General Revenues

Advances

Transfers

Change in Net Assets

Net Assets Beginning of Year - Restated (See Note 3)

Net Assets End of Year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Change in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$3,113,919)		(\$3,113,919)
(572,893)		(572,893)
(2,234,681)		(2,234,681)
(184,138)		(184,138)
(354,999)		(354,999)
(3,977,149)		(3,977,149)
(15,763)		(15,763)
(868,262)		(868,262)
(226,443)		(226,443)
(847,080)		(847,080)
(195,237)		(195,237)
<u>(12,590,564)</u>		<u>(12,590,564)</u>
	(\$454,478)	(454,478)
	37,569	37,569
	<u>(677,750)</u>	<u>(677,750)</u>
	<u>(1,094,659)</u>	<u>(1,094,659)</u>
<u>(12,590,564)</u>	<u>(1,094,659)</u>	<u>(13,685,223)</u>
1,652,088		1,652,088
2,471,707		2,471,707
3,452,481		3,452,481
1,136,537		1,136,537
257,282		257,282
2,627,833	122,992	2,750,825
647,100	167,700	814,800
60,000		60,000
	<u>248,037</u>	<u>248,037</u>
12,305,028	538,729	12,843,757
(425,356)	425,356	
<u>(100,460)</u>	<u>100,460</u>	
(811,352)	(30,114)	(841,466)
<u>5,505,562</u>	<u>2,366,410</u>	<u>7,871,972</u>
<u>\$4,694,210</u>	<u>\$2,336,296</u>	<u>\$7,030,506</u>

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Real Estate Assessment	Motor Vehicle
Assets			
Equity in Pooled Cash and Cash Equivalents	\$940,732	\$587,604	\$260,135
Cash and Cash Equivalents in Segregated Accounts	3,829		
Restricted Cash and Cash Equivalents	59,078		
	<hr/>	<hr/>	<hr/>
Total Assets	<u>1,003,639</u>	<u>587,604</u>	<u>260,135</u>
Fund Balances			
Reserved for Encumbrances	\$179,593	\$70,872	\$871,815
Reserved for Unclaimed Monies	59,078		
Unreserved, Reported in:			
General Fund	764,968		
Special Revenue Funds		516,732	(611,680)
Debt Service Fund			
Capital Projects Funds			
	<hr/>	<hr/>	<hr/>
Total Fund Balances	<u>\$1,003,639</u>	<u>\$587,604</u>	<u>\$260,135</u>

See accompanying notes to basic financial statements.

Mental Retardation and Developmental Disabilities	Other Governmental	Total
\$324,708	\$2,421,489	\$4,534,668
	2,445	6,274
		59,078
<u>324,708</u>	<u>2,423,934</u>	<u>4,600,020</u>
\$167,186	\$1,287,675	\$2,577,141
		59,078
		764,968
157,522	985,916	1,048,490
	26,372	26,372
	123,971	123,971
<u>\$324,708</u>	<u>\$2,423,934</u>	<u>\$4,600,020</u>

**FINANCIAL CONDITION
MERCER COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Total Governmental Fund Balances	\$4,600,020
----------------------------------	-------------

Amounts reported for governmental activities on the statement of net assets are different because of the following:

An internal service fund is used by management to charge the cost of insurance to individual funds. The net assets of the internal service fund are included in governmental activities on the statement of net assets.

94,190

Net Assets of Governmental Activities

\$4,694,210

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN MODIFIED CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General	Real Estate Assessment	Motor Vehicle	Mental Retardation and Developmental Disabilities	Other Governmental	Total
Receipts						
Property Taxes	\$1,652,088			\$2,471,707		\$4,123,795
Permissive Sales Taxes	3,452,481					3,452,481
Special Assessments					\$188,783	188,783
Charges for Services	968,719	\$315,150	\$407,098		551,731	2,242,698
Licenses and Permits	4,798				69,859	74,657
Fines and Forfeitures	50,146		30,540		14,676	95,362
Intergovernmental	1,134,697		6,987,108	1,125,049	5,801,548	15,048,402
Interest	257,282				134,585	391,867
Other	868,524	811	50,929	370,272	1,459,857	2,750,393
Total Receipts	8,388,735	315,961	7,475,675	3,967,028	8,221,039	28,368,438
Disbursements						
Current:						
General Government						
Legislative and Executive	3,745,159	378,310			145,314	4,268,783
Judicial	982,829				259,222	1,242,051
Public Safety	2,242,341				987,796	3,230,137
Public Works	128,760		7,952,727		236,273	8,317,760
Health	359,118				58,945	418,063
Human Services	332,881			4,115,705	5,149,804	9,598,390
Conservation and Recreation	10,188				59,775	69,963
Economic Development and Assistance					998,973	998,973
Other					1,135	1,135
Capital Outlay					226,443	226,443
Debt Service:						
Principal Retirement					847,080	847,080
Interest and Fiscal Charges					195,237	195,237
Total Disbursements	7,801,276	378,310	7,952,727	4,115,705	9,165,997	29,414,015
Excess of Receipts Over (Under) Disbursements	587,459	(62,349)	(477,052)	(148,677)	(944,958)	(1,045,577)
Other Financing Sources (Uses)						
Bond Anticipation Notes Issued	126,000				443,200	569,200
Special Assessment Notes Issued					77,900	77,900
Proceeds of OPWC Loans			60,000			60,000
Advances In	131,525			239,000	40,370	410,895
Advances Out	(742,881)			(100,000)	(34,370)	(877,251)
Transfers In					479,533	479,533
Transfers Out	(454,121)		(28,380)		(97,492)	(579,993)
Total Other Financing Sources (Uses)	(939,477)		31,620	139,000	909,141	140,284
Changes in Fund Balances	(352,018)	(62,349)	(445,432)	(9,677)	(35,817)	(905,293)
Fund Balances Beginning of Year - Restated (See Note 3)	1,355,657	649,953	705,567	334,385	2,459,751	5,505,313
Fund Balances End of Year	<u>\$1,003,639</u>	<u>\$587,604</u>	<u>\$260,135</u>	<u>\$324,708</u>	<u>\$2,423,934</u>	<u>\$4,600,020</u>

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**RECONCILIATION OF STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN MODIFIED CASH BASIS FUND BALANCES
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Changes in Fund Balances - Total Governmental Funds (\$905,293)

Amounts reported for governmental activities on the
statement of activities are different because of the following:

The internal service fund used by management to charge the cost of insurance to individual funds is not reported on the statement of activities. Governmental disbursements and related internal service fund receipts are eliminated. The change for governmental funds is reported for the year.

93,941

Change in Net Assets of Governmental Activities

(\$811,352)

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN MODIFIED CASH BASIS FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Over (Under)
Receipts				
Property Taxes	\$1,533,000	\$1,533,000	\$1,559,510	\$26,510
Permissive Sales Taxes	3,200,000	3,200,000	3,452,481	252,481
Charges for Services	986,142	986,317	923,852	(62,465)
Licenses and Permits	4,200	4,200	4,798	598
Fines and Forfeitures	46,000	46,000	50,146	4,146
Intergovernmental	1,125,000	1,125,000	1,134,697	9,697
Interest	300,000	300,000	257,574	(42,426)
Other	274,000	274,000	392,451	118,451
Total Receipts	<u>7,468,342</u>	<u>7,468,517</u>	<u>7,775,509</u>	<u>306,992</u>
Disbursements				
Current:				
General Government				
Legislative and Executive	4,136,864	4,108,961	3,844,506	264,455
Judicial	1,254,687	1,083,822	1,012,222	71,600
Public Safety	2,172,973	2,390,935	2,271,460	119,475
Public Works	132,386	131,386	128,950	2,436
Health	402,880	370,375	359,118	11,257
Human Services	308,504	373,106	335,235	37,871
Conservation and Recreation	40,000	40,000	10,188	29,812
Total Disbursements	<u>8,448,294</u>	<u>8,498,585</u>	<u>7,961,679</u>	<u>536,906</u>
Excess of Receipts				
Under Disbursements	(979,952)	(1,030,068)	(186,170)	843,898
Other Financing Sources (Uses)				
Other Financing Sources	457,100	500,308	476,073	(24,235)
Other Financing Uses	(396,498)	(55,868)	(23,019)	32,849
Bond Anticipation Notes Issued		126,000	126,000	
Sale of Capital Assets	69,000	69,000		(69,000)
Advances In	13,500	283,500	131,525	(151,975)
Advances Out		(619,383)	(742,881)	(123,498)
Transfers In	94,216	94,216		(94,216)
Transfers Out	(67,077)	(415,326)	(454,121)	(38,795)
Total Other Financing Sources (Uses)	<u>170,241</u>	<u>(17,553)</u>	<u>(486,423)</u>	<u>(468,870)</u>
Changes in Fund Balance	(809,711)	(1,047,621)	(672,593)	375,028
Fund Balance Beginning of Year	1,154,870	1,154,870	1,154,870	
Prior Year Encumbrances Appropriated	200,787	200,787	200,787	
Fund Balance End of Year	<u>\$545,946</u>	<u>\$308,036</u>	<u>\$683,064</u>	<u>\$375,028</u>

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN MODIFIED CASH FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
REAL ESTATE ASSESSMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Charges for Services	\$300,000	\$300,000	\$315,150	\$15,150
Other			811	811
Total Receipts	300,000	300,000	315,961	15,961
Disbursements				
Current:				
General Government				
Legislative and Executive	922,525	922,525	449,182	473,343
Changes in Fund Balance	(622,525)	(622,525)	(133,221)	489,304
Fund Balance Beginning of Year	530,477	530,477	530,477	
Prior Year Encumbrances Appropriated	119,476	119,476	119,476	
Fund Balance End of Year	\$27,428	\$27,428	\$516,732	\$489,304

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN MODIFIED CASH FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
MOTOR VEHICLE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Charges for Services	\$83,400	\$303,600	\$407,098	\$103,498
Fines and Forfeitures	200	200	30,540	30,340
Intergovernmental	5,938,495	8,672,738	6,987,108	(1,685,630)
Other	190,200	190,000	22	(189,978)
Total Receipts	<u>6,212,295</u>	<u>9,166,538</u>	<u>7,424,768</u>	<u>(1,741,770)</u>
Disbursements				
Current:				
Public Works	<u>6,390,935</u>	<u>9,733,553</u>	<u>8,824,542</u>	<u>909,011</u>
Excess of Receipts Under Disbursements	<u>(178,640)</u>	<u>(567,015)</u>	<u>(1,399,774)</u>	<u>(832,759)</u>
Other Financing Sources (Uses)				
Other Financing Sources	221,600	1,600	50,907	49,307
Proceeds of OWPC Loans			60,000	60,000
Transfers Out		<u>(28,380)</u>	<u>(28,380)</u>	
Total Other Financing Sources (Uses)	<u>221,600</u>	<u>(26,780)</u>	<u>82,527</u>	<u>109,307</u>
Changes in Fund Balance	42,960	(593,795)	(1,317,247)	(723,452)
Fund Balance (Deficit) Beginning of Year	(697,666)	(697,666)	(697,666)	
Prior Year Encumbrances Appropriated	<u>1,403,233</u>	<u>1,403,233</u>	<u>1,403,233</u>	
Fund Balance (Deficit) End of Year	<u><u>\$748,527</u></u>	<u><u>\$111,772</u></u>	<u><u>(\$611,680)</u></u>	<u><u>(\$723,452)</u></u>

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN MODIFIED CASH FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
MENTAL RETARDATION AND DEVELOPMENT DISABILITIES FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>			Variance with Final Budget Over Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Under)</u>
Receipts				
Property Taxes	\$2,574,000	\$2,574,000	\$2,317,314	(\$256,686)
Intergovernmental	1,625,293	1,625,293	1,101,320	(523,973)
Other	73,000	73,000	370,272	297,272
Total Receipts	4,272,293	4,272,293	3,788,906	(483,387)
Disbursements				
Current:				
Human Services	4,405,542	4,405,542	4,282,891	122,651
Excess of Receipts Under Disbursements	(133,249)	(133,249)	(493,985)	(360,736)
Other Financing Sources (Uses)				
Advances In			239,000	239,000
Advances Out			(100,000)	(100,000)
Total Other Financing Sources (Uses)			139,000	139,000
Changes in Fund Balance	(133,249)	(133,249)	(354,985)	(221,736)
Fund Balance Beginning of Year	333,055	333,055	333,055	
Prior Year Encumbrances Appropriated	1,330	1,330	1,330	
Fund Balance End of Year	<u>\$201,136</u>	<u>\$201,136</u>	<u>(\$20,600)</u>	<u>(\$221,736)</u>

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2004**

	<u>Business-Type Activities</u>				<u>Governmental Activity</u>
	<u>Sanitary Sewer</u>	<u>Solid Waste</u>	<u>Other Enterprise</u>	<u>Total Enterprise</u>	<u>Internal Service</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	<u>\$1,510,148</u>	<u>\$599,051</u>	<u>\$227,097</u>	<u>\$2,336,296</u>	<u>\$94,190</u>
Net Assets					
Unrestricted	<u>\$1,510,148</u>	<u>\$599,051</u>	<u>\$227,097</u>	<u>\$2,336,296</u>	<u>\$94,190</u>

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Business-Type Activities</u>				<u>Governmental Activity</u>
	<u>Sanitary Sewer</u>	<u>Solid Waste</u>	<u>Other Enterprise</u>	<u>Total Enterprise</u>	<u>Internal Service</u>
Operating Revenues					
Charges for Services	\$869,620	\$214,071	\$681,476	\$1,765,167	\$2,558,742
Other	48,121	4,558	70,313	122,992	
Total Operating Revenues	<u>917,741</u>	<u>218,629</u>	<u>751,789</u>	<u>1,888,159</u>	<u>2,558,742</u>
Operating Expenses					
Personal Services	199,951	52,381	464,481	716,813	20,303
Contractual Services	437,907	121,015	580,770	1,139,692	
Materials and Supplies	31,670	3,106	316,100	350,876	
Claims					2,485,498
Other	6,458			6,458	
Debt Service:					
Principal Retirement	597,026			597,026	
Total Operating Expenses	<u>1,273,012</u>	<u>176,502</u>	<u>1,361,351</u>	<u>2,810,865</u>	<u>2,505,801</u>
Operating Income (Loss)	<u>(355,271)</u>	<u>42,127</u>	<u>(609,562)</u>	<u>(922,706)</u>	<u>52,941</u>
Non-Operating Revenues (Expenses)					
Special Assessment Notes Issued	167,700			167,700	
Proceeds of OWDA Loans	248,037			248,037	
Grants			2,125	2,125	
Interest Expense	(51,086)			(51,086)	
Advances In	130,500	9,000	348,381	487,881	41,000
Advances Out	(53,525)	(9,000)		(62,525)	
Total Non-Operating Revenues (Expenses)	<u>441,626</u>		<u>350,506</u>	<u>792,132</u>	<u>41,000</u>
Income Before Transfers	86,355	42,127	(259,056)	(130,574)	93,941
Transfers In			100,460	100,460	
Changes in Net Assets	86,355	42,127	(158,596)	(30,114)	93,941
Net Assets Beginning of Year - Restated (See Note 3)	<u>1,423,793</u>	<u>556,924</u>	<u>385,693</u>	<u>2,366,410</u>	<u>249</u>
Net Assets End of Year	<u>\$1,510,148</u>	<u>\$599,051</u>	<u>\$227,097</u>	<u>\$2,336,296</u>	<u>\$94,190</u>

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Business-Type Activities</u>			<u>Governmental</u>
	<u>Sanitary Sewer</u>	<u>Solid Waste</u>	<u>Other Enterprise</u>	<u>Internal Service</u>
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	\$869,620	\$214,071	\$681,476	\$1,765,167
Cash Received from Transactions with Other Funds				\$2,558,742
Cash Payments for Personal Services	(199,951)	(52,381)	(464,481)	(716,813)
Cash Payments for Contractual Services	(437,907)	(121,015)	(580,770)	(1,139,692)
Cash Payments to Suppliers	(31,670)	(3,106)	(316,100)	(350,876)
Cash Payments for Claims				(2,485,498)
Cash Received from Other Revenues	48,121	4,558	70,313	122,992
Cash Payments for Other Expenses	(6,458)			(6,458)
Net Cash Provided by (Used for) Operating Activities	<u>241,755</u>	<u>42,127</u>	<u>(609,562)</u>	<u>(325,680)</u>
Cash Flows from Noncapital Financing Activities				
Grants			2,125	2,125
Advances In	130,500	9,000	348,381	487,881
Advances Out	(53,525)	(9,000)		(62,525)
Transfers In			100,460	100,460
Net Cash Provided by Noncapital Financing Activities	<u>76,975</u>		<u>450,966</u>	<u>527,941</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from Special Assessment Notes	167,700			167,700
Proceeds from OWDA Loans	248,037			248,037
Principal Paid on General Obligation Notes	(218,500)			(218,500)
Interest Paid on General Obligation Notes	(4,944)			(4,944)
Principal Paid on Special Assessment Notes	(225,800)			(225,800)
Interest Paid on Special Assessment Notes	(5,533)			(5,533)
Principal Paid on Special Assessment Bonds	(7,000)			(7,000)
Interest Paid on Special Assessment Bonds	(4,955)			(4,955)
Principal Paid on OPWC Loans	(17,780)			(17,780)
Principal Paid on OWDA Loans	(127,946)			(127,946)
Interest Paid on OWDA Loans	(35,654)			(35,654)
Net Cash Used for Capital and Related Financing Activities	<u>(232,375)</u>			<u>(232,375)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	86,355	42,127	(158,596)	(30,114)
Cash and Cash Equivalents Beginning of Year	<u>1,423,793</u>	<u>556,924</u>	<u>385,693</u>	<u>2,366,410</u>
Cash and Cash Equivalents End of Year	<u>\$1,510,148</u>	<u>\$599,051</u>	<u>\$227,097</u>	<u>\$2,336,296</u>

See accompanying notes to the basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**STATEMENT OF MODIFIED CASH BASIS FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2004**

Assets

Equity in Pooled Cash and Cash Equivalents	\$3,406,012
Cash and Cash Equivalents in Segregated Accounts	<u>272,154</u>
Total Assets	<u><u>\$3,678,166</u></u>

Net Assets

Undistributed Assets	<u><u>\$3,678,166</u></u>
----------------------	---------------------------

See accompanying notes to basic financial statements.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

1. REPORTING ENTITY

Mercer County (the County) is a body politic and corporate established in 1824 to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The County is governed by a board of three 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, a Common Pleas Court Judge, and a Probate/Juvenile Court Judge.

Although the elected officials manage the internal operations of their respective departments, the County Commissioners authorize cash disbursements as well as serve as the budget and taxing authority, contracting body, and the chief administrators of public services for the entire County.

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

A. Primary Government

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the County. For Mercer County, this includes the Mercer County Board of Mental Retardation and Developmental Disabilities (MRDD), Children Services Board, and departments and activities that are directly operated by the elected County officials.

B. Component Units

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

C.A. Group - C.A. Group is a legally separate, not-for-profit corporation, served by a board appointed by the Mercer County Board of Mental Retardation and Developmental Disabilities (MRDD). C.A. Group, under a contractual agreement with the Mercer County Board of MRDD, provides sheltered employment for mentally retarded or handicapped adults in Mercer County. The Mercer County Board of MRDD provides C.A. Group with personnel necessary for the operation of the habilitation services to the clients, land and buildings for the operation of the center, maintenance and repair of the buildings, and professional staff to supervise and train clients of C.A. Group. Based on the significant services and resources provided by the County to C.A. Group and C.A. Group's sole purpose of providing assistance to the retarded and handicapped adults of Mercer County, C.A. Group is a component unit of Mercer County. C.A. Group operates on a fiscal year ending December 31. Information about this component unit is presented in Note 21 to the basic financial statements. Further information for C.A. Group can be obtained from C.A. Group at P.O. Box 137, Celina, Ohio 45822.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

1. REPORTING ENTITY (Continued)

As custodian of public funds, the County Treasurer invests all public monies held on deposit in the County treasury. In the case of the separate organizations listed below, the County serves as fiscal agent, but the organizations are not considered part of Mercer County. Accordingly, the activity of the following organizations is reported as agency funds within the financial statements:

Mercer County Soil and Water Conservation District
Mercer County District Board of Health

The County participates in a joint venture, three jointly governed organizations, three insurance pools, and a related organization. These organizations are presented in Notes 17, 18, 19, and 20 to the basic financial statements. These organizations are:

Mercer County Regional Planning Commission
Tri-County Mental Health Board
West Central Ohio Network
West Central Partnership, Inc.
County Commissioners Association of Ohio Workers' Compensation Group Rating Plan
Midwest Pool Risk Management Agency, Inc.
Midwest Employee Benefit Consortium
Mercer County District Library

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a modified cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The County does not apply FASB statements issued after November 30, 1989, to its business-type activities or to its enterprise funds. Following are the more significant of the County's accounting policies.

A. Basis of Presentation

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

1. 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 in nature and those that are considered business-type activities. The activity of the internal service fund is eliminated to avoid "doubling up" receipts and disbursements.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Fund Financial Statements

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

B. Fund Accounting

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

1. Governmental Funds

The County classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The County's major funds are the General Fund, and the Real Estate Assessment, Motor Vehicle, and Mental Retardation and Developmental Disabilities special revenue funds.

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

Real Estate Assessment Fund - This fund accounts for state-mandated county-wide real estate reappraisals that are funded by charges to the County's political subdivisions.

Motor Vehicle Fund - This fund accounts for monies derived from gasoline taxes and the sale of motor vehicle licenses. Expenditures are restricted by State law to county road and bridge repair/improvement programs.

Mental Retardation and Developmental Disabilities Fund - This fund accounts for the operation of a school for the mentally retarded and developmentally disabled, financed by a county-wide property tax levy and federal and state grants.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The other governmental funds of the County account for grants and other resources whose use is restricted for a particular purpose.

2. Proprietary Funds

The County classifies funds financed primarily from user charges for goods or services as proprietary funds. These funds are classified as either enterprise funds or internal service funds.

Enterprise Funds

Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the County's major enterprise funds:

Sanitary Sewer Fund - This fund accounts for sanitary sewer services provided to individuals and commercial users throughout the County.

Solid Waste Fund - This fund accounts for daily operations of the landfill.

Internal Service Fund

The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis. The County's internal service fund accounts for monies received for the activities of the self insurance program for employee health benefits.

3. Fiduciary Funds

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 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 agency funds are used to account for assets held by the County for political subdivisions for which the County acts as fiscal agent and for taxes, state-levied shared revenues, and fines and forfeitures collected and distributed to other political subdivisions.

C. Basis of Accounting

The County's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the County's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

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

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

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

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

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

E. Cash and Investments

To improve cash management, cash received by the County is pooled and invested. Individual fund integrity is maintained through County records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalents that are held separately within departments of the County are recorded as "Cash and Cash Equivalents in Segregated Accounts".

During 2004, the County invested in nonnegotiable certificates of deposit, federal agency securities, repurchase agreements, and STAR Ohio. All investments are reported at cost. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2004.

Interest earnings are allocated to County funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2004 were \$257,282 which includes \$243,393 assigned from other County funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Unclaimed monies that have a legal restriction on their use are reported as restricted.

G. Capital Assets

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

H. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the modified cash basis of accounting used by the County.

I. Long-Term Obligations

Modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

J. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes primarily include resources restricted for the upkeep of the County's roads and bridges, child support and welfare services, services for the handicapped and mentally disabled, and activities of the County's courts. The County's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available. As of December 31, 2004, net assets restricted by enabling legislation was \$202,313.

K. Fund Balance Reserves

The County reserves those portions of fund balance which are legally segregated for a specific future use and not available for appropriation or disbursement. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and unclaimed monies.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Operating Receipts and Disbursements

Operating receipts are those receipts that are generated directly from the primary activity of the proprietary funds. For the County, these receipts are charges for services for the nursing home, for ambulance services, for water and sewer services, and charges for health care premiums in the internal service fund. Operating disbursements are the necessary costs incurred to provide the service that is the primary activity of the fund. All receipts and disbursements not meeting these definitions are reported as non-operating.

M. Interfund Transactions

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

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

3. RESTATEMENT OF FUND BALANCE/NET ASSETS

In 2003, the County prepared fund financial statements by fund type using the cash basis of accounting. In implementing the other comprehensive basis of accounting described in Note 2, the fund financial statements now present each major fund in a separate column with non-major funds aggregated and presented in a single column, rather than a column for each fund type.

The restatement had the following affect on fund balance as previously reported.

	General	Real Estate	Motor Vehicle	Mental Retardation and Developmental Disabilities	Other Governmental	Total Governmental
Fund Balance as Previously Reported	\$1,113,970	\$649,953	\$705,567	\$334,385	\$3,545,039	\$6,348,914
Restatement for Fund Structure	241,687	0	0	0	(1,085,288)	(843,601)
Restated Fund Balance/ Net Assets at December 31, 2003	<u>\$1,355,657</u>	<u>\$649,953</u>	<u>\$705,567</u>	<u>\$334,385</u>	<u>\$2,459,751</u>	<u>\$5,505,313</u>

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

3. RESTATEMENT OF FUND BALANCE/NET ASSETS (Continued)

	<u>Sanitary Sewer</u>	<u>Solid Waste</u>	<u>Other Enterprise</u>	<u>Total Enterprise</u>	<u>Internal Service</u>	<u>Total Proprietary</u>
Fund Balance as Previously Reported	\$252,198	\$556,924	\$698,640	\$1,507,762	\$287	\$1,508,049
Restatement for Fund Structure	<u>1,171,595</u>	<u>0</u>	<u>(312,947)</u>	<u>858,648</u>	<u>(38)</u>	<u>858,610</u>
Restated Fund Balance/ Net Assets at December 31, 2003	<u>\$1,423,793</u>	<u>\$556,924</u>	<u>\$385,693</u>	<u>\$2,366,410</u>	<u>\$249</u>	<u>\$2,366,659</u>

	<u>Expendable Trust</u>	<u>Agency</u>	<u>Total Fiduciary</u>	<u>Total All Funds</u>
Fund Balance as Previously Reported	\$125,722	\$3,341,435	\$3,467,157	\$11,324,120
Restatement for Fund Structure	<u>(125,722)</u>	<u>110,713</u>	<u>(15,009)</u>	<u>0</u>
Restated Fund Balance/ Net Assets at December 31, 2003	<u>\$ 0</u>	<u>\$3,452,148</u>	<u>\$3,452,148</u>	<u>\$11,324,120</u>

4. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2004, the County Home enterprise fund had deficit net assets, in the amount of \$52,981. This is a result of operating losses in the current and prior years. The voters have approved an operating levy for the County Home in order to offset these losses.

B. Compliance

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

For the year ended December 31, 2004, the Ohio Public Works Loans debt service fund had disbursements (including encumbrances) in excess of appropriations, in the amount of \$73,097.

The following funds had final appropriations in excess of estimated resources plus available balances for the year ended December 31, 2004.

<u>Fund Type/Fund</u>	<u>Estimated Resources Plus Available Balances</u>	<u>Appropriations</u>	<u>Excess</u>
Special Revenue Funds			
Sheriff Concealed Handgun	\$8,710	\$9,500	\$790
Children's Trust	15,515	15,568	53
Recycle Ohio	54,000	57,390	3,390

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS

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

Monies held by the County which are not considered active are classified as inactive. Beginning June 15, 2004, inactive monies may be deposited or invested in the following securities provided a written investment policy has been filed with the Ohio Auditor of State:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States, or any book entry, zero coupon United States treasury security that is a direct obligation of the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or 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 investment pool (STAR Ohio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities or cash, equal value for equal value;
9. Up to twenty-five percent of the County's average portfolio in either of the following:
 - a. commercial paper notes in entities incorporated under the laws of Ohio or any other State that have assets exceeding five hundred million dollars rated at the time of purchase, which are rated in the highest qualification established by two nationally recognized standard rating services, which do not exceed 10 percent of the value of the outstanding commercial paper of the issuing corporation and which mature within two hundred seventy days after purchase;
 - b. bankers acceptances eligible for purchase by the federal reserve system and which mature within one hundred eighty days after purchase;

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

10. Up to 15 percent of the County's average portfolio in notes issued by United States corporations or by depository institutions that are doing business under authority granted by the United States provided that the notes are rated in the second highest or higher category by at least two nationally recognized standard rating services at the time of purchase and the notes mature within two years from the date of purchase;
11. No-load money market mutual funds rated in the highest category at the time of purchase by at least one nationally recognized standard rating service consisting exclusively of obligations guaranteed by the United States, securities issued by a federal government agency or instrumentality, and/or highly rated commercial paper; and
12. Up to 1 percent of the County's average portfolio in debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the County, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year end, the County had \$48,343 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At year end, the carrying amount of the County's deposits was \$2,763,295 and the bank balance was \$3,303,558. Of the bank balance \$786,253 was covered by federal depository insurance and \$2,517,305 was uninsured and uncollateralized. Although all State 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.

The County's investments are categorized to give an indication of the level of risk assumed by the County at year end. Category 1 includes investments that are insured or registered for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

	<u>Category 1</u>	<u>Category 3</u>	<u>Carrying Value</u>
Federal National Mortgage Association Notes	\$3,491,219	\$ 0	\$3,491,219
Federal Home Loan Bank Bonds	499,787	0	499,787
Federal Home Loan Mortgage Corporation Notes	2,982,650	0	2,982,650
Federal Farm Credit Bond Notes	490,721	0	490,721
Repurchase Agreements	0	52,638	52,638
	<u>\$7,464,377</u>	<u>\$52,638</u>	<u>7,517,015</u>
STAR Ohio			380,019
Total Investments			<u>\$7,897,034</u>

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$10,708,672	\$ 0
Cash on Hand	(48,343)	0
Investments		
Federal National Mortgage Association Notes	(3,491,219)	3,491,219
Federal Home Loan Bank Bonds	(499,787)	499,787
Federal Home Loan Mortgage Corporation Notes	(2,982,650)	2,982,650
Federal Farm Credit Bond Notes	(490,721)	490,721
Repurchase Agreements	(52,638)	52,638
STAR Ohio	(380,019)	380,019
GASB Statement No. 3	<u>\$ 2,763,295</u>	<u>\$7,897,034</u>

6. PERMISSIVE SALES AND USE TAX

The County Commissioners, by resolution, imposed a one percent tax on all retail sales made in the County, except sales of motor vehicles, and on the storage, use, or consumption of tangible personal property in the County, including motor vehicles not subject to the sales tax. Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies, to the State 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 each month. The State Auditor then has five days in which to draw the warrant payable to the County.

7. PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the County. Real property tax receipts received in 2004 represent the collection of 2003 taxes. Real property taxes received in 2004 were levied after October 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

7. PROPERTY TAXES (Continued)

Public utility property tax receipts received in 2004 represent the collection of 2003 taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2002, were levied after October 1, 2003, and are collected in 2004 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2004 (other than public utility property) represent the collection of 2004 taxes. Tangible personal property taxes received in 2004 were levied after October 1, 2003, on the true value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

The full tax rate for all County operations for the year ended December 31, 2004, was \$8.97 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property	
Residential/Agriculture	\$538,950,600
Commercial/Industrial/Mineral	80,572,220
Public Utility Property	
Real	44,770
Personal	24,264,230
Tangible Personal Property	68,608,545
Total Assessed Value	\$712,440,365

8. INTERFUND ACTIVITY

Interfund balances at December 31, 2004, consisted of the following:

Due to General Fund from:	
Mental Retardation and Developmental Disabilities	\$239,000
Other Governmental	31,000
Sanitary Sewer	124,867
Other Enterprise	308,281
Internal Service	41,000
	\$744,148
Due to Other Governmental from:	
Other Governmental	\$370
Due to Sanitary Sewer from:	
Other Enterprise	\$132,000

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

8. INTERFUND ACTIVITY (Continued)

During 2004, the County made a number of cash advances to various funds. Cash advances are generally made to provide working capital for operations or projects or to provide cash flow resources. With the exception of \$117,517 due to the General Fund from the Sanitary Sewer enterprise fund and \$132,000 due to the Sanitary Sewer enterprise fund from other enterprise funds, all amounts are expected to be repaid within one year.

9. RISK MANAGEMENT

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 2004, the County contracted with Midwest Pool Risk Management Agency, Inc. for insurance coverage. Coverage provided was as follows:

General Liability	\$7,000,000
Law Enforcement Professional Liability	7,000,000
Public Officials Errors and Omissions Liability	7,000,000
Automobile Liability	7,000,000
Ohio Stop Gap (Additional Workers' Compensation Coverage)	1,000,000
Building and Contents	216,544,966
Flood and Earthquake	36,000,000
Comprehensive Boiler and Machinery	30,000,000

There has been no significant reduction in insurance coverage from 2003, and settled claims have not exceeded this coverage in the past three years.

For 2004, the County participated in the County Commissioners Association of Ohio Service Corporation, a worker's compensation group rating plan (Plan). The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The workers' compensation experience of the participating counties is calculated as one experience and a common premium rate is applied to all counties in the Plan. Each county pays its workers' compensation premium to the State based on the rate for the Plan rather than the county's individual rate.

In order to allocate the savings derived by the formation of the Plan, and to maximize the number of participants in the Plan, the Plan's executive committee annually calculates the total savings which accrued to the Plan through its formation. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants. Participation in the Plan is limited to counties that can meet the Plan's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the Plan. Each year, the County pays an enrollment fee to the Plan to cover the costs of administering the program.

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

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

9. RISK MANAGEMENT (Continued)

The County provides employee medical coverage through a self insured program. The County established a Health Insurance fund (an internal service fund) to account for and finance employee health benefits. Under this program, the Health Insurance fund provides coverage up to a maximum of \$75,000 per year for each individual. The County purchases commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in the past three years.

All funds of the County participate in the program and make payments to the Health Insurance internal service fund based on actuarial estimates of the amounts needed to pay prior- and current-year claims. Under the modified cash basis of accounting, the County does not report claims payable, which is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. Claims paid during 2004 were 2,485,498.

10. SIGNIFICANT CONTRACTUAL COMMITMENTS

The County had the following contractual commitments outstanding as of December 31, 2004:

<u>Contractor</u>	<u>Commitment</u>	<u>Remaining Balance</u>
Paul Peterson Co.	\$ 240,500	\$240,500
Shremshock Architects	12,000	12,000
Chuck Samples	255,975	32,613
Shinn Brothers, Inc.	958,721	958,721
Beem Construction, Inc.	15,684	15,684
Minster Lumber Co.	16,520	16,520
St. Henry Tile Co.	10,499	10,499
Gagel Hardware Co.	13,800	13,800
Seitz Electric, Inc.	21,000	21,000
Jutte Excavating	2,504,786	317,560

11. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

County employees participate 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 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by OPERS 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.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

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 publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

For the year ended December 31, 2004, members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salary to fund pension obligations. Members participating in the traditional plan, who were in law enforcement, contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The County's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the County's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The County's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$973,303, \$877,512, and \$852,263, respectively; 92 percent has been contributed for 2004 and 100 percent has been contributed for 2003 and 2002. Contributions to the member-directed plan for 2004 were \$22,119 made by the County and \$13,875 made by plan members.

B. State Teachers Retirement System

For certified teachers employed by the school for mental retardation and developmental disabilities, the County contributes to 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.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

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 fiscal year ended June 30, 2004, plan members were required to contribute 9.3 percent of their annual covered salary and the County was required to contribute 14 percent; 13 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 fiscal years ended June 30, 2004, 2003, and 2002 were \$6,588, \$6,780 and \$5,733, respectively; 98 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002. There were no contributions for the DCP and CP for the fiscal year ended June 30, 2004.

12. POST-EMPLOYMENT 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 OPERS is considered an Other Post-employment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Post-employment Benefits Other Than Pension Benefits by State and Local Governmental 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 2004 employer contribution rate was 13.55 percent of covered payroll (16.7 percent for law enforcement and public safety); 4.00 percent was the portion used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

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

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

12. POST-EMPLOYMENT BENEFITS

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund post-employment benefits was \$400,876. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2004 (the latest information available), was \$10.8 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

In September 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 health care reserve fund in response to skyrocketing health care costs.

B. State Teachers Retirement System

The County provides comprehensive health care benefits 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 State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All 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 June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the County, this amount was \$507.

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 \$254,780,000, and STRS had 115,395 eligible benefit recipients.

13. COMPENSATED ABSENCES

County employees earn vacation and sick leave at varying rates depending on length of service. Currently, employees are not permitted to accrue or carry over more than the equivalent of three year's vacation leave. All accumulated unused vacation time is paid upon separation from the County. County employees are paid for 50 percent of accumulated unused sick leave upon retirement at the rate of pay in effect at the time of retirement.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

14. NOTES PAYABLE

The changes in the County's notes payable during 2004 were as follows:

	Interest Rate	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004
Governmental Activities					
Bond Anticipation Notes					
Various Purpose Ditch Improvement Series 2002	2.75%	\$ 66,100	\$ 0	\$ 66,100	\$ 0
Various Purpose Ditch Improvement Series 2001	2.25	183,500	0	183,500	0
Various Purpose Series 2003	2.85	279,800	0	279,800	0
Airport Land Acquisition	2.28	94,000	0	94,000	0
Various Purpose Ditch Improvement Series 2002, Second Renewal	2.436	0	51,200	0	51,200
Airport Improvement	2.446	0	126,000	0	126,000
Various Purpose Ditch Improvement Series 2001, Third Renewal	2.441	0	133,300	0	133,300
Various Purpose Series 2004	2.50	0	258,700	0	258,700
Total Bond Anticipation Notes		<u>623,400</u>	<u>569,200</u>	<u>623,400</u>	<u>569,200</u>
Special Assessment Notes					
Marion Township Industrial Park	3.25	63,400	0	63,400	0
Various Purpose Series 2002	2.45	32,900	0	32,900	0
Marion Township Industrial Park	2.406	0	51,500	0	51,500
Various Purpose Series 2002, Second Renewal	2.45	0	26,400	0	26,400
Total Special Assessment Notes		<u>96,300</u>	<u>77,900</u>	<u>96,300</u>	<u>77,900</u>
Total Governmental Activities		<u>\$719,700</u>	<u>\$647,100</u>	<u>\$719,700</u>	<u>\$647,100</u>
Business-Type Activities					
Bond Anticipation Notes					
2004 Northeast Phase II Water and Sewer	2.25%	\$218,500	\$ 0	\$218,500	\$ 0
Special Assessment Notes					
Various Purpose Series 2002	2.45	225,800	0	225,800	0
Various Purpose Series 2002, Second Renewal	2.45	0	167,700	0	167,700
Total Special Assessment Notes		<u>225,800</u>	<u>167,700</u>	<u>225,800</u>	<u>167,700</u>
Total Business-Type Activities		<u>\$444,300</u>	<u>\$167,700</u>	<u>\$444,300</u>	<u>\$167,700</u>

All of the County's notes are backed by the full faith and credit of the County. The bond anticipation notes mature within one year. The special assessment notes will be paid from assessments made on the property owners affected by the improvements. In the event that an assessed property owner fails to make payments, the County will be required to pay the related debt.

On February 23, 2003, the County issued bond anticipation notes, in the amount of \$66,100, to construct various ditches. The notes had an interest rate of 2.75 percent and were paid from the Ditch Special Assessment Notes debt service fund.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

14. NOTES PAYABLE (Continued)

On May 6, 2003, the County issued bond anticipation notes, in the amount of \$183,500, to construct various ditches. The notes had an interest rate of 2.25 percent and were paid from the Ditch Special Assessment Notes debt service fund.

On August 5, 2003, the County issued bond anticipation notes, in the amount of \$279,800, to construct various ditches and make improvements to the fairgrounds, including the construction of new restroom and shower facilities. The notes had an interest rate of 2.85 percent and were paid from the Ditch Special Assessment Notes debt service fund and the General Obligation Bond Anticipation Note debt service fund, in the amount of \$218,200 and \$61,600, respectively.

On September 24, 2003, the County issued bond anticipation notes, in the amount of \$94,000, to acquire real property for the County airport. These notes had an interest rate of 2.28 percent and were paid from the General Obligation Bond Anticipation Note debt service fund.

On February 23, 2004, the County issued bond anticipation notes, in the amount of \$51,200, to partially retire notes previously issued to construct various ditches. The notes had an interest rate of 2.436 percent and in 2005 were paid from the Ditch Special Assessment Notes debt service fund.

On March 31, 2004, the County issued bond anticipation notes, in the amount of \$126,000, to acquire real property for the County airport. The notes had an interest rate of 2.446 percent and in 2005 were paid from the General Obligation Bond Anticipation Note debt service fund.

On May 6, 2004, the County issued bond anticipation notes, in the amount of \$133,300, to partially retire notes previously issued to construct various ditches. The notes had an interest rate of 2.441 percent and in 2005 were paid from the Ditch Special Assessment Notes debt service fund.

On August 5, 2004, the County issued bond anticipation notes, in the amount of \$258,700, to partially retire notes previously issued to construct various ditches and make improvements to the fairgrounds, including the construction of new restroom and shower facilities. The notes had an interest rate of 2.5 percent and in 2005 were paid from the Ditch Special Assessment Notes debt service fund and the General Obligation Bond Anticipation Note debt service fund, in the amount of \$197,100 and \$61,600, respectively.

On May 6, 2003, the County issued special assessment notes, in the amount of \$63,400, to make improvements in the Marion Township Industrial Park, including street drainage and sanitary sewer improvements. The notes had an interest rate of 3.25 percent and were paid from the Marion Township Industrial Park debt service fund.

On September 24, 2003, the County issued special assessment notes, in the amount of \$258,700, to make improvements to the Northeast Grand Lake sewer and to pay a portion of the cost of improvements in the Renoir-Visions area of the County. The notes had an interest rate of 2.45 percent and were paid from the General Obligation Bond Anticipation Note debt service fund and the Sanitary Sewer enterprise fund, in the amount of \$32,900 and \$225,800, respectively.

On May 6, 2004, the County issued special assessment notes, in the amount of \$51,500, to partially retire notes previously issued to make improvements in the Marion Township Industrial Park, including street drainage and sanitary sewer improvements. The notes had an interest rate of 2.406 percent and in 2005 were paid from the Marion Township Industrial Park debt service fund.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

14. NOTES PAYABLE (Continued)

On September 24, 2004, the County issued special assessment notes, in the amount of \$194,100, to partially retire notes previously issued to make improvements to the Northeast Grand Lake sewer and to pay a portion of the cost of improvements in the Renoir-Visions area of the County. The notes had an interest rate of 2.45 percent and in 2005 were paid from the General Obligation Bond Anticipation Note debt service fund and the Sanitary Sewer enterprise fund, in the amount of \$26,400 and \$167,700, respectively.

On February 23, 2003, the County issued bond anticipation notes, in the amount of \$218,500, to make utility improvements in the County. The notes had an interest rate of 2.25 percent and were paid from the Sanitary Sewer debt service fund.

15. LONG-TERM OBLIGATIONS

The County's long-term debt activity for the year ended December 31, 2004, was as follows:

	Interest Rate	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004	Due Within One Year
Governmental Activities						
General Obligation Bonds						
1998 Central Services (Original Amount \$3,750,000)	4.2-7.4%	\$3,365,000	\$0	\$95,000	\$3,270,000	\$105,000
OPWC Loans						
1995 Karch/Tama (Original Amount \$174,070)	0	95,739	0	8,703	87,036	8,704
1997 Siegrist-Jutte and Kahn Road Bridge (Original Amount \$256,554)	0	160,347	0	12,828	147,519	12,828
2001 Four Bridge Replacement (Original Amount \$76,979)	0	65,432	0	3,849	61,583	3,849
2002 Home Waterline Improvement (Original Amount \$80,000)	0	78,000	0	4,000	74,000	4,000
2002 Five Bridge Replacement (Original Amount \$60,000)	0	0	60,000	3,000	57,000	3,000
Total OPWC Loans		399,518	60,000	32,380	427,138	32,381
Total Governmental Activities		\$3,764,518	\$60,000	\$127,380	\$3,697,138	\$137,381

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

15. LONG-TERM OBLIGATIONS (Continued)

	Interest Rate	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004	Due Within One Year
Business-Type Activities						
Special Assessment Bonds						
1992 Southwest Sanitary Sewer (Original Amount \$148,600)	5.0%	\$ 99,100	\$ 0	\$ 7,000	\$ 92,100	\$ 7,300
OPWC Loans						
1993 Northwood Collection System (Original Amount \$55,600)	0	29,190	0	2,780	26,410	2,780
2003 Philothea Area Wastewater (Original Amount \$300,000)	0	277,500	0	15,000	262,500	15,000
Total OPWC Loans		<u>306,690</u>	<u>0</u>	<u>17,780</u>	<u>288,910</u>	<u>17,780</u>
OWDA Loans						
1988 MCI (Original Amount \$831,193)	2.0	329,695	0	35,980	293,715	36,699
1990 MCI (Original Amount \$1,233,890)	7.89	181,454	0	72,582	108,872	72,581
2002 Staeger Road Sanitary Sewer (Original Amount \$109,521)	3.64	97,694	0	4,240	93,454	4,395
2002 SR 129 and Burge Road (Original Amount \$400,463)	3.49	371,704	0	15,144	356,560	15,677
2005 Lake Acres (Original Amount \$248,037)	2.75	0	248,037	0	248,037	0
Total OWDA Loans		<u>980,547</u>	<u>248,037</u>	<u>127,946</u>	<u>1,100,638</u>	<u>129,352</u>
Ohio Water and Sewer Loans						
1991 Sandy Beach Area Sewer District (Original Amount \$42,822)	0	42,822	0	0	42,822	0
1992 Southwest Sewer (Original Amount \$269,223)	0	269,223	0	0	269,223	0
2001 Rotary SR 269 Sewer (Original Amount \$110,167)	0	88,673	0	0	88,673	0
Total Ohio Water and Sewer Loans		<u>400,718</u>	<u>0</u>	<u>0</u>	<u>400,718</u>	<u>0</u>
Rural Industrial Park Loan						
2001 Rural Industrial Park - SR269 (Original Amount \$200,000)	0-3	200,000	0	0	200,000	0
Total Business-Type Activities		<u>\$1,987,055</u>	<u>\$248,037</u>	<u>\$152,726</u>	<u>\$2,082,366</u>	<u>\$154,432</u>

A. General Obligation Bonds

All general obligation bonds are supported by the full faith and credit of Mercer County and are payable from unvoted property tax receipts to the extent that other resources are not available to meet annual principal and interest payments.

B. 1998 Central Services

The bonds maturing in 2018 are subject to mandatory sinking fund redemption prior to maturity at a price of par plus accrued interest to the date of redemption, in the following principal amounts, on November 1 in each of the following years:

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

15. LONG-TERM OBLIGATIONS (Continued)

Year	Amount
2010	\$140,000
2011	145,000
2012	150,000
2013	160,000
2014	165,000
2015	175,000
2016	185,000
2017	190,000

Unless previously redeemed, the remaining principal, in the amount of \$200,000, will mature at stated maturity on November 1, 2018.

The bonds maturing in 2023 are subject to mandatory sinking fund redemption prior to maturity at a price of par plus accrued interest to the date of redemption, in the following principal amounts, on November 1 in each of the following years:

Year	Amount
2019	\$210,000
2020	220,000
2021	235,000
2022	245,000

Unless previously redeemed, the remaining principal, in the amount of \$260,000, will mature at stated maturity on November 1, 2023.

The bonds maturing November 1, 2009, and thereafter will be subject to optional redemption, in whole at any time or in part on any interest payment date, at the option of the County, on or after November 1, 2008, as follows:

Redemption Date	Redemption Price
November 1, 2008, through October 31, 2009	100.5%
November 1, 2009, and thereafter	100.0

C. Special Assessment Bonds

The special assessment bonds will be paid from the proceeds of the special assessments levied against those property owners who primarily benefited from the project. In the event that property owners fail to make their special assessment payments, the County is responsible for providing the resources to meet annual principal and interest payments. Special assessment debt is supported by the full faith and credit of Mercer County.

D. OPWC Loans

OPWC loans consist of monies owed to the Ohio Public Works Commission for the improvement and replacement of the County's infrastructure. OPWC loans are payable from the governmental debt service funds and from the gross revenues of the enterprise funds.

E. OWDA Loans

OWDA loans consist of monies owed to the Ohio Water Development Authority for various water and sewer projects. OWDA loans are payable solely from special assessments and the gross revenues of the enterprise funds.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

15. LONG-TERM OBLIGATIONS (Continued)

F. Ohio Water and Sewer Loans

The Ohio Water and Sewer Loans were provided to the County for the deferral of special assessment collections on agricultural land. The loan principal is being deferred as long as the land is used for agriculture purposes. If the land is ever used for other than agriculture purposes, the loan is due and payable, the special assessments are then due and collectible by the County, and the monies collected are to be remitted to the Ohio Water and Sewer Rotary Commission (OWSRC) within one year of collection.

The loans are non-interest bearing as long as the land is used for agriculture purposes. If the land is ever used for other than agriculture purposes and the required special assessments are not remitted to OWSRC, the loans become interest bearing at an interest rate to be determined by OWSRC. Several of these loans were used for purposes other than agricultural and were required to submit monies to OWSRC.

G. Rural Industrial Park Loan

The County has obtained a loan from the Rural Industrial Park Loan Program to acquire a public right-of-way and extend the sanitary and water main lines to serve the State Route 29 industrial corridor project. The Rural Industrial Park Loan will be paid from special assessments and the gross revenues of the Sanitary Sewer enterprise fund.

The Ohio Revised Code provides that net general obligation debt of the County, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 1 percent of the total assessed valuation of the County. The Revised 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 3 percent of the first \$100,000,000 of assessed valuation, plus 1.5 percent of such valuation in excess of \$100,000,000 and not in excess of \$300,000,000, plus 2.5 percent of such valuation in excess of \$300,000,000.

At December 31, 2004, the County's overall debt margin was \$70,366,272 with an unvoted debt margin of \$34,744,254.

The Lake Acres project funded by the Ohio Water Development Authority has not been completed. An amortization schedule for the repayment of the loan will not be available until the project is completed and, therefore, is not included in the following schedule.

The following is a summary of the County's future annual debt service requirements for governmental activities:

Year	General Obligation Bonds		OPWC Loans	
	Principal	Interest	Principal	Interest
2005	\$105,000	\$171,495	\$32,381	\$0
2006	110,000	163,725	32,380	0
2007	120,000	155,585	32,381	0
2008	125,000	146,705	32,380	0
2009	130,000	137,455	32,381	0
2010-2014	760,000	588,108	161,902	0
2015-2019	960,000	385,377	73,485	0
2020-2023	960,000	123,250	29,848	0
	<u>\$3,270,000</u>	<u>\$1,871,700</u>	<u>\$427,138</u>	<u>\$0</u>

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

15. LONG-TERM OBLIGATIONS (Continued)

The following is a summary of the County's future annual debt service requirements for business-type activities:

Year	Special Assessment Bonds		OPWC Loans		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$7,300	\$4,605	\$17,780	\$0	\$129,352	\$30,134
2006	7,700	4,240	17,780	0	94,509	22,960
2007	8,100	3,855	17,780	0	59,706	18,610
2008	8,500	3,450	17,780	0	61,235	17,082
2009	8,900	3,025	17,780	0	62,807	15,510
2010-2014	51,600	8,000	87,510	0	231,039	54,108
2015-2019	0	0	75,000	0	152,791	25,920
2020-2022	0	0	37,500	0	61,162	2,566
	<u>\$92,100</u>	<u>\$27,175</u>	<u>\$288,910</u>	<u>\$0</u>	<u>\$852,601</u>	<u>\$186,890</u>

Year	Rural Industrial Park Loan	
	Principal	Interest
2005	\$0	\$0
2006	0	0
2007	14,474	4,838
2008	17,853	5,322
2009	18,396	4,779
2010-2014	100,720	15,152
2015-2019	48,557	1,656
	<u>\$200,000</u>	<u>\$31,747</u>

16. INTERFUND TRANSFERS

During 2004, the following transfers were made:

Transfers In	Transfers Out	
	Other Governmental	Other Business-Type
Governmental Activities		
General	\$353,661	\$100,460
Other Governmental	125,872	0
Total Governmental Activities	<u>479,533</u>	<u>100,460</u>
Total	<u>\$479,533</u>	<u>\$100,460</u>

During 2004, the General Fund made transfers to other governmental funds, in the amount of \$353,661; \$78,929 to subsidize operations of other funds and \$274,732 as debt payments came due. The General Fund also made transfers to other enterprise funds, in the amount of \$100,406, to subsidize operations. Other governmental funds made transfers, in the amount of \$125,872, as debt payments came due.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

17. JOINT VENTURE

The Mercer County Regional Planning Commission (Commission) is a joint venture among the County, the City of Celina, and townships and villages within the County. The Board is comprised of the Mercer County Engineer, Mercer County Health Commissioner, seven county members appointed by the County Commissioners (one for each of the two townships in the county), a representative from each municipal corporation wishing to participate, except that municipalities of city status are entitled to two representatives, and two citizens of Mercer County designated by the County Commissioners. The degree of control exercised by any participating government is limited to its representation on the Board.

The Commission makes plans and maps of the region showing the Commission's recommendations for systems of transportation, highways, park and recreational facilities, water supply, sewerage and sewage disposal, garbage disposal, civic centers, and other public improvements which affect the development of the region as a whole, or more than one political subdivision within the region and which do not begin and terminate within the boundaries of any single subdivision in the municipality. During 2004, the County contributed \$4,000 for the operations of the Commission. The Commission is not accumulating significant financial resources and is not experiencing financial stress that may cause an additional financial benefit to or burden on members in the future. Complete financial statements can be obtained from the Commission, 220 West Livingston Street, Room A201, Celina, Ohio 45822.

18. JOINTLY GOVERNED ORGANIZATIONS

A. Tri-County Mental Health Board (Alcohol, Drug Addiction and Mental Health Services Board of Mercer, Paulding, and Van Wert Counties)

The Tri-County Mental Health Board is a jointly governed organization among Mercer, Paulding, and Van Wert Counties. The Tri-County Mental Health Board provides leadership in planning for and supporting community-based alcohol, drug addiction, and mental health services in cooperation with public and private resources with emphasis on the development of prevention and early intervention programming while respecting, protecting, and advocating for the rights of persons as consumers of alcohol, drug addiction, and mental health services. The Board of Trustees consists of eighteen members; four members appointed by the Director of the Ohio Department of Mental Health, four members appointed by the Director of the Ohio Department of Alcohol and Drug Addiction Services, and ten members appointed by the County Commissioners of Mercer, Paulding, and Van Wert counties in the same proportion as the County's population. During 2004, a tax levy provided \$465,939 for the operations of the organization. Financial information can be obtained from Mark Giesige, Mercer County Auditor, 101 North Main Street, Room 105, Celina, Ohio 45822-1794.

B. West Central Ohio Network

The West Central Ohio Network (West CON) is a regional council of governments comprised of the boards of Mental Retardation and Developmental Disabilities (MRDD) of Auglaize, Darke, Logan, Mercer, Miami, Shelby, Union, and Hardin Counties. The Board of Directors is made up of the superintendents from each of these MRDD Boards, and the degree of control exercised by any participating government is limited to its representation on the Board. West CON is the administrator of supported living programs for each of these Boards of Mental Retardation and Developmental Disabilities. Financial information can be obtained from Saul Bauer, Executive Director, 315 East Court Street, Sidney, Ohio 45365.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

18. JOINTLY GOVERNED ORGANIZATIONS

C. West Central Partnership, Inc.

The West Central Partnership, Inc. (Partnership) is a jointly governed organization among Allen, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The Partnership was formed to administer local loan programs in these counties for the Ohio Department of Development. The Board of Trustees consists of nine members, including a County Commissioner from each member county and the Director of Region 3, West Central SBDC Partnership. Financial information can be obtained from the West Central Partnership, Inc., 545 West Market Street, Suite 305, Lima, Ohio 45801.

19. INSURANCE POOLS

A. County Commissioners Association of Ohio Service Corporation

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

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

B. Midwest Pool Risk Management Agency, Inc.

The Midwest Pool Risk Management Agency, Inc. (Pool) was created under Section 2744.081 of the Ohio Revised Code to establish a risk sharing insurance program for Auglaize, Hancock, Mercer, Shelby, and Van Wert Counties. Member counties agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by the Pool. These coverages include comprehensive general liability, automobile liability, certain property insurance, and public officials' errors and omissions liability insurance.

Each member county has one vote on all matters requiring a vote, to be cast by a designated representative. The affairs of the Pool are managed by an elected board of not more than five 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 budgeting and financing of the Pool is limited to its voting authority and any representation it may have on the board of trustees.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

19. INSURANCE POOLS (Continued)

C. Midwest Employee Benefit Consortium

The County participates in the Midwest Employee Benefit Consortium (MEBC), an insurance purchasing pool for medical and life insurance. MEBC is made up of Auglaize, Hancock, Mercer, Shelby, and Van Wert Counties. The County pays premiums to the MEBC for employee medical and life insurance benefits. MEBC is responsible for the administration of the program.

MEBC is governed by a Board of Trustees consisting of one county commissioner from each participating member. Each participant decides which plans offered by the Board of Trustees will be extended to its employees. Participation in MEBC is by written application subject to acceptance by the Board of Trustees and payment of the monthly premiums.

20. RELATED ORGANIZATION

The Mercer County District Library is a district political subdivision of the State of Ohio created under Chapter 3311.05 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Mercer County Commissioners and the Common Pleas Court Judge. The Board of Trustees possess its own contracting and budgeting authority, hires and fires personnel, and does not depend on Mercer County for operational subsidies. Although the Mercer County Commissioners serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees.

21. C.A. GROUP

**C.A. Group
Statement of Net Assets
December 31, 2004**

Assets	
Equity in Pooled Cash and Cash Equivalents	\$469,231
Investments	97,400
Accounts Receivable	52,178
Intergovernmental Receivable	10,396
Materials and Supplies Inventory	5,580
Other Assets	832
Depreciable Capital Assets	41,194
Total Assets	<u>676,811</u>
 Liabilities	
Accounts Payable	3,655
Accrued Wages Payable	15,865
Intergovernmental Payable	2,064
Total Liabilities	<u>21,584</u>
 Net Assets	
Unrestricted	<u>\$655,227</u>

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

21. C.A. GROUP (Continued)

**C.A. Group
Statement of Revenues, Expenses, and Changes
in Fund Net Assets
For the Year Ended December 31, 2004**

Operating Revenues	
Charges for Services	\$527,765
Contributions	198,945
Other Operating Revenues	4,797
Total Operating Revenues	<u>731,507</u>
Operating Expenses	
Personnel Services	368,517
Contractual Services	39,723
Materials and Supplies	66,737
Sales and Marketing	21,449
Bad Debt	18,734
Depreciation	9,557
Other	198,945
Total Operating Expenses	<u>723,662</u>
Operating Income	<u>7,845</u>
Non-Operating Revenues (Expenses)	
Interest	16,743
Donations	3,899
Loss on Sale of Capital Assets	(675)
Total Non-Operating Revenues (Expenses)	<u>19,967</u>
Income Before Discontinued Operations	27,812
Loss on Sale of Discontinued Operations	<u>(17,273)</u>
Change in Net Assets	10,539
Net Assets Beginning of Year	<u>644,688</u>
Net Assets End of Year	<u><u>\$655,227</u></u>

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

21. C.A. GROUP (Continued)

**C.A. Group
Statement of Cash Flows
December 31, 2004**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Customers	\$537,522
Cash Payments for Personal Services	(363,298)
Cash Payments to Suppliers	(148,617)
Cash Received from Other Revenues	4,797
Net Cash Provided by Operating Activities	30,404

Cash Flows from Non-capital Financing Activities

Cash Received from Bike Shop Activity	132,810
Cash Payments for Bike Shop Activity	(132,445)
Net Cash Provided by Non-capital Financing Activities	365

Cash Flows from Capital Financing Activities

Acquisition of Capital Assets	(11,371)
Proceeds from Sale of Capital Assets	200
Net Cash Used for Capital Financing Activities	(11,171)

Cash Flows from Investing Activities

Purchase of Certificate of Deposit	(2,947)
Purchase of Investments	(2,617)
Interest	6,423
Net Cash Provided by Investing Activities	859

Net Increase in Cash and Cash Equivalents	20,457
---	--------

Cash and Cash Equivalents Beginning of Year	448,774
---	---------

Cash and Cash Equivalents End of Year	469,231
---------------------------------------	---------

**Reconciliation of Operating Income to Net
Cash Provided by Operating Activities**

Operating Income	7,845
------------------	-------

**Adjustments to Reconcile Operating Income to Net
Cash Provided by Operating Activities**

Depreciation	9,557
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	9,757
Decrease in Accounts Payable	(2,282)
Increase in Accrued Wages Payable	5,219
Increase in Intergovernmental Payable	308
Net Cash Provided by Operating Activities	\$ 30,404

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

21. C.A. GROUP (Continued)

A. Summary of Significant Accounting Policies

1. Basis of Presentation

Financial statement presentation follows the recommendations of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments."

2. Measurement Focus and Basis of Accounting

C.A. Group is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. C.A. Group uses the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred.

3. Materials and Supplies Inventory

Inventory is presented at the lower of actual cost or market and is expensed when used. Inventory consists of expendable supplies held for consumption.

B. Deposits and Investments

At year end, the carrying amount of deposits was \$469,231 and the bank balance was \$475,456. Of the bank balance, \$100,000 was covered by federal depository insurance and \$375,456 was uninsured and uncollateralized. There are no significant statutory restrictions regarding the deposit and investment of funds by the not-for-profit corporation.

C. Capital Assets

Property and equipment are recorded at cost. It is C.A. Group's policy to capitalize items with a useful life in excess of three years and having a value of over \$500. Donated assets are capitalized at fair value on the date donated. Depreciation is calculated on a straight line basis over the useful life of the asset, which ranges from three to fifteen years.

Capital asset activity for the year ended December 31, 2004, was as follows:

	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004
Depreciable Capital Assets				
Equipment	\$149,374	\$11,371	\$1,500	\$159,245
Vehicles	154,242	0	0	154,242
Total Depreciable Capital Assets	<u>303,616</u>	<u>11,371</u>	<u>1,500</u>	<u>313,487</u>
Less Accumulated Depreciation for				
Equipment	109,118	9,557	624	118,051
Vehicles	154,242	0	0	154,242
Total Accumulated Depreciation	<u>263,360</u>	<u>9,557</u>	<u>624</u>	<u>272,293</u>
Depreciable Capital Assets, Net	<u>\$ 40,256</u>	<u>\$ 1,814</u>	<u>\$ 876</u>	<u>\$ 41,194</u>

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

21. C.A. GROUP (Continued)

D. Risk Management

C.A. Group 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 2004, C.A. Group contracted with the Ohio School Plan for commercial, directors and officers liability, and individual fidelity bond; and with Erie Insurance for property and general liability, medical liability, and uninsured motorist auto liability.

Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in insurance coverage from the prior year.

E. Significant Concentration of Business with Two Customers

Two customers provide approximately 20 percent of the service revenue to C.A. Group. If canceled, the volume of business would have a severe impact on the production operations of C.A. Group. However, management would still carry on mental retardation programs regardless of services it could lose until new customers were secured. Management is unsure of the risk of this company canceling during the next year or thereafter.

22. RELATED PARTY TRANSACTIONS

During 2004, Mercer County provided facilities, certain equipment, transportation, and salaries for administration, implementation, and supervision of its programs to C.A. Group. C.A. Group, a component unit of Mercer County, reported \$198,945 for such contributions.

23. CONTINGENT LIABILITIES

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

Several other claims and lawsuits are pending against the County. In the opinion of the County Prosecuting Attorney, any potential liability would not have a material adverse effect on the financial statements.

24. SUBSEQUENT EVENTS

On February 23, 2005, the County issued bond anticipation notes, in the amount of \$34,800, to partially retire notes previously issued for the construction of Bryanvilla and Bruns-Gerdes Ditches. The notes have an interest rate of 3.51 percent and mature on December 1, 2008.

On April 28, 2005, the County issued bond anticipation notes, in the amount of \$132,200, to partially retire notes previously issued for improvements to the Marion Township Industrial Park and various ditches within the County. The notes had an interest rate of 3.18 percent and matured on May 5, 2006.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

24. SUBSEQUENT EVENTS (Continued)

On April 28, 2005, the County issued bond anticipation notes, in the amount of \$38,650, to partially retire notes previously issued for improvements to various ditches within the County. The notes had an interest rate of 3.18 percent and matured on May 5, 2006.

On April 28, 2005, the County issued bond anticipation notes, in the amount of \$93,550, to partially retire notes previously issued for improvements to various ditches within the County. The notes had an interest rate of 3.18 percent and matured on May 5, 2006.

On July 26, 2005, the County issued bond anticipation notes, in the amount of \$224,400, to partially retire notes previously issued to construct various ditches and make improvements to the fairgrounds. The notes have an interest rate of 3.095 percent and mature on August 4, 2006.

On September 23, 2005, the County issued bond anticipation notes, in the amount of \$127,800, to partially retire notes previously issued for improvements to the Northeast Grand Lake Sewer and the Renior-Visions Area. The notes have an interest rate of 3.5 percent and mature on September 22, 2006.

On September 23, 2005, the County issued bond anticipation notes, in the amount of \$82,400, for improvements to the Sites Davis Ditch and the St. Marys River area. The notes have an interest rate of 3.5 percent and mature on September 22, 2006.

On September 23, 2005, the County issued bond anticipation notes, in the amount of \$210,200 to partially retire notes previously issued for improvements to the Northeast Grand Lake Sewer, and for improvements to the Sites Davis Ditch and the St. Marys River area. The notes have an interest rate of 3.5 percent and mature on September 22, 2006.

On November 15, 2005, the County approved a resolution to enter into a Tax Increment Financing (TIF) agreement with the Parkway Local School District Board of Education and the Vantage Vocational School Board of Education for the Township Line and Tama Road areas.

On May 5, 2006, the County issued bond anticipation notes, in the amount of \$70,700, to partially retire notes previously issued for improvements in the Marion Township Industrial Park and various ditches within the County. The notes have an interest rate of 4.675 percent and mature on May 4, 2007.

**FINANCIAL CONDITION
MERCER COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
(Passed through Ohio Department of Development)			
Community Development Block Grants:			
Community Development Block Grants/State's Program	B-F-02-050-1	14.228	\$26,995
	B-F-03-050-1	14.228	41,907
	B-C-03-050-1	14.228	68,906
	B-X-02-050-1	14.228	166
Total			<u>137,974</u>
Direct			
HOME Investment Partnership	B-C-03-050-2	14.239	30,764
Total			<u>30,764</u>
Total U.S. Department of Housing and Urban Development			168,738
U.S. DEPARTMENT OF JUSTICE			
(Passed through Attorney General's Crime Victim Services)			
Crime Victim Assistance	2003VAGENE068T	16.575	32,653
	2004VAGENE068T	16.575	13,320
Total			<u>45,973</u>
(Passed through Office of Criminal Justice Services)			
Law Enforcement Assistance - Byrne Grant	2003-DG-CO1-7090	16.579	31,066
	2002-DG-G01-9116	16.579	79,792
Proactive Court of Justice - Byrne Grant	2002-DG-B01-7248	16.579	9,561
Total			<u>120,419</u>
Total U.S. Department of Justice			166,392
U.S. DEPARTMENT OF HOMELAND SECURITY			
(Passed through Ohio Emergency Management Agency)			
State Domestic Preparedness Equipment Support Program	2004-GE-T4-0025	97.004	15,692
	2003-TE-TX-0199	97.004	59,877
	2002-TE-CX-0106	97.004	52,177
	2002-TE-CX-0049	97.004	5,738
	2003-MUP-30015	97.004	20,369
	2003-MUP-30015	97.004	140,000
	2003-MUP-30015	97.004	33,988
Total			<u>327,841</u>
State and Local All Hazards Emergency Operations Planning	EMC-2003-GR-7026	97.051	26
Citizens Corps	EMC-2004-GR-7027	97.053	1,416
CERT Grant	EMC-2003-GR-7066	97.054	674
(Passed through Ohio Department of Public Safety)			
Emergency Management Performance Grant	EMC-2004-GR-7006	97.042	17,935
Total U.S. Department of Homeland Security			347,892
U.S. DEPARTMENT OF TRANSPORTATION			
(Passed through Ohio Department of Transportation)			
Highway Planning and Construction	PID# 23812	20.205	238,132
	PID# 22884	20.205	580,134
	PID# 23806	20.205	207,797
	PID# 23807	20.205	4,354
	PID# 23811	20.205	321,002
	PID# 22286	20.205	258,711
	PID# 22887	20.205	1,765,184
	PID # 23517	20.205	109,611
	CRD-4054-004-041	20.205	90,000
(Passed through Ohio Department of Public Safety)			
Highway Planning and Construction	4192	20.205	35,793
Total U.S. Department of Transportation			<u>3,610,718</u>

(Continued)

MERCER COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
UNITED STATES DEPARTMENT OF LABOR			
(Passed through Ohio Department of Job & Family Services)			
WIA Cluster:			
Workforce Investment Act - Youth	N/A	17.259	439,209
Workforce Investment Act - Youth Administration	N/A	17.259	<u>54,926</u>
Workforce Investment Act - Youth Total			494,135
Workforce Investment Act - Adult	N/A	17.258	495,710
Workforce Investment Act - Adult Administration	N/A	17.258	<u>61,992</u>
Workforce Investment Act - Adult Total			557,702
Workforce Investment Act - Dislocated Worker	N/A	17.260	289,960
Workforce Investment Act - Dislocated Worker Administration	N/A	17.260	<u>36,262</u>
Workforce Investment Act - Rapid Response	N/A	17.260	<u>100,476</u>
Workforce Investment Act - Dislocated Worker/Rapid Response Total			<u>426,698</u>
Total WIA Cluster			<u>1,478,535</u>
Reed Act - Unemployment Insurance Program	G-04-15-0989	17.255	<u>51,196</u>
Total U.S. Department of Labor			1,529,731
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES			
(Passed through Ohio Department of MRDD)			
Social Services Block Grant	MR-54 (05)	93.667	17,111
	MR-54 (04)	93.667	<u>18,594</u>
Total			35,705
Medical Assistance Program - CAFS	5400015	93.778	205,180
Medical Assistance Program - TCM	5400015	93.778	<u>74,460</u>
			279,640
(Passed through Ohio Department of Job & Family Services)			
Emergency Service Assistance	N/A	93.556	54,187
Independent Living	N/A	93.674	6,723
Title VI-B Allocation	N/A	93.645	36,282
Child Abuse and Neglect State Grant	N/A	93.669	<u>1,408</u>
Total U.S. Department of Health and Human Services			<u>413,945</u>
Total Federal Assistance			<u><u>\$6,237,416</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**FINANCIAL CONDITION
MERCER COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE A—SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—MATCHING REQUIREMENTS

Certain Federal programs require that the County contribute non-Federal funds (matching funds) to support the Federally-funded programs. The County has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE C—COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS

The County has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low moderate income households and to eligible persons. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the County (passed through the Ohio Department of Development). The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Federal Awards Expenditures (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule.

These loans are collateralized by mortgages on the property. At December 31, 2004, the gross amount of loans outstanding under this program were \$2,175,343. Delinquent amounts due were \$24,228.

This page intentionally left blank.



Auditor of State Betty Montgomery

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

Mercer County
Central Services Building
220 West Livingston Street, Room A201
Celina, Ohio 45822

To the Board of County Commissioners:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County, (the County), as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 6, 2006, wherein we noted that the County uses a comprehensive basis of accounting other than generally accepted accounting principles. We also noted the County revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the County's management dated June 6, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the County's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 through 2004-003. In a separate letter to the County's management dated June 6, 2006, we reported other matters related to noncompliance we deemed immaterial.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 6, 2006



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mercer County
Central Services Building
220 West Livingston Street, Room A201
Celina, Ohio 45822

To the Board of County Commissioners:

Compliance

We have audited the compliance of Mercer County, (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 apply to its major federal programs for the year ended December 31, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the County's major federal programs. The County's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect the major federal programs. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Mercer County complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended December 31, 2004. In a separate letter to the County's management dated June 6, 2006, we reported a matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The County's management 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 directly and materially affect major federal programs 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.

**Internal Control Over Compliance
(Continued)**

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 a major federal program being audited may occur and not be timely detected by employees when 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 matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the County's management in a separate letter dated June 6, 2006.

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



Betty Montgomery
Auditor of State

June 6, 2006

**FINANCIAL CONDITION
MERCER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED DECEMBER 31, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA # 20.205 Highway Planning and Construction CFDA #97.004 State Domestic Preparedness Equipment Support Program
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2004-001

NONCOMPLIANCE CITATION

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

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

The County should prepare their financial statements in accordance with generally accepted accounting principles.

Officials Response

County officials do not feel that preparing GAAP basis financial statements is cost effective.

FINDING NUMBER 2004-002

NONCOMPLIANCE CITATION

Ohio Rev Code 319.15 states on the first business day of each month, the county auditor shall prepare in duplicate a statement of the finances of the county for the preceding month, showing the amount of money received to the credit of each fund and account, the amount disbursed from each, the balance remaining to the credit of each, and the balance of money in the treasury and depository. After careful comparison with the county treasurer's balances, he shall submit such statement to the board of county commissioners, which shall place it on file and post one copy in the auditor's office, such copy to remain posted for at least thirty days for the inspection of the public.

Ohio Rev Code 321.09 states that each business day, the county treasurer shall make a statement to the county auditor for the preceding day, showing the amount of taxes received and credited to the various undivided tax funds, the amount received on auditor's draft, the amount received from all other sources, the total amount deposited in the depository, the total amount paid by check on the depository, the total amount paid out in cash, the balance in the depository, and the balance in the county treasury.

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2004-002
(Continued)**

In July of 2004, the County implemented a new software package for budgetary accounting. From July through December 31, 2004, the Auditor's office and Treasurer's office did not attempt to reconcile. Beginning in July of 2004, the Treasurer's office daily Form 6 statements did not balance with the bank or the Auditor's office due to an error in recording a payroll deduction direct deposit of \$77,529. At December 31, 2004, the software company employed by the County adjusted the County Auditor's Fund Report by \$4,204,249 and the Tri-County Alcohol, Drug Addiction and Mental Health Board Fund Report by \$77,399 for a combined total of \$4,281,648 in order to place the Auditor and Treasurer's balances back in agreement.

The lack of monthly reconciliations being performed between the Auditor's and Treasurer's office resulted in the following:

- The County's and the Tri-County Alcohol, Drug Addition and Mental Health Board's Fund Reports for period of July through December 2004 were inaccurate.
- The Treasurer's required daily Form 6 did not balance with the depository balances from the end of July through December 2004.
- The County's outstanding warrants lists were not accurate from July through December 2004.
- The Auditor's office's was unable to prepare an accurate beginning of the month report from August through December 2004.

The Treasurer's office should prepare an accurate Form 6 daily to be given to the Auditor's office. At month's end, the Treasurer's office should balance with the bank and the Auditor's office should balance with the Treasurer's office. After the offices are balanced, Fund Reports (including the Auditor/Treasurer Reconciliation Report) should be run and distributed to the Board of County Commissioners and the Tri-County Alcohol, Drug Addition and Mental Health Board.

Officials Response

The County Auditor and Treasurer have been working with representatives of the software company to eliminate the reconciling and reporting problems experienced during 2004 with the new software.

FINDING NUMBER 2004-003

NONCOMPLIANCE CITATION

Ohio Rev Code Section 325.31(B) states, in pertinent part, that moneys to the credit of the real estate assessment fund maybe expended, upon appropriation by the board of county commissioners, for the purpose of defraying one or more the following

- 1) The cost incurred by the county auditor in assessing real estate pursuant to Chapter 5713 of the Revised Code and manufactured and mobile homes pursuant to Chapter 4503 of the Revised Code;

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2004-003
(Continued)**

- 2) At the county auditor's discretion, costs and expenses incurred by the county auditor in preparing the list of real and public utility property, in administering laws related to the taxation of real property and the levying of special assessments on real property, including administering reductions under Chapters 319. and 323. and section 4503.065 of the Revised Code, and to support assessments of real property in any administrative or judicial proceeding;
- 3) At the county auditor's discretion, the expenses incurred by the county board of revision under Chapter 5715 of the Revised Code;
- 4) At the county auditor's discretion, the expenses incurred by the county auditor for geographic information systems, mapping programs, and technological advances in those or similar systems or programs;
- 5) At the county auditor's discretion, expenses incurred by the county auditor in compiling the general tax list of tangible personal property and administering tangible personal property taxes under Chapter 5711 and 5719. of the Revised Code;
- 6) At the county auditor's discretion, costs, expenses, and fees incurred by the county auditor in the administration of estate taxes under Chapter 5731 of the Revised Code and the amounts incurred under section 5731.41 of the Revised Code.

Any expenditure made from the real estate assessment fund shall comply with rules that the tax commissioner adopts under division (O) of section 5703.05 of the Revised Code. Those rules shall include a requirement that a copy of any appraisal plans, progress of work reports, contracts, or other documents required to be filed with the tax commissioner shall be filed also with the board of county commissioners.

The County paid \$44,264 toward the purchase of new software from the Real Estate Assessment Fund during 2004. The new software was not related to real estate taxes by meeting any of the criteria noted above.

The County Auditor should carefully review the allowable uses of the funds available in the real estate assessment fund prior to committing those funds for expenditure.

Officials Response

The County Auditor was unaware of the above restrictions and felt that any software obtained for use in the auditor's office would represent the proper use of the real estate assessment funds. An adjustment has been made in the amount of \$44,264 in favor of the Real Estate Assessment Fund from the General Fund. The accompanying financial statements reflect the above noted adjustment and the adjustment has been posted to the accounting records of the County.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**FINANCIAL CONDITION
MERCER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	OAC Sec. 117-2-03 – Failure to file financial statements prepared in accordance with generally accepted accounting principles (GAAP).	No	Not corrected – The County officials do not feel it is cost effective to obtain a GAAP conversion for financial reporting. The County reported on OCBOA 34 basis for 2004- see finding number 2004-001
2003-002	ORC Sec. 5705.41(B) – Expenditures exceeding the amounts appropriated.	Yes	



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

FINANCIAL CONDITION

MERCER 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
JULY 06, 2006**