



**FINANCIAL CONDITION
PAULDING COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

PAULDING COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Paulding County
115 North Williams Street
Paulding, Ohio 45879

To the Board of Commissioners:

We have audited the accompanying financial statements of the governmental activities, each major governmental fund, and the aggregate remaining fund information of Paulding County, Ohio (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 did not audit the financial statements of the Paulding County Hospital for the years ended December 31, 2004 and 2003. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the accompanying financial statements, insofar as it relates to the amounts included for Paulding County Hospital, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. 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 and the report of the other auditors 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, with the exception of the Paulding County Hospital, the accompanying financial statements and notes follow the modified cash receipts and disbursements basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

The Paulding County Hospital financial statements are presented as stand alone statements. In our opinion, based on the report of the other auditors, the Paulding County Hospital's stand alone financial statements present fairly, in all material respects, its financial position as of December 31, 2004 and 2003 and its changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Also, the modified cash basis financial statements referred to above do not include amounts related to the Paulding County Hospital, which the County's modified cash basis of accounting requires. As a result, the County did not include proprietary fund statements for the Hospital in its modified cash basis statements. Therefore in our opinion, the County's financial statements do not present fairly the financial position of the proprietary funds of the County as of December 31, 2004 or the changes in its modified cash basis financial position, for the year then ended in conformity with the basis of accounting described in Note 2.

In addition, in our opinion, due to the omission of the Hospital's amounts from the County's entity wide statements, the County's entity wide statements do not present fairly, the financial position of the County's business type activities as of December 31, 2004 or the changes in its modified cash basis financial position for the year ended in conformity with the basis of accounting described in Note 2.

Finally, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of Paulding County, Ohio, as of December 31, 2004, and the respective changes in modified cash basis financial position thereof and the respective budgetary comparison for the General and Motor Vehicle Gasoline Tax Funds, thereof for the year then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2005, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We conducted our audit to opine on the financial statements that collectively comprise the Government'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 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.

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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Betty Montgomery
Auditor of State

November 7, 2005

PAULDING COUNTY

Management's Discussion and Analysis For the Year Ended December 31, 2004

This discussion and analysis is prepared by Bill Bolenbaugh, Paulding County Auditor, and Stan Searing, Paulding County Administrator. This document is a narrative overview of the financial activities of Paulding County for the fiscal year that began January 1, 2004 and ended December 31, 2004. This document is the first discussion and analysis prepared by the county. Readers should also review notes to the financial statements to improve their understanding of the county's performance.

The financial condition of the county for fiscal year 2004 can be characterized as follows.

1. Net assets – cash basis of governmental activities increased \$2,351,098, mainly due to increased borrowing in the amount of \$2,800,000 for anticipated jail construction
2. Four road improvement and bridge replacement projects were conducted. These projects were funded with Highway planning and construction grant monies from the United States Department of Transportation in the amount of \$3,366,006.
3. Within the general fund the expenditures exceeded new revenue by \$377,836, mainly due to lower anticipated revenues from interest earnings and fine & forfeitures.
4. The general fund beginning cash balance was \$1,448,128 whereas the ending cash balance was \$1,070,292.

Overview of the Financial Statements

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

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of Paulding County's finances.

The statement of net assets modified cash basis presents information on all of Paulding County's modified cash assets, presented as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the cash and investments of Paulding County are improving or deteriorating.

The statement of activities modified cash basis presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs.

The government wide financial statements can be found on pages 15 and 16 of this report.

Both of the government-wide financial statements identify functions of Paulding County that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of Paulding County include general government, judicial, public safety, public works, health, human services, conservation and recreation, miscellaneous, capital outlay and debt service.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Paulding County, like other state and local governments, uses fund accounting

PAULDING COUNTY

Management's Discussion and Analysis For the Year Ended December 31, 2004 (Continued)

to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Paulding County can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

Paulding County maintains many individual governmental funds. Information is presented separately in the governmental fund Statement of Receipts, Disbursements, and Changes in Fund Balances-Modified Cash Basis for the General, Motor Vehicle Gasoline Tax, Jail Construction, and Engineer Construction Grant Funds, which are considered to be major funds. Data from the other governmental funds are combined into single aggregated presentation.

Paulding County adopts an annual appropriated budget for its general fund and the other major funds as well as all other governmental funds. A budgetary comparison statement has been provided for the general and the Motor Vehicle Gasoline Tax funds to demonstrate compliance with this budget.

The cash basis governmental fund financial statements can be found on pages 17 and 18 in this report.

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

The basic fiduciary fund financial statement can be found on page 21 in this report.

Budgetary fund financial statement. The county's budgetary process accounts for certain transactions on a cash basis. The budgetary statements for the General Fund and all annually budgeted major Special Revenue funds are presented to demonstrate the county's compliance with annually adopted budgets. The budgetary fund financial statements can be found on pages 19 – 20 in this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27 – 59 in this report.

Government-Wide Financial Analysis

As noted earlier, net assets cash basis may serve over time as a useful indicator of a government's financial position. This is the first year for Paulding County in implementing a new standard. Paulding County has chosen to report on the modified cash basis of accounting, which is an Other Comprehensive Basis of Accounting, in a format similar to that required by Governmental Accounting Standards Board Statement No. 34. The modified cash basis of accounting provides a clear picture of beginning cash balances, revenue, expenditures and ending cash balances that are useful for county employees not experienced with GAAP standards and procedures.

This statement requires a comparative analysis of government-wide data in the Management Discussion and Analysis (MD&A) section. Since this is the first year of implementing the new standard, comparative data is not available. In future years, comparative data will be presented.

PAULDING COUNTY

Management's Discussion and Analysis For the Year Ended December 31, 2004 (Continued)

Paulding County's Net Assets – Modified Cash Basis

	<u>Governmental Activities</u>
Assets	
Equity in pooled cash and investments	\$ 8,076,601
Equity in outside accounts	<u>5,044</u>
Total Assets	<u>\$ 8,081,645</u>
Net Assets	
Restricted for:	
Special Revenue	\$ 3,396,956
Debt Service	100,564
Capital Projects	3,513,833
Unrestricted	<u>1,070,292</u>
Total Net Assets	<u>\$ 8,081,645</u>

Paulding County Changes in Net Assets – Modified Cash Basis

	<u>Governmental Activities</u>
Revenues:	
Program Revenues:	
Charges for Services and Sales	\$ 1,994,315
Operating Grants and Contributions	6,271,813
Capital Grants and Contributions	3,698,671
General Revenues:	
Property Taxes	2,543,769
Sales Taxes	1,582,158
Grants and Entitlements not restricted	394,553
Proceeds from sale of notes	4,668,440
Interest Receipts	134,472
Miscellaneous	<u>1,507,157</u>
Total Revenues	22,795,348
Disbursements:	
General Government	
Legislative and executive	1,693,793
Judicial	626,172
Public Safety	1,891,747
Public Works	6,957,260
Health	1,596,543
Human Services	2,847,422
Conservation and Recreation	51,099

PAULDING COUNTY

**Management's Discussion and Analysis
For the Year Ended December 31, 2004
(Continued)**

	Governmental Activities
Miscellaneous	\$ 1,367,262
Capital Outlay	1,095,878
Debt Service	2,317,074
Total Disbursements	20,444,250
Change in Net Assets	2,351,098
Net Cash Assets at Beginning of Year	5,730,547
Net Cash Assets at End of Year	\$ 8,081,645

Governmental Activities

Governmental cash assets increased by \$2,351,098 in 2004 from 2003. This increase was primarily due to the issuance of \$2,800,000 bond anticipation notes which are to be used for the construction of a county jail.

General government represents activities related to governing body as well as activities that directly support County programs. In 2004, general government cash disbursements totaled \$2,319,965, or 11% of total governmental cash disbursements. General government programs were supported by \$987,673 in direct charges to users.

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

	Total Cost of Services	Net Cost of Service
Expenditures:		
General Government	\$ 2,319,965	\$ 1,332,292
Public Safety	1,891,747	1,795,077
Public Works	6,957,260	613,183
Health	1,596,543	1,051,128
Human Services	2,847,422	737,510
Conservation and Recreation	51,099	15,099
Miscellaneous	1,367,262	622,993
Capital Outlay	1,095,878	(4,905)
Debt Service	2,317,074	2,317,074
Total Expenditures	\$ 20,444,250	\$ 8,479,451

The dependence upon general cash receipts for governmental activities is apparent; with 41% of cash disbursements supported through taxes and other general cash receipts during 2004.

PAULDING COUNTY

Management's Discussion and Analysis For the Year Ended December 31, 2004 (Continued)

Financial Analysis of the Government's Funds

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

Governmental Funds - The focus of Paulding County's governmental funds is to provide information on cash basis inflows, outflows and balances. This information is useful in analyzing Paulding County's financial position. In particular, unreserved cash balances in each fund provide a useful measure of the County's resources available for the following fiscal year.

At the end of 2004 the final cash balance for all funds was \$8,081,645, an increase of 41% in comparison with the prior year.

The general fund is the main operating fund of the County. At the end of 2004, receipts of \$3,960,412 and disbursements of \$4,354,557 resulted in a decrease of \$377,836 to the unreserved fund balance of the general fund to the amount of \$1,070,292. The primary reason for this decrease was that the collections from interest and fines and forfeitures were less anticipated.

The motor vehicle gasoline tax reported \$3,313,768 of revenue from state gasoline tax and motor vehicle registration fees. \$3,591,722 was expended for road and bridge repairs and maintenance. As a result the fund balance decreased by \$277,954 during fiscal year 2004.

The Jail Construction fund's cash balance increased by \$2,817,204. This fund received proceeds from the sale bond anticipatory notes \$2,800,000 which are used to construct a jail facility.

The Engineer Construction Grant fund reported grant monies received in the amount of \$3,366,006. These grant monies were used to conduct four road improvement bridge renovation projects.

General Fund Budgetary Highlights

The county's appropriations are prepared according to Ohio law and are based on accounting for transactions on the basis of cash receipts, disbursements, and encumbrances. Budgetary information is presented for the general and motor vehicle gasoline tax funds.

For the general fund, final budget basis receipts were the same as the original budget estimates of \$4,171,725. Actual cash receipts were \$211,313 less than final budget estimates mainly due to less than anticipated revenues from interest earnings on investments. Final expenditures were budgeted at \$4,264,730 while actual expenditures were \$4,146,516 resulting in a difference of \$118,214. The County kept spending very close to budgeted amounts as demonstrated by the minor reported variances.

Economic Factors to be considered for the Future

Under the state of Ohio's latest budget bill (Amended Substitute House Bill 66), personal property tax revenue will be phased out over a period of four years beginning with 2005. Because the county already collects the highest possible sales tax it can be expected that the loss of personal property tax revenue will have a negative impact on the general fund.

The cost of the Sheriff's Department and jail are a major portion of general fund expenses. Due to the age of the county's current adult detention facility, it is cost prohibitive to comply with many of the standards required by the Ohio Bureau of Adult Detention. This inability to comply will most likely result in the closure of the present jail facility. The County Commissioners and Sheriff have been working for several years on developing a cost effective alternative. A new, more modern, facility has been purchased to be renovated into a new jail. However, the voters of Paulding County must approve a new tax issue to fund part of the renovation. Should the levy for renovations construction not pass in the fall of 2005 and the current jail facility be closed, the county will be required to house inmates at other out of county facilities on a per diem basis.

PAULDING COUNTY

Management's Discussion and Analysis For the Year Ended December 31, 2004 (Continued)

Sales tax revenue continues to be steady. However, it is possible new retail centers in Van Wert and Defiance will draw retail activity from Paulding County.

Capital Assets and Debt Administration

Capital Assets

The County does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The County had capital outlay disbursements of \$1,095,878 during fiscal year 2004.

County Debt Administration

The County had the following long-term debt obligations outstanding at December 31, 2004:

	Governmental Activities
Bond anticipation notes	\$ 2,800,000
Hospital improvement bonds	1,775,000
Ohio public works commission loans	240,503
Capital lease obligations	<u>14,481</u>
Total long-term obligations	<u>\$ 4,829,984</u>

In addition, the County has tax anticipation and general obligation notes outstanding in the amounts of \$125,871 and \$1,685,569.

Paulding County Hospital

The Hospital's financial statement consists of three statements - a balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purpose by contributors, grantors, or enabling legislation.

Financial Highlights

The Hospital's financial position improved slightly during the year ended December 31, 2004. The current assets increased by \$260,330, or 7.7 percent, from the prior year. In total, the Hospital's net assets increased \$117,473, or 1.0 percent, from the previous year. The increase in net assets resulted from increases in patient revenue, driven largely by outpatient volumes.

The following chart provides a breakdown of net assets by category as of December 31, 2004:

For the year ended December 31, 2004, the Hospital's revenues and other support exceeded expenses, creating an increase in net assets of \$117,473 (compared to a \$200,253 increase in the previous year).

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets

One of the most important questions asked about the Hospital's finances is "Is Paulding County Hospital as a whole better off or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses, and changes in net

PAULDING COUNTY

Management's Discussion and Analysis For the Year Ended December 31, 2004 (Continued)

assets report information on the Hospital as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as Paulding County Hospital's operating results.

These two statements report the Hospital's net assets and changes in them. You can think of Paulding County Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider many other non-financial factors, such as the trend in patient days, outpatient visits, conditions of the buildings, and strength of the medical staff, to assess the overall health of the Hospital.

The financial statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Condensed Financial Information

The following is a comparative analysis of the major components of net assets of the Hospital as of December 31, 2004 and 2003:

	Year Ended December 31		Change	
	<u>2004</u>	<u>2003</u>	Amount	Percent
Assets				
Current assets	\$ 3,629,295	\$ 3,368,965	\$ 260,330	7.7%
Noncurrent assets	3,796,850	4,006,487	(209,637)	-5.2%
Capital assets	<u>8,768,757</u>	<u>7,432,123</u>	<u>1,336,634</u>	18.0%
Total Assets	16,194,902	14,807,575	1,387,327	9.4%
Liabilities				
Current liabilities	2,092,816	1,839,926	252,890	13.7%
Long-term liabilities	<u>1,621,100</u>	<u>604,136</u>	<u>1,016,964</u>	168.3%
Total Liabilities	3,713,916	2,444,062	1,269,854	52.0%
Net Assets				
Invested in capital assets - Net of debt	7,069,157	6,830,653	238,504	3.5%
Restricted assets	13,768	13,754	14	0.1%
Unrestricted	<u>5,398,061</u>	<u>5,519,106</u>	<u>(121,045)</u>	-2.2%
Total net assets	<u>\$ 12,480,986</u>	<u>\$ 12,363,513</u>	<u>\$ 117,473</u>	1.0%

Current assets increased as a result of the Hospital continuing to improve in converting its accounts receivable into cash (net days in accounts receivable decreased by eight days from the prior year).

Noncurrent assets decreased due to utilizing board-designated funds to finance part of the medical office building project.

Capital assets increased due to the construction of the medical office building.

Total liabilities increased resulting from the financing on the \$1,400,000 medical office building project.

PAULDING COUNTY

Management's Discussion and Analysis For the Year Ended December 31, 2004 (Continued)

Operating Results for the Year

	Year Ended December 31		Change	
	<u>2004</u>	<u>2003</u>	Amount	Percent
Operating Revenue				
Net patient service revenue	\$ 14,677,596	\$ 14,287,820	\$ 389,776	2.7%
Other	<u>179,365</u>	<u>170,425</u>	<u>8,940</u>	5.2%
Total operating revenues	14,856,961	14,458,245	398,716	2.8%
Operating Expenses				
Salaries and wages	7,186,360	6,820,816	365,544	5.4%
Employee benefits	2,021,653	2,189,492	(167,839)	-7.7%
Professional fees	377,846	350,056	27,790	7.9%
Supplies and other expenses	3,145,332	2,936,663	208,669	7.1%
Purchased services	1,176,365	1,175,000	1,365	0.1%
Depreciation	<u>861,848</u>	<u>866,049</u>	<u>(4,201)</u>	-0.5%
Total operating expenses	14,769,404	14,338,076	431,328	3.0%
Income from Operations	<u>87,557</u>	<u>120,169</u>	<u>(32,612)</u>	-27.1%
Other Income (Expenses)				
Investment income	59,062	101,303	(42,241)	-41.7%
Interest earnings on restricted assets	14	49	(35)	-71.4%
Interest	(29,990)	(47,989)	17,999	-37.5%
Contributions	49,997	41,622	8,375	20.1%
Other	<u>(49,167)</u>	<u>(14,901)</u>	<u>(34,266)</u>	230.0%
Total other income	<u>29,916</u>	<u>80,084</u>	<u>(50,168)</u>	-62.6%
Increase in Net Assets	117,473	200,253	<u>\$ (82,780)</u>	<u>-41.3%</u>
Net Assets - Beginning of year	<u>12,363,513</u>	<u>12,163,260</u>		
Net Assets - End of year	<u>\$ 12,480,986</u>	<u>\$ 12,363,513</u>		

Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as inpatient services, outpatient services, physician offices, and the cafeteria. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased 2.7 percent. This was attributable to an 8.6 percent increase in outpatient revenues and an 18.9 percent increase in inpatient revenues. Gross patient revenue is reduced by revenue deductions. These deductions are the amounts that are not paid to the Hospital under contractual arrangements with primarily

PAULDING COUNTY

Management's Discussion and Analysis For the Year Ended December 31, 2004 (Continued)

Medicare, Medicaid, and Anthem. These revenue deductions increased from 22.9 percent to 27.2 percent as a percentage of gross revenue.

- Operating revenues consist primarily of outpatient 81.8 percent and inpatient revenues 17.3 percent.

Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Hospital. The operating expense changes were the result of the following factors:

- Salary cost increased 5.4 percent as a result of additional employed physicians. Patient care salaries also increased as a result of higher inpatient and outpatient volumes.
- Employee benefits decreased 7.7 percent reflecting fewer self-funded health insurance claims. Bureau of Workers Compensation premiums also decreased.
- Supply expenses increased by 7.1 percent as a result of increased patient volumes.
- Operating expenses consist of salaries and wages 48.6 percent, employee benefits 13.7 percent, professional fees 2.6 percent, supplies and other expenses 21.3 percent, purchased services 8 percent and depreciation 5.8 percent.

Nonoperating Gains (Losses)

Nonoperating gains and losses are all sources and uses that are primarily non-exchange in nature. They would consist primarily of investment income (including realized and unrealized gains and losses), interest expense, and grants and contracts that do not require any services to be performed.

The category "other" within nonoperating gains (losses) consists of items that are typically nonrecurring or unusual to the Hospital. Examples would be capital grants, additions to permanent endowments, and transfers from related entities.

There were three significant "other" nonoperating transactions. In 2003, a noncollectible physician note in the amount of \$254,223 was written off to expense. Also in 2003, the Hospital recovered \$241,560 in Oakwood Bank losses, and, in 2004, \$21,531 was recovered.

Statement of Cash Flows

Another way to assess the financial health of a Hospital is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the Hospital during the reporting period. The statement of cash flows also helps assess:

- The Hospital's ability to generate future net cash flows
- Its ability to meet its obligations as they come due
- Its needs for external financing

PAULDING COUNTY

Management's Discussion and Analysis For the Year Ended December 31, 2004 (Continued)

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Net cash from:			
Operating and nonoperating activities	\$ 1,739,120	\$ 962,935	\$ 776,185
Investing activities	47,983	400,078	(352,095)
Noncapital and related financing activities	49,997	41,622	8,375
Capital and related financing activities	(1,171,013)	(1,087,595)	(83,418)
	666,087	317,040	349,047
Cash - Beginning of year	<u>4,358,079</u>	<u>4,041,039</u>	<u>317,040</u>
Cash - End of year	<u>\$ 5,024,166</u>	<u>\$ 4,358,079</u>	<u>\$ 666,087</u>

The Hospital's liquidity improved during the year. The following discussion amplifies the overview of cash flows presented above.

Cash provided by operating and nonoperating activities increased \$776,185 over the prior year. This was primarily as a result of decreasing of accounts receivable by eight days. Cash received from investing activities decreased as a result of lower interest rates and recoveries in Oakwood Bank write-offs.

Capital Assets and Debt Administration

Capital Assets - At December 31, 2004, the Hospital had \$8.8 million invested in capital assets, net of accumulated depreciation of \$10 million. Depreciation and amortization totaled \$861,848 for the current year compared to \$ 866,049 last year. Details of these assets for the past two years are shown below:

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Land	\$ 30,609	\$ 30,609	\$ -
Land improvements	63,301	71,675	(8,374)
Buildings and improvements	5,116,501	5,538,735	(422,234)
Furniture, fixtures and equipment	1,400,595	1,696,517	(295,922)
Construction in progress	2,154,751	94,587	2,060,164
Total	<u>\$ 8,765,757</u>	<u>\$ 7,432,123</u>	<u>\$ 1,333,634</u>

Debt - At year end, the Hospital had \$2,087,536 in debt outstanding as compared to \$922,118 the previous year. The table below summarizes these amounts by type of debt instrument:

PAULDING COUNTY

Management's Discussion and Analysis For the Year Ended December 31, 2004 (Continued)

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Lease obligations	\$ 318,470	\$ 569,238	\$ (250,768)
Note payable	1,381,130	32,232	1,348,898
Compensated absences	<u>387,936</u>	<u>320,648</u>	<u>67,288</u>
Total long-term liabilities	<u>\$ 2,087,536</u>	<u>\$ 922,118</u>	<u>\$ 1,165,418</u>

In the past, the Hospital has been generally debt-averse. In 2004, the Hospital has incurred debt of \$1,400,000 for construction of a medical office building.

Economic Factors That Will Affect the Future

The economic position of Paulding County Hospital is closely tied to that of the local economy. Job market growth in the community is anticipated to increase with the relocation plans for U.S. Highway 24. In addition, the board of trustees approved an average increase of 5.5 percent in the charge structure for the upcoming fiscal year.

Contacting the Hospital's Management

This financial report is intended to provide our county and bondholders with a general overview of the Hospital's finances, and to show the Hospital's accountability for the money it had received in the past. If you have questions about this report or need additional information, we welcome you to contact Robert L. Goshia, II, Chief Financial Officer.

Requests for Information

This financial report is designed to provide a general overview of Paulding County's finances for all those with an interest in county finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Bill Bolenbaugh, Paulding County Auditor at 115 N. Williams Street, Paulding, Ohio 45879.

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PAULDING COUNTY, OHIO
Statement of Net Assets – Modified Cash Basis
As of December 31, 2004

ASSETS	<u>Governmental Activities</u>
Equity in pooled cash and investments	\$ 8,076,601
Equity in outside accounts	<u>5,044</u>
Total Assets	<u><u>\$ 8,081,645</u></u>
NET ASSETS	
Restricted for:	
Debt service	\$ 100,564
Capital projects	3,513,833
Special revenue	3,396,956
Unrestricted	<u>1,070,292</u>
Total Net Assets	<u><u>\$ 8,081,645</u></u>

See accompanying notes to basic financial statements

PAULDING COUNTY, OHIO
Statement of Activities – Modified Cash Basis
For the year ended December 31, 2004

	Cash Disbursements	Program Cash Receipts			Net Cash Disbursements Cash Receipts and Changes In Net Cash Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Expenditures					
General government					
Legislative and executive	\$ 1,693,793	\$ 765,171	\$ -	\$ -	\$ (928,622)
Judicial	626,172	222,502	-	-	(403,670)
Public safety	1,891,747	6,513	90,157	-	(1,795,077)
Public works	6,957,260	28,671	2,949,400	3,366,006	(613,183)
Health	1,596,543	44,848	500,567	-	(1,051,128)
Human services	2,847,422	127,261	1,982,651	-	(737,510)
Conservation and recreation	51,099	-	36,000	-	(15,099)
Miscellaneous	1,367,262	429,305	314,964	-	(622,993)
Capital outlay	1,095,878	370,044	398,074	332,665	4,905
Debt service					
Principal retirement	2,175,970	-	-	-	(2,175,970)
Interest charges	141,104	-	-	-	(141,104)
Total Governmental Activities	\$ 20,444,250	\$ 1,994,315	\$ 6,271,813	\$ 3,698,671	(8,479,451)
General cash receipts and transfers:					
Property taxes levied for:					
					925,948
					966,237
					293,745
					144,840
					212,999
					1,582,158
					394,553
					4,668,440
					134,472
					1,507,157
					<u>10,830,549</u>
					2,351,098
					<u>5,730,547</u>
					<u>\$ 8,081,645</u>

See accompanying notes to basic financial statements

PAULDING COUNTY, OHIO
Statement of Assets and Fund Cash Balances – Governmental Funds – Modified Cash Basis
As of December 31, 2004

	General Fund	Gas Tax Fund	Jail Construction Fund	Engineers Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Equity in pooled cash and investments	\$ 1,070,292	\$ 311,757	\$ 2,817,204	\$ -	\$ 3,877,348	\$ 8,076,601
Equity in outside accounts	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,044</u>	<u>5,044</u>
Total Assets	<u>\$ 1,070,292</u>	<u>\$ 311,757</u>	<u>\$ 2,817,204</u>	<u>\$ -</u>	<u>\$ 3,882,392</u>	<u>\$ 8,081,645</u>
FUND BALANCES						
Unreserved-undesignated	<u>\$ 1,070,292</u>	<u>\$ 311,757</u>	<u>\$ 2,817,204</u>	<u>\$ -</u>	<u>\$ 3,882,392</u>	<u>\$ 8,081,645</u>
Total Fund Balances	<u>\$ 1,070,292</u>	<u>\$ 311,757</u>	<u>\$ 2,817,204</u>	<u>\$ -</u>	<u>\$ 3,882,392</u>	<u>\$ 8,081,645</u>

See accompanying notes to basic financial statements

PAULDING COUNTY, OHIO
Statement of Cash Receipts, Cash Disbursements and Changes In Fund Cash Balances –
Governmental Funds – Modified Cash Basis
For the year ended December 31, 2004

	General Fund	Motor Vehicle Gasoline Tax	Jail Construction Fund	Engineer Construction Grant Fund	Other Governmental Funds	Total Governmental Funds
Cash Receipts						
Property tax	\$ 925,456	\$ -	\$ -	\$ -	\$ 1,618,313	\$ 2,543,769
Sales tax	1,582,158	-	-	-	-	1,582,158
Charges for service	573,853	-	-	-	604,446	1,178,299
Licenses and permits	1,525	-	-	-	445,401	446,926
Fines and forfeitures	220,968	28,671	-	-	120,697	370,336
Intergovernmental	394,553	2,949,400	-	3,366,006	3,655,077	10,365,036
Interest	101,367	-	34,284	-	-	135,651
Other	160,532	335,697	-	-	1,008,504	1,504,733
Total Cash Receipts	3,960,412	3,313,768	34,284	3,366,006	7,452,438	18,126,908
Cash Disbursements						
General government						
Legislative and executive	1,487,803	-	-	-	205,989	1,693,792
Judicial	626,172	-	-	-	-	626,172
Public safety	1,547,643	-	-	-	344,104	1,891,747
Public works	16,945	3,574,310	-	3,366,006	-	6,957,261
Health	7,971	-	-	-	1,588,572	1,596,543
Human services	125,258	-	-	-	2,722,165	2,847,423
Conservation and recreation	-	-	-	-	51,099	51,099
Miscellaneous	302,645	-	4,875	-	1,059,741	1,367,261
Capital outlay	32,079	-	15,205	-	1,048,594	1,095,878
Debt service						
Principal	-	17,412	-	-	2,158,558	2,175,970
Interest	-	-	-	-	141,104	141,104
Total Cash Disbursements	4,146,516	3,591,722	20,080	3,366,006	9,319,926	20,444,250
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	(186,104)	(277,954)	14,204	-	(1,867,488)	(2,317,342)
Other Financing Sources (Uses)						
Advances in	20,000	-	-	-	3,691	23,691
Advances out	(3,691)	-	-	-	(20,000)	(23,691)
Transfers in	-	-	-	-	217,041	217,041
Transfers out	(208,041)	-	-	-	(9,000)	(217,041)
Proceeds from sale of notes	-	-	2,803,000	-	1,865,440	4,668,440
Total Other Financing Sources (Uses)	(191,732)	-	2,803,000	-	2,057,172	4,668,440
Net Change in Fund Cash Balance	(377,836)	(277,954)	2,817,204	-	189,684	2,351,098
Fund Balance - Cash Basis, January 1	1,448,128	589,711	-	-	3,692,708	5,730,547
Fund Balance - Cash Basis, December 31	\$ 1,070,292	\$ 311,757	\$ 2,817,204	\$ -	\$ 3,882,392	\$ 8,081,645

See accompanying notes to basic financial statements

PAULDING COUNTY, OHIO
Statement of Cash Receipts, Cash Disbursements and Changes In Fund
Cash Balance General Fund – (Budgetary Basis)
For the year ended December 31, 2004

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Cash Receipts				
Taxes	\$ 2,462,972	\$ 2,462,972	\$ 2,507,614	\$ 44,642
Charges for service	605,100	605,100	573,853	(31,247)
Licenses and permits	2,000	2,000	1,525	(475)
Fines and forfeitures	296,975	296,975	220,968	(76,007)
Intergovernmental	394,553	394,553	394,553	-
Interest and other	410,125	410,125	261,899	(148,226)
Total Cash Receipts	<u>4,171,725</u>	<u>4,171,725</u>	<u>3,960,412</u>	<u>(211,313)</u>
Cash Disbursements				
General government				
Legislative and executive	1,488,401	1,525,826	1,487,803	38,023
Judicial	672,101	686,440	626,172	60,268
Public safety	1,502,650	1,558,976	1,547,643	11,333
Public works	22,838	16,946	16,945	1
Health	6,516	8,422	7,971	451
Human services	126,451	126,451	125,258	1,193
Conservation and recreation	-	-	-	-
Miscellaneous	291,472	305,667	302,645	3,022
Capital outlays	60,000	36,002	32,079	3,923
Total Cash Disbursements	<u>4,170,429</u>	<u>4,264,730</u>	<u>4,146,516</u>	<u>118,214</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	<u>1,296</u>	<u>(93,005)</u>	<u>(186,104)</u>	<u>(93,099)</u>
Other Financing Sources (Uses)				
Advances in	6,500	6,500	20,000	13,500
Advances out	-	(4,895)	(3,691)	1,204
Transfers out	(199,973)	(208,541)	(208,041)	500
Total Other Financing Sources (Uses)	<u>(193,473)</u>	<u>(206,936)</u>	<u>(191,732)</u>	<u>15,204</u>
Net Change In Fund Balance	(192,177)	(299,941)	(377,836)	(77,895)
Fund Balance - Cash Basis, January 1	<u>1,448,128</u>	<u>1,448,128</u>	<u>1,448,128</u>	<u>-</u>
Fund Balance - Cash Basis, December 31	<u>\$ 1,255,951</u>	<u>\$ 1,148,187</u>	<u>\$ 1,070,292</u>	<u>\$ (77,895)</u>

See accompanying notes to basic financial statements

PAULDING COUNTY, OHIO
Statement of Cash Receipts, Cash Disbursements and Changes In Fund
Cash Balance Motor Vehicle Gasoline Tax Fund – (Budgetary Basis)
For the year ended December 31, 2004

	Motor Vehicle Gasoline Tax Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Cash Receipts				
Property taxes	\$ -	\$ -	\$ -	\$ -
Sales taxes				
Charges for service	-	-	-	-
Licenses and permits	-	-	-	-
Fines and forfeitures	41,000	45,000	28,671	(16,329)
Intergovernmental	2,599,552	3,348,575	2,949,400	(399,175)
Interest	-	-	-	-
Other	121,662	176,064	335,697	159,633
Total Cash Receipts	<u>2,762,214</u>	<u>3,569,639</u>	<u>3,313,768</u>	<u>(255,871)</u>
Cash Disbursements				
General government	-	-	-	-
Legislative and executive	-	-	-	-
Judicial	-	-	-	-
Public safety	-	-	-	-
Public works	3,597,052	3,714,328	3,574,310	140,019
Health	-	-	-	-
Human services	-	-	-	-
Conservation and recreation	-	-	-	-
Miscellaneous	-	-	-	-
Capital outlays	-	-	-	-
Debt service				
Principal	17,412	17,412	17,412	-
Interest	-	-	-	-
Total Cash Disbursements	<u>3,614,464</u>	<u>3,731,740</u>	<u>3,591,722</u>	<u>140,019</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	<u>(852,250)</u>	<u>(162,101)</u>	<u>(277,954)</u>	<u>(115,852)</u>
Net Change In Fund Balance	(852,250)	(162,101)	(277,954)	(115,852)
Fund Balance - Cash Basis, January 1	589,711	589,711	589,711	-
Fund Balance - Cash Basis, December 31	<u>\$ (262,539)</u>	<u>\$ 427,610</u>	<u>\$ 311,757</u>	<u>\$ (115,852)</u>

See accompanying notes to basic financial statements

PAULDING COUNTY, OHIO
Statement of Fiduciary Net Assets – Modified Cash Basis
As of December 31, 2004

	<u>Agency Funds</u>
Assets	
Equity pooled cash and investments	\$ 1,502,983
Equity in outside accounts	137,750
Total assets	<u>\$ 1,640,733</u>
 Total Net Assets	 <u>\$ 1,640,733</u>

See accompanying notes to basic financial statements

PAULDING COUNTY, OHIO
Balance Sheets – Paulding County Hospital
As of December 31, 2004 and 2003

	<u>December 31</u> 2004	<u>December 31</u> 2003
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,259,117	\$ 379,014
Accounts receivable	1,646,325	1,916,145
Notes receivable	13,378	15,160
Third-party settlements	38,545	447,795
Pre-paid expenses	165,616	145,086
Inventory	434,616	380,795
Other current assets	<u>71,698</u>	<u>84,970</u>
Total current assets	3,629,295	3,368,965
 Assets Limited as to Use	 3,796,850	 4,006,487
 Capital Assets - Net	 <u>8,768,757</u>	 <u>7,432,123</u>
 Total Assets	 <u><u>\$ 16,194,902</u></u>	 <u><u>\$ 14,807,575</u></u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Current portion of long-term debt	\$ 379,400	\$ 271,974
Accounts payable	633,798	676,779
Accrued liabilities and other	<u>1,079,618</u>	<u>891,173</u>
Total current liabilities	2,092,816	1,839,926
 Long-term Debt	 1,320,200	 329,496
 Other Liabilities	 <u>300,900</u>	 <u>274,640</u>
Total liabilities	<u><u>3,713,916</u></u>	<u><u>2,444,062</u></u>
 Net Assets		
Invested in capital assets - net of related debt	7,069,157	6,830,653
Restricted - expendable for education and other purposes	13,768	13,754
Unrestricted	<u>5,398,061</u>	<u>5,519,106</u>
Total net assets	<u><u>12,480,986</u></u>	<u><u>12,363,513</u></u>
 Total Liabilities and Net Assets	 <u><u>\$ 16,194,902</u></u>	 <u><u>\$ 14,807,575</u></u>

See accompanying notes to basic financial statements

PAULDING COUNTY, OHIO
 Statements of Revenue, Expenses and Changes In Net Assets – Paulding County Hospital
 For the years ended December 31, 2004 and 2003

	2004	2003
Operating Revenues		
Net patient service revenue	\$ 14,677,596	\$ 14,287,820
Other	179,365	170,425
Total operating revenues	14,856,961	14,458,245
Operating Expenses		
Salaries and wages	7,186,360	6,820,816
Employee benefits and payroll taxes	2,021,653	2,189,492
Medical supplies and drugs	2,721,400	2,556,478
Professional services and consultant fees	377,846	350,056
Purchased services	1,600,297	1,555,185
Depreciation and amortization	861,848	866,049
Total operating expenses	14,769,404	14,338,076
Operating Income	87,557	120,169
Other Income (Expense)		
Investment income	59,062	101,303
Contributions	49,997	41,622
Interest earnings on restricted assets	14	49
Interest expense	(29,990)	(47,989)
Other expenses	(49,167)	(14,901)
	29,916	80,084
Increase in Net Assets	117,473	200,253
Net Assets - Beginning of year	12,363,513	12,163,260
Net Assets - End of year	\$ 12,480,986	\$ 12,363,513

See accompanying notes to basic financial statements

PAULDING COUNTY, OHIO
 Statements of Cash Flows – Paulding County Hospital
 For the years ended December 31, 2004 and 2003

	2004	2003
Cash Flows from Operating Activities		
Cash received from patients and third-party payers	\$ 15,356,666	\$ 13,877,344
Cash payments to suppliers for services and goods	(4,737,657)	(4,063,097)
Cash payments to employees for services	(9,072,526)	(8,984,161)
Other operating receipts	192,637	132,849
Net cash provided by operating activities	1,739,120	962,935
Cash Flows from Non-capital Financing Activities		
Unrestricted contributions received	49,997	41,622
Cash Flows from Investing Activities		
Investment income	54,697	79,618
Recovery of uninsured investments	21,531	243,934
Advances to physicians - net of forgiveness	1,782	76,526
Other	(30,027)	-
Net cash provided by investing activities	47,983	400,078
Cash Flows from Capital Financing Activities		
Proceeds from issuance of debt	1,400,000	-
Principal payments on notes payable	(51,102)	(19,970)
Interest paid on long-term debt - net of amount capitalized	(29,990)	(47,989)
Purchase of capital assets	(2,259,129)	(837,701)
Proceeds from sale of capital assets	19,976	56,260
Principal payments on capital leases	(250,768)	(238,195)
Net cash used in capital financing activities	(1,171,013)	(1,087,595)
Net Increase in Cash and Cash Equivalents	666,087	317,040
Cash and Cash Equivalents - Beginning of Year	4,358,079	4,041,039
Cash and Cash Equivalents - End of Year	\$ 5,024,166	\$ 4,358,079
Balance Sheet Classification of Cash		
Current assets	\$ 1,259,117	\$ 379,014
Restricted cash and cash equivalents	3,765,049	3,979,065
Total cash	\$ 5,024,166	\$ 4,358,079
Supplemental Disclosure Cash Flow Information		
Equipment obtained via capital lease	\$ -	\$ 15,760

See accompanying notes to basic financial statements

PAULDING COUNTY, OHIO
 Statements of Cash Flows – Paulding County Hospital
 For the years ended December 31, 2004 and 2003

	2004	2003
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating Activities		
Operating income	\$ 87,557	\$ 120,169
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	861,848	866,049
Provisions for bad debts	425,060	227,136
Changes in assets and liabilities		
Increase in patient accounts receivable	(155,240)	(410,048)
Increase in inventories	(53,821)	(51,924)
Increase in prepaid expense and other receivables	(7,258)	(59,602)
Decrease in accounts payable	(42,981)	224,297
Increase in other accrued expenses	214,705	274,422
Increase in third-party settlement receivable	409,250	(227,564)
	\$ 1,739,120	\$ 962,935
Net Cash Provided By Operating Activities		

See accompanying notes to basic financial statements

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PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

NOTE 1 – DESCRIPTION OF THE COUNTY AND REPORTING ENTITY

Paulding County Ohio (the County) is a political body established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The County is governed by a board of three 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, Common Pleas Court Judge, Probate/Juvenile Court Judge, and the County Court Judge. Although each of the elected officials manage the internal operations of their respective departments, the County Commissioners authorize expenditures as well as serve as the budget and taxing authority, contracting body and chief administrator of public services for the County.

Reporting Entity

The County utilizes the standards of Governmental Accounting Standards Board Statement 14 for determining the reporting entity. The reporting entity is comprised of the primary government and component units that are included to ensure that the financial statements of the County are not misleading.

The primary government of Paulding County consists of all funds, departments, boards, and agencies that are not legally separate from the County and are directly operated by elected County officials.

The Paulding County Hospital (the Hospital) operates under the authority of Section 339, Ohio Revised Code. It is governed by a Board of Trustees appointed by the County Commissioners, the Probate Judge, and the Common Pleas Court Judge of Paulding County. The Hospital is not considered legally separate from the County and for financial reporting purposes is treated as an Enterprise Fund of the County. The Hospital prepares its financial statements in accordance with a basis of accounting, which is different from that used by the County to report its other activities, and consequently, the Hospital's financial statements and related notes are presented separately.

As the custodian of public funds, the County Treasurer invests all public monies on deposit in the County treasury. In the case of the separate agencies, boards and commissions listed below, the County serves as fiscal agent, but is not financially accountable for their operations. Accordingly, the activity of the following districts and agencies is presented as agency funds within the County's financial statements:

- Paulding County Health Department
- Paulding County Soil and Water Conservation District
- Paulding County Law Library
- Paulding County Family & Children First Council
- Paulding County Economic Development

The County is associated with certain organizations which are defined as Joint Ventures, Jointly Governed Organizations, Public Entity Risk Pools, or Related Organizations. These entities are excluded from the financial statements because the County is not financially accountable for these organizations, nor are these entities for which the County approves the budget, the issuance of debt, or the levying of taxes:

- Maumee Valley Planning Organization
- Tri-County Mental Health Board
- West Central Partnership, Inc.
- Antwerp Community Improvement Corporation

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

Community Improvement Corporation of Paulding
Four County Solid Waste District
P.C. Workshop, Inc.
County Risk Sharing Authority (See note 6)
Paulding County Carnegie Library

Maumee Valley Planning Organization is a jointly governed organization between Defiance, Fulton, Henry, Paulding, and Williams counties and their respective townships. Its purpose is to act as a joint regional planning commission to write and administer state and federal grants and assist with housing rehabilitation. The 15 member governing board includes one County Commissioner from each member county. The main source of revenue is fees charged to administer grants and a per capital amount from each county. In 2004, the County paid administrative fees of \$76,671 to the organization.

Tri-County Alcohol, Drug Addiction and Mental Health Board of Mercer, Paulding and Van Wert counties is a jointly governed organization that provides leadership in planning for and supporting community based alcohol, drug addiction, and mental health services in each member county. The governing board consists of 18 members of which 10 are appointed by the County Commissioners of Mercer, Paulding and Van Wert counties in the same proportion as the county's population bears to the total population of the three counties combined. During 2004, a tax levy produced \$189,139 for the operations of the organization.

West Central Partnership, Inc. is a jointly governed not-for-profit organization among Allen, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties with the purpose of administering local loan programs from the State of Ohio Department of Development. Its nine-member board of trustees consists of a County Commissioner from each member county.

Antwerp Community Improvement Corporation and Community Improvement Corporation of Paulding are jointly governed organizations representing the Village of Antwerp, and Paulding County and its townships and the Village of Paulding, respectively. Their purpose is to promote and encourage the establishment and growth of industrial, commercial and research facilities within member subdivisions. Their governing boards consist of approximately two-fifths public elected officials.

Four County Solid Waste District is a joint venture between Defiance, Fulton, Paulding, and Williams counties for the purpose of making waste disposal in the four county area more comprehensive in terms of recycling, incinerating, and land filling. Its governing board consists of three commissioners from each member county. Financial records are maintained by the Williams County auditor. The district's sole revenue source is a waste disposal fee. The County received \$63,748 from the District in 2004 to administer its local solid waste reduction program.

P.C. Workshop, Inc. is a related not-for-profit organization, with a self-appointing board of directors, organized to provide sheltered employment opportunities for mentally retarded and developmentally disabled persons in Paulding County. The County provides building space and administrative staff to the organization that was valued at \$112,712 for 2004. The entity issues stand alone financial statements that may be obtained by writing to P.C. Workshop, Inc., 900 West Caroline Street, Paulding, Ohio 45879.

Paulding County Carnegie Library is a distinct political subdivision of the state of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of trustees appointed by the Paulding County Court of Common Pleas. The Board of Trustees possesses its own contracting and budgeting authority, hires, and fires personnel, and does not depend on the County for operational subsidies. Although the County does 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. Financial information can be obtained from the Paulding County Carnegie Library, Wanda Mullins, Clerk/Treasurer, at 205 South Main Street, Paulding, Ohio 45879-1492

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FUND ACCOUNTING

The County's accounts are maintained in the form of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific County functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts. The fund types maintained by the County are as follows:

Governmental Funds – Funds financed primarily from taxes, governmental receipts and other non-exchange transactions are classified as governmental funds. Major governmental funds include:

General Fund – The general fund is the general operating fund of the County and is used for all financial resources except those required to be accounted for in a separate fund. The general fund is available to the County for any purpose provided it is expended or transferred according to Ohio law.

Gas Tax Fund – This fund accounts for monies received from state gasoline taxes designated for maintenance and repair of roads and bridges.

Jail Construction Fund – This fund accounts for funds being used for the construction of a new adult detention facility that the Ohio Department of Adult Detention is requiring the County to construct.

Engineers Construction Grant Fund – This fund accounts for state and federal grant monies received by the Paulding County Engineer for various road and bridge repair and construction projects.

Proprietary Funds - Proprietary funds are used to account for the County's ongoing activities, which are similar to those found in the private sector. Enterprise funds are the County's only proprietary fund type.

Paulding County Hospital Fund – This fund accounts for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges.

Fiduciary Funds – Fiduciary funds account for cash and investments where the County is acting as trustee or fiscal agent for other entities. Fiduciary Funds include agency funds. Following is the County's significant fiduciary fund:

Agency Funds – Agency funds are used to account for assets held by a government unit as an agent for individuals, other governmental units, and/or other funds. These funds were primarily used to account for the collection and distribution of property taxes.

B. BASIS OF ACCOUNTING

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP), the County chooses to prepare its financial statements and notes on a modified cash basis of receipts and disbursements, with the exception of the Paulding County Hospital. The Paulding County Hospital presents its financial data in stand-alone statements, which are presented according to Generally Accepted Accounting Principles (See note 16). The modified cash receipts and disbursements basis of accounting is a comprehensive basis of accounting other than Generally Accepted Accounting Principles. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary disbursements when a commitment is made (i.e. when an encumbrance is approved). These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in this paragraph.

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
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As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

C. BASIS OF PRESENTATION

For fiscal year 2004 the County has implemented the provisions of GASB 34 for financial reporting on a cash basis, which is a basis of accounting other than generally accepted accounting principles, and GASB 38, for certain financial statement note disclosures. However, there are no adjustments to beginning fund balances since the basis of accounting has not changed. The County's basic financial statements consist of government-wide statements, including a statement of net cash and a statement of activities, and fund financial statements that provide a more detailed level of financial information. The change in financial reporting format was implemented to provide financial data in a format that is comparable to the format required by GASB 34.

Government-wide Financial Statements

The statement of net cash assets and the statement of activities display information about the County as a whole. These statements include the financial activity of the primary government, except for fiduciary funds.

The statement of net assets - cash basis presents the cash basis financial condition of governmental activities of the County at year end. The statement of activities - cash basis presents a comparison between direct cash disbursements and program cash receipts for each program or function of the County's governmental activities. Direct cash disbursements are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program cash receipts include charges paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Cash receipts which are not classified as program cash receipts are presented as general cash receipts of the County. The comparison of direct cash disbursements with program cash receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general cash receipts of the County.

Fund Financial Statements

The County routinely segregates transactions related to certain County functions or activities into separate funds in order to aid financial management or to demonstrate legal compliance. Fund financial statements are designed to report detailed information about the County at the fund level. The focus of governmental 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.

D. CASH RECEIPTS – EXCHANGE AND NON-EXCHANGE TRANSACTIONS

In an exchange transaction, each party gives and receives essentially equal value. Cash receipts and revenue from such transactions are recorded in the year in which the cash is received. In non-exchange transactions, the County receives value without directly giving equal value in return, such as property taxes, grants, entitlements, and donations. On a cash basis, receipts and revenues from property taxes are recorded in the year in which the taxes are received. Receipts from grants, entitlements, and donations are recognized in the year in which the monies have been received.

E. CASH DISBURSEMENTS

On the cash basis of accounting, disbursements and expenses are recognized at the time payment is made.

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
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F. BUDGETARY PROCESS

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

All funds, other than agency funds and the Hospital Fund, are legally required to be budgeted and appropriated.

Since they represent a temporary cash flow resource intended to be repaid, advances in and advances out are not required to be budgeted.

Budget

In prior years, a budget of estimated cash receipts and disbursements was submitted to the County Auditor, as secretary of the County Budget Commission, by July 20, for the period January 1 to December 31 of the following year. Beginning in 1999, the Budget Commission waived the requirement for all subdivisions to file a tax budget.

Estimated Resources

The County Budget Commission certifies its actions to the County by September 1. As part of this certification, the County receives the official certificate of estimated resources stating the projected receipts of each fund. On or about January 1 this certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31 the County must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about January 1, the certificate of estimated resources is amended to include actual unencumbered balances from the preceding year. The certificate may be amended further during the year if the County Auditor determines and the Budget Commission agrees that an estimate needs to be either increased or decreased. The amounts set forth in the financial statements represent estimates from the amended certificate in force at the time the final appropriations were passed by the Commissioners.

Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. The appropriation measure is the County Commissioners' authorization to spend resources and set 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 County Commissioners at the fund, function level for the General Fund and the fund level for all other funds. Appropriations may not exceed estimated resources. The allocation of appropriations among departments and objects within a fund may be modified during the year only by a resolution of the County Commissioners. Several supplemental appropriation resolutions were legally enacted during the year. The budget figures appearing in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
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Encumbrances

The County is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is canceled at year-end and re-appropriated at the beginning of the subsequent year.

G. POOLED CASH AND INVESTMENTS

Cash balances of the County's funds, except the Enterprise fund, cash held by an escrow or fiscal agent, and cash in segregated accounts, are pooled and invested in order to provide improved cash management.

Various departments and officials of the County have monies held separately from the County treasury.

During fiscal year 2004, investments of the County Treasurer were limited to government securities, STAR Ohio, certificates of deposit, and repurchase agreements. These investments are reported at cost in these financial statements.

Interest is distributed based upon the Ohio Revised Code. Interest receipts credited to the general fund during the fiscal year 2004 was \$101,367, including \$85,655 assigned from other County funds.

H. INVENTORY AND PREPAID ITEMS

On the cash basis of accounting, inventories of supplies are reported as disbursements (current period expenses) when paid.

I. CAPITAL ASSETS

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

J. COMPENSATED ABSENCES

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

K. LONG-TERM OBLIGATIONS

Bonds and other long-term obligations are not recognized as liabilities in these financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal payments.

L. NET ASSETS

Net assets are reported as restricted when enabling legislation or creditors or laws or regulations of other governments have imposed limits on their use. The County first applies restricted resources when a disbursement is incurred for purpose for which both restricted and unrestricted net assets are available.

M. INTERFUND ACTIVITY

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchasing funds. Non-exchange flows of cash from one fund to another are reported as inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are treated as reductions of expenditures rather than as revenues.

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
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NOTE 3 – PROPERTY TAX

Real property taxes are levied against all real, public utility, and tangible personal property located in the County. Property tax revenue received during 2004 for real and public utility property taxes represents collections of 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2004 taxes.

2004 real property taxes are levied after October 1, 2004 on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35% of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

Public utility tangible personal property currently is assessed at varying percentages of true value. Public utility real property is assessed at 35% of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25% of true value for capital assets and 23% of true value for inventory.

Real property taxes become a lien on all non-exempt real property located in the County on January 1. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

Tangible personal property taxes paid by a multi-county taxpayer are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable September 20.

The Paulding County Treasurer collects property tax on behalf of all taxing districts within the County. The Paulding County Auditor periodically remits to the taxing districts their portions of the taxes collected. Collections of the taxes and remittance of them to the taxing districts are accounted for in various agency funds of the County.

The full tax rate applied to real property for the fiscal year ended December 31, 2004 was \$12.26 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$10.22 per \$1,000 of assessed valuation of real property classified as residential/agricultural and \$10.56 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the County by the State of Ohio. 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/Agricultural	\$208,675,330
Commercial/Industrial	26,741,060
Public utilities	<u>202,940</u>
Total real property	<u>235,619,330</u>
Tangible Personal Property-2004 Valuation	
General	24,618,068
Public utility	<u>23,734,230</u>
Total tangible personal property	<u>48,352,298</u>
Total Valuation	<u>\$283,971,628</u>

The County Auditor reappraises all real property every six years with a triennial update. The last triennial update was completed for tax year 2001 and the reappraisal was completed for tax year 2004.

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

NOTE 4 – EQUITY IN CASH EQUIVALENTS 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 demand upon the County treasury. Active monies must be maintained either as cash in the County treasury, in commercial accounts payable upon demand or in money market deposit accounts.

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.

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

- A. United States Treasury Notes, Bills, Bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States.
- B. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
- C. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days.
- D. Bond 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.
- E. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts.
- F. No-load money market 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.
- G. The State Treasurer's investment pool (STAR Ohio).
- H. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either security described in division (1) or (2) or cash or both securities and cash, equal value for equal value.
- I. High-grade commercial paper in an amount not to exceed five percent of the County's total average portfolio.
- J. Bankers' acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the County's total average portfolio.

Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purposes 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 County Treasurer, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
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Cash On Hand

At December 31, 2004, the County had \$2,593 of undeposited cash on hand, which is included on the statement of net assets of the County as part of cash equivalents.

Deposits

Government Accounting Standards Board (GASB) Statement No. 3 requires that all deposits be classified as to risk. The following categories are most typically used:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
3. Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name).

At December 31, 2004, the carrying amount of the County's deposits was \$4,251,172. The bank balances of \$4,538,623 for deposits are classified by risks as follows:

1. \$444,693 was insured by the Federal Depository Insurance Corporation.
2. \$4,093,930 was uninsured and collateralized.

Although the securities serving as collateral were held by the pledging financial institution in the pledging institution's name and all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the County to a successful claim by the Federal Depository Insurance Corporation.

Investments

Statutory provisions require that the County Treasurer hold all securities acquired by the County or deposit them with a qualified trustee pursuant to Section 135.18 of the Ohio Revised Code. Securities acquired under a repurchase agreement must be deposited with such trustee unless the counter party is a designated depository of the County for the current period of designation of depositories, in which case the securities may be held in trust by the depository. At the end of each day, the County Treasurer withdraws surplus funds from the account and invests the monies in an overnight repurchase agreement. The County does not purchase any specific securities in this manner, but the investment is collateralized by pledged securities held by a third party in the name of the bank.

GASB Statement No. 3 requires the County to categorize investments 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. Category 2 includes uninsured and unregistered investments for which the securities are held in a counter party's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counter party, or by its trust department or agent but not in the County's name. STAR Ohio investments are not categorized since they are not evidenced by securities that exist in physical or book entry form.

	Category 1	Category 2	Category 3	Unclassified	Carrying Value	Fair Value
Federal Home Loan						
Bank Bonds	\$ -	\$ -	\$ 1,246,769	\$ -	\$ 1,246,769	\$ 1,244,517
Federal Home Loan						
Mortgage Corp Bonds	-	-	990,875	-	990,875	992,752
Federal National Mortgage						
Association Bonds	-	-	247,822	-	247,822	247,986
Repurchase Agreements	-	-	647,308	-	647,308	647,308
STAR Ohio	-	-	-	2,335,839	2,335,839	2,335,839
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,132,774</u>	<u>\$ 2,335,839</u>	<u>\$ 5,468,613</u>	<u>\$ 5,468,402</u>

PAULDING COUNTY, OHIO
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Cash, cash equivalents, and investments are reported as “Equity in Pooled Cash and Investments” and “Equity in Outside Accounts” in the basic financial statements. Equity in outside accounts represents cash held in checking accounts by individual governmental departments that are not controlled by the County Auditor. Reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
Basic financial statements	\$ 9,722,378	\$ -
Cash on hand	(2,593)	-
Federal Home Loan Bank Bonds	(1,246,769)	1,246,769
Federal Home Loan Mortgage Corporation Bonds	(990,875)	990,875
Federal National Mortgage Association Bonds	(247,822)	247,822
Repurchase Agreements	(647,308)	647,308
STAR Ohio	(2,335,839)	2,335,839
 GASB Statement No. 3 Totals	 \$ 4,251,172	 \$ 5,468,613

NOTE 5 – PERMISSIVE SALES AND USE TAX

In 1984, the County Commissioners by resolution imposed a one percent tax on all retail sales made in the County, and on the storage use, or consumption in the County of tangible personal property, including automobiles, and renewed a resolution to levy an additional one-half percent for permissive sales and use tax.

The State Tax Commissioner certifies to the State Auditor the amount of tax to be returned to the County. The Tax Commissioner’s certification must be made within 45 days after the end of each month. The State Auditor then has five days in which to draw the warrant payable to the County.

Permissive sales and use tax revenue for 2004 was \$1,582,158.

NOTE 6 - RISK MANAGEMENT

A. PROPERTY AND LIABILITY

The County is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2004, the County contracted with County Risk Sharing Authority (CORSA), a risk sharing pool, for liability, property, and crime insurance. The CORSA program has a \$2,500 deductible. CORSA provided coverage as follows:

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
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<u>Property</u>	
Building and Contents	Replacement Cost
Valuable Papers	\$1,000,000
Extra Expense	\$1,000,000
Electronic Data Processing	Replacement Cost
Contractors Equipment	Actual Cash Value
Inland Marine	Actual Cash Value
Motortruck Cargo	\$100,000
Flood and Earthquake	\$100,000,000 Aggregate Pool Limit
Auto Physical Damage	Actual Cash Value
Automatic Acquisition	\$3,000,000
Boiler and Machinery	\$100,000,000 Each Accident
 <u>Liability</u>	
Automobile Liability	\$1,000,000 Each Occurrence
Uninsured/Underinsured Motorists	\$250,000 Each Occurrence
General Liability	\$1,000,000 Each Occurrence
Stop Gap Liability	\$1,000,000 Each Occurrence
Law Enforcement Liability	\$1,000,000 Any One Claim
Errors and Omissions Liability	\$1,000,000 Annual Aggregate
Medical Professional Liability	\$6,000,000 Each Occurrence
 <u>Crime</u>	
Employee Dishonesty/Faithful Performance	\$1,000,000 Each Loss
Money and Securities (inside)	\$1,000,000 Each Loss

With the exceptions of health insurance, life insurance, and workers' compensation, all insurance is held with CORSA. The County pays all elected officials' bonds by statute. Automobile Liability, General Liability, Law Enforcement Liability, and Errors and Omissions Liability coverage decreased from \$6,000,000 each occurrence in 2002 to \$1,000,000 each occurrence in 2003. Settled claims have not exceeded this commercial coverage in the past three years.

CORSA reported the following summary of actuarially-measured liabilities and assets available to pay those liabilities as of April 30 (CORSA's fiscal year end):

	<u>2004</u>	<u>2003</u>
Cash and Investments	\$ 56,770,447	\$ 45,021,398
Actuarial liabilities	\$ 15,329,762	\$ 13,115,199

B. WORKERS COMPENSATION GROUP RATING PROGRAM

For 2004, the County participated in the County Commissioners' Association Organization Workers' Compensation Group Rating Program (the Program), an insurance purchasing pool.

The program is intended to achieve lower workers' compensation rates while establishing safe 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 participants in the Program.

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Each participant pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate. In order to allocate the savings derived by formation of the Program and to maximize the number of participants in the Program, annually the Program's executive committee calculates the total savings which accrued to the Program through its formation. This savings is then compared to the overall savings percentage of the Program.

The Program's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants. Participation in the Program is limited to counties that can meet the Program's selection criteria. The firm of Comp. Management, Inc. provided administrative, cost control, and actuarial services to the Program. Each year, the County pays an enrollment fee to the Program to cover the costs of administering the Program.

The County may withdraw from the Program if written notice is provided sixty days prior to the prescribed application deadline of the Ohio Bureau of Workers' Compensation; however, prior to withdrawal, any participant leaving the Program allows representatives of the Program to access loss experience for three years following the last year of participation.

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. PUBLIC EMPLOYEES RETIREMENT SYSTEM

All County full-time employees, other than teachers, participate in the Ohio Public Employees Retirement System (OPERS), a cost sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. OPERS administers three separate pension plans as described below:

1. The Traditional Pension Plan – a cost sharing, multiple-employer defined benefit pension plan.
2. The Member-Direct Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Direct Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan – a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested in OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provide retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a stand alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-6701 or 800-222-7377.

Ohio Revised Code provides statutory authority for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan. Plan members, other than those engaged in law enforcement, are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the County is required to contribute 13.55 percent; 9.55 percent was the portion used to fund pension obligations for 2004. For law enforcement employees, the employee contribution is 10.1 percent of their annual covered salary for sheriffs and deputy sheriffs and 9 percent for all other members of the law enforcement program. (In January 2001, HB416 split the sheriffs, and township police, and (2) the public safety division made up of all other members of the law enforcement program.) The employer contribution is 16.70 percent of which 12.7 percent was the portion used to fund pension obligations. Contributions are authorized by state statute.

The contribution rates are determined actuarially. The County's contributions which were used to fund pension obligations for the years ending December 31, 2004, 2003 and 2002 were \$598,600, \$585,836, and \$505,607, respectively, which were equal to the required contributions for each year.

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B. STATE TEACHERS RETIREMENT SYSTEM

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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and 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 for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined plan. 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 balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended December 31, 2004, plan members are required to contribute 10 percent of their annual covered salaries. The County was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was 13.0 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The County's contributions used to fund pension obligations for the years ending December 31, 2004, 2003 and 2002 were \$6,654, \$4,524, and \$6,295, respectively, which were equal to the required contributions for each year.

NOTE 8 - POST EMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

PAULDING COUNTY, OHIO
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OPERS provides retirement, disability, and survivor benefits as well as post retirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post employment health care coverage. In order to qualify for post retirement health care coverage, age-of-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio Service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Post Employment Benefits Other Than Pension Benefits by State and Local Governmental Employees." A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions.

The employer contribution rate for 2004 was 13.55 percent of covered payroll for employees not engaged in law enforcement and 4 percent was the portion that was used to fund health care. The employer contribution rate for law enforcement employees for 2004 was 16.70 percent and 4 percent was used to fund health care.

Benefits are advance funded using the entry age normal cost method. Significant actuarial assumptions include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually, and an additional increase in total payroll of .50 percent to 6.3 percent based on additional pay increases. Health care premiums were assumed to increase 4 percent annually.

OPEB are financed through employer contributions and investment earnings. 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.

As of December 31, 2004, the total number of benefit recipients eligible for OPEB through the system was 369,885. As of December 31, 2004, the actuarial value of net assets available for future OPEB payments was \$10.5 billion. The actuarially accrued liability and the unfunded actuarial liability were \$26.9 billion and \$16.4 billion, respectively. The County's actual contributions for 2004 which were used to fund OPEB were \$242,149.

B. STATE TEACHERS RETIREMENT SYSTEM

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2003, the board allocated employer contributions equal to 1 percent of covered payroll to Health Care Stabilization Fund. Effective July 1, 2004, 1 percent of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004. For the County, it contributed \$511 during 2004.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

PAULDING COUNTY, OHIO
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NOTE 9 – OTHER EMPLOYEE BENEFITS

Insurance Benefits

The County provides life insurance and accidental death and dismemberment insurance to most employees through Aetna. The County provides employee medical insurance through Aetna. The premium varies with employees depending on the insurance coverage selected. The County pays a set portion of participating employees' health and life insurance premiums, with the balance being the individual employee's responsibility.

Sick Leave and Vacation Leave

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Employees earn ten to twenty-five days of vacation per year, depending upon length of service. Accumulated, unused vacation time up to the accrual for three years, is paid to employees upon termination of employment.

Employees earn sick leave at the rate of .0575 hours for each hour worked. Unused sick leave accumulates without limit. For non-bargaining unit employees employed before April 30, 2001 with 10 years or more of service may elect upon retirement to receive payment for one half of all accrued, but unused sick credit at the employee's pay rate at the time of retirement. For non-bargaining unit employees employed after April 30, 2001 with 10 years or more of service may elect upon retirement to receive payment for one fourth of all accrued, but unused sick leave credit at the employee's pay rate at the time of retirement.

Deferred Compensation

Employees of the County may elect to participate in the Ohio Public Employees Deferred Compensation program or the County Commissioners Association of Ohio program. Under these programs, employees authorize a voluntary payroll deduction, which is invested in a plan of their choice. The accumulated value of the account is not distributed to the employee until a future date, usually after retirement. The deferred pay and any income on it is not subject to income taxation until the distribution is made to the employee. These assets are placed in trust by the respective programs to comply with Internal Revenue Code provisions. Accordingly, these assets are not reflected in the accompanying financial statements. Employees of the County deferred \$252,829 under these two plans during 2004.

NOTE 10 – CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, based on prior experience, the County Commissioners believe such refunds, if any, would not be material.

The County has various legal cases pending, the outcome of which is not determinable as of the date of this report; however, management believes that the resolution of these matters will not have a material adverse affect on the County's financial condition.

The Ohio Rail Development Commission (the Commission) has loaned RMW Ventures (RMW) \$1,200,000 to purchase a railroad line, portions of which lie in Henry, Defiance and Paulding counties. The loan is to be amortized over 120 months with a balloon payment after the fifth anniversary of the first installment. As a condition of loaning such funds, the Commission has required the three counties to jointly guarantee payment of the \$600,000 of the balloon payment, with each county to guarantee \$200,000 to the Commission upon default by RMW. RMW has agreed to repay to the County any sums it pays under the Guarantee Agreement and to secure this obligation by granting the County a security interest and mortgage in all property of the railroad, both real and personal. As of the date of this report, the loan is in default but has not yet been called.

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

NOTE 11 – DEBT

A. SHORT-TERM DEBT

The changes in the County's short-term debt obligations during the year consist of the following:

	Interest Rate	Principal Outstanding 12/31/03	Additions	Reductions	Principal Outstanding 12/31/04
Governmental Activities					
<u>State Bank and Trust Company</u>					
Tax Anticipation Notes:					
CSEA Annex Building	2.150%	\$ -	\$ 125,871	\$ -	\$ 125,871
General Obligation Notes:					
CIC Industrial Development	1.900%	130,000	-	(130,000)	-
CIC Industrial Development Pharoah Ltd. Tax Increment Financing	2.230%	-	130,000		130,000
Pharoah Ltd. Tax Increment Financing	2.970%	21,839		(21,839)	-
Fairboard	2.500%	-	12,940		12,940
Holser Tax Increment Financing	2.970%	4,786	-	(4,786)	-
Holser Tax Increment Financing	2.640%	11,859	-	(11,859)	-
Stoller Tax Increment Financing	2.400%	-	9,330	-	9,330
Stoller Tax Increment Financing	2.640%	4,807	-	(4,807)	-
Stoller Tax Increment Financing	2.400%	-	11,278	-	11,278
Zylstra Tax Increment Financing	2.640%	100,609	-	(100,609)	-
SWCD Morton Building	2.640%	8,505	-	(8,505)	-
SWCD Morton Building	2.400%	-	12,395	-	12,395
SWCD-FSA	2.650%	10,500	-	(10,500)	-
Auglaize Sewer	2.450%	348,927	54,000	(402,927)	-
CIC Gasser Industrial Park	2.390%	82,400	-	(82,400)	-
CIC Gasser Industrial Park	2.320%	-	67,549	-	67,549
December Consolidated Ditch Financing	2.320%	-	110,000	-	110,000
Cooper Farms Tax Increment Financing	2.390%	59,000		(59,000)	-
Cooper Farms Tax Increment Financing	2.320%	-	46,495	-	46,495
Schilderink Tax Increment Financing	2.390%	113,000		(113,000)	-
Schilderink Tax Increment Financing	2.320%	-	106,292	-	106,292
Jail Building	2.570%	-	289,000	-	289,000
		<u>\$ 896,232</u>	<u>\$ 975,150</u>	<u>\$ (950,232)</u>	<u>\$ 921,150</u>

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

	Interest Rate	Principal Outstanding 12/31/03	Additions	Reductions	Principal Outstanding 12/31/04
<u>Community First Bank and Trust</u>					
Tax Anticipation Notes:					
CSEA Annex Building	2.797%	\$ 154,004	\$ -	\$ (154,004)	\$ -
General Obligation Notes:					
SWCD-FSA	2.783%	-	10,742	-	10,742
ACE Facility	2.970%	-	47,595	-	47,595
Zylstra Tax Increment Financing	2.400%	-	95,079	-	95,079
Auglaize Sewer	2.100%	-	414,374	-	414,374
Jail Building	2.108%	283,340	-	(283,340)	-
September Consolidated Ditch Financing	2.446%	160,000	-	(160,000)	-
October Consolidated Ditch Financing	2.443%	160,000	-	(160,000)	-
October Consolidated Ditch Financing	2.602%	-	110,000	-	110,000
		<u>757,344</u>	<u>677,790</u>	<u>(757,344)</u>	<u>677,790</u>
<u>Antwerp Exchange Bank</u>					
General Obligation Notes:					
ACE Facility	2.600%	61,983	-	(61,983)	-
May Consolidated Ditch Financing	2.600%	166,000	-	(166,000)	-
May Consolidated Ditch Financing	2.190%	-	102,500	-	102,500
December Consolidated Ditch Financing	2.300%	160,000	-	(160,000)	-
September Consolidated Ditch Financing	2.200%	-	110,000	-	110,000
		<u>387,983</u>	<u>212,500</u>	<u>(387,983)</u>	<u>212,500</u>
<u>First Federal Bank</u>					
General Obligation Notes:					
West Branch Tax Increment Financing	2.470%	3,000	-	(3,000)	-
White Oak Tax Increment Financing	2.470%	15,000	-	(15,000)	-
		<u>18,000</u>	<u>-</u>	<u>(18,000)</u>	<u>-</u>
Bond Anticipation Note:					
Jail Construction	2.500%	-	2,800,000	-	2,800,000
Total Short-Term Debt		<u><u>\$ 2,059,559</u></u>	<u><u>\$ 4,665,440</u></u>	<u><u>\$ 2,113,559</u></u>	<u><u>\$ 4,611,440</u></u>

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
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Initial proceeds from the Tax Anticipation Notes and General Obligation Notes were used for the construction and reconstruction of ditches, tax increment financing (TIF) projects and various other capital projects. Property owners receiving the benefits of the construction or reconstruction of a ditch are assessed over an eight year period for their portion of the construction in an amount determined by the County Engineer. These special assessments collected are applied to the outstanding notes. Special assessment ditch notes are reissued annually until the entire amount of the assessment has been collected.

Tax increment financing (TIF) was used to fund various infrastructure projects. Written agreements between the County and local businesses who benefited from the improvements require the businesses to make service payments in lieu of taxes. The service payments are applied to the outstanding notes. TIF notes consist of both Tax Anticipation Notes and General Obligation Notes, and are reissued annually until the cost of the project has been recovered, not to exceed ten years.

Other capital projects funded by Tax Anticipation Notes and General Obligation Notes include building improvements; county annex renovations; human service building improvements; tractor purchase; and improvements to the fair board. These notes are re-issued annually until the costs of the projects have been recovered.

The Jail Construction bond anticipation note is due June 14, 2005 with interest at a fixed rate of 2.5%. The proceeds are to be used for the renovation/construction of a new county adult detention facility. The bids received for this project grossly exceeded the architect's estimate. The project has been put on hold pending the outcome of a tax issue which will be decided by the county's electorate in the fall of 2005. Any shortage between the loan balance and the loan proceeds invested will become a general fund obligation should the tax issue fail in the fall of 2005.

B. LONG-TERM DEBT

The original issue date, interest rate, original issue amount, and balance at December 31, 2004 for the County's long-term debt issues are as follows:

	<u>Original Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Balance at December 31, 2004</u>
Hospital Improvement Bonds:				
Paulding County Hospital Improvements	2001	2.1 - 5.65%	\$ 1,900,000	\$ 1,775,000
Ohio Public Works Commission Loans:				
County Road Resurfacing	1997	0.00%	159,623	103,755
County Road Paving	1999	0.00%	188,617	136,748
			<u>\$ 2,248,240</u>	<u>\$ 2,015,503</u>

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

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

	Balance 12/31/03	Additions	Reductions	Balance 12/31/04	Due Within One Year
Governmental Activities:					
Hospital Improvement Bonds:					
Paulding County Hospital Improvements	\$ 1,820,000		\$ (45,000)	\$ 1,775,000	\$ 45,000
Ohio Public Works Commission Loans:					
County Road Resurfacing	111,736		(7,981)	103,755	(7,981)
County Road Paving	146,179		(9,431)	136,748	(9,431)
Total OPWC Loans	257,915	-	(17,412)	240,503	(17,412)
Total Governmental Activities	<u>\$ 2,077,915</u>	<u>\$ -</u>	<u>\$ (62,412)</u>	<u>\$ 2,015,503</u>	<u>\$ 27,588</u>

The hospital improvement bonds were issued to pay costs of renovating, expanding, modernizing and equipping the Paulding County Hospital. The bonds are direct obligations of the County for which its full faith and credit are pledged for repayment. The bonds are payable from a voted property tax revenues accumulated in the Debt Service fund.

These bonds were issued on November 15, 2001. The bonds consisted of \$1,900,000 in current interest bonds (\$500,000 issued as serial bonds and \$1,400,000 issued as term bonds).

The serial bonds shall bear interest at the rates per year and will mature in the principal amounts and on the following dates:

Maturity Date	Principal Amount	Interest Rate
2005	\$ 45,000	3.25%
2006	50,000	3.50%
2007	50,000	3.75%
2008	55,000	4.00%
2009	55,000	4.15%
2010	60,000	4.25%
2011	60,000	4.35%

The term bonds, which mature on December 1, 2016, have interest rates of 5.25 percent per year, and are subject to mandatory redemption in part by lot on December 1 in the following years at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest at the redemption date, in the aggregate principal amounts below:

PAULDING COUNTY, OHIO
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Year	Principal Amount to be Redeemed
2012	\$ 65,000
2013	70,000
2014	75,000
2015	80,000
2016	85,000

The term bonds, which mature on December 1, 2021, have interest rates of 5.625 percent per year, and are subject to mandatory redemption in part by lot on December 1 in the following years at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest at the redemption date, in the aggregate principal amounts below:

Year	Principal Amount to be Redeemed
2017	\$ 90,000
2018	95,000
2019	100,000
2020	105,000
2021	110,000

The term bonds, which mature on December 1, 2026, have interest rates of 5.5 percent per year, and are subject to mandatory redemption in part by lot on December 1 in the following years at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest at the redemption date, in the aggregate principal amounts below:

Year	Principal Amount to be Redeemed
2022	\$ 90,000
2023	100,000
2024	100,000
2025	115,000
2026	120,000

The bonds maturing on or after December 1, 2012 are subject to prior redemption on or after December 1, 2011, by and at the sole option of the County, either in whole on any date or in part on any date and in integral multiples of \$5,000, at the redemption prices of 100% plus accrued interest to the redemption date.

In 1997, the County obtained an interest free loan from the Ohio Public Works Commission (OPWC) in the amount of \$159,623, for the resurfacing of several county roads. In 1999, another interest free loan was obtained from OPWC in the amount of \$188,617, for paving several county roads. The loans are repaid from the Gas Tax special revenue fund in semi-annual installments of \$8,706 through 2019.

The County had available \$140,626 of credit to draw on the Auglaize Five Span Sewer loan at December 31, 2004 at an interest rate of 2.1%.

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

The following is a summary of the County's required future annual debt service payments for the long-term obligations:

Years Ended December 31	Hospital Improvement Bonds		Ohio Public Works Commission Loans		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 45,000	\$ 91,418	\$ 17,412		\$ 62,412	\$ 91,418
2006	50,000	89,955	17,412		67,412	89,955
2007	50,000	88,205	17,412		67,412	88,205
2008	55,000	86,330	17,412		72,412	86,330
2009	55,000	84,130	17,412		72,412	84,130
2010-2014	330,000	380,708	87,060		417,060	380,708
2015-2019	450,000	282,656	66,382		516,382	282,656
2020-2024	505,000	147,256			505,000	147,256
2025-2026	235,000	19,525			235,000	19,525
	<u>\$ 1,775,000</u>	<u>\$ 1,270,183</u>	<u>\$ 240,502</u>	<u>\$ -</u>	<u>\$ 2,015,502</u>	<u>\$ 1,270,183</u>

NOTE 12 – LEASE ARRANGEMENTS

The County leases certain vehicles used by its law enforcement personnel. Minimum payments due under non-cancelable leases during the next five years are:

2005 \$14,481

Rental expense paid in 2004 was \$14,481.

The County is the lesser of farmland owned by the county to tenant farmers under short term operating leases. Minimum future rental income on non-cancelable leases during the next five years is:

\$34,230
\$34,230

NOTE 13 – INTERFUND TRANSFERS

The interfund transfers for the year ended December 31, 2004 were as follows:

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

	Transfers In	Transfers Out
MAJOR FUNDS		
General Fund		
Dog Kennel	\$ -	\$ 8,000
Public Assistance	-	50,323
Child Services	-	106,000
DARE Program	-	3,000
Extension Center	-	6,400
Fel Delq Care	-	7,187
Fire Marshall	-	1,286
Emergency Management Agency	-	10,300
Victims Assistance	-	11,645
Ditch Maintenance	-	3,900
	-	208,041
 NONMAJOR FUNDS		
Special Revenue Funds		
Dog Kennel	8,000	-
Public Assistance	50,323	-
Child Services	106,000	-
DARE Program	3,000	-
Extension Center	6,400	-
Fel Delq Care	7,187	-
ODNR	9,000	-
Fire Marshall	1,286	-
Emergency Management Agency	10,300	-
WMEA	-	9,000
Victims Assistance	11,645	-
Capital Projects Funds		
Ditch Maintenance	3,900	-
	217,041	9,000
 TOTAL	\$ 217,041	\$ 217,041

Interfund Receivables/Payables

During 2004, the General Fund provided the cash flow resources in the amount of \$3,691 until the receipt of reimbursements in the Fairboard Debt Service Fund (\$2,903), White Oak Sow Farm Fund (\$503), and West Branch Tax Investment Finance Fund (\$258). The Emergency Management Agency Fund reported an advance of \$20,000 from the General Fund.

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

NOTE 14 – PROVISION FOR UNCOMPENSATED ABSENCES

Accumulated unpaid vacation, personal, compensatory time and sick leave are not accrued under the cash basis of accounting described in Note 2. All leave will either be absorbed by time off from work, or within certain limitations, be paid to employees. The liability is not recorded on the financial statements.

NOTE 15 – COMPLIANCE

The County prepared its 2004 financial report on a basis of accounting formerly prescribed or permitted by the Auditor of State instead of in accordance with generally accepted accounting principles contrary to the Ohio Administrative Code.

On June 15, 2004, the County issued \$2,800,000 in bond anticipation notes to finance the construction of a county correctional facility. As of December 31, 2004, which was more 6 months after the closing date of June 14, 2004, approximately \$20,000 in project costs had actually occurred. This is significantly less than 5%. There was no binding commitment to expend at least 5 percent of the net sale proceeds of the obligations on the project. This is contrary to the certificate under section 103(b)(2) and 148 of the Internal Revenue Code of 1986.

As of December 31, 2004, the County had not appropriated for expenditures from the Engineer's Construction Capital Projects Fund contrary to the Ohio Revised Code.

NOTE 16 – PAULDING COUNTY HOSPITAL

A. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Paulding County Hospital (the Hospital), located in Paulding County, Ohio, is a county owned, tax-exempt Ohio not for profit corporation. Effective January 1, 2001, the Hospital became a 15-bed critical access hospital. It operates under the authority of Ohio Revised Code Section 339 to provide inpatient, outpatient and emergency care services for the residents of Paulding County. A board of directors appointed by the County Commissioners, the Probate Judge, and the Judge of the Court of Common Pleas of Paulding County governs the Hospital. The Hospital is not considered legally separate from the County and for financial reporting purposes is treated as an Enterprise fund of the County.

Cash and Cash Equivalents – Cash and cash equivalents are defined as short-term highly liquid investments purchased with initial maturities of three months or less. Cash and cash equivalents included in the assets limited as to use are considered cash and cash equivalents for purposes of the statement of cash flows.

Accounts Receivable – Accounts receivable for patients, insurance companies, and government agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical loss rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for uncollectible accounts in the period they are deemed to be uncollectible. The allowance for contractual adjustments and interim payment advances is based on

Inventories – Inventories, consisting primarily of medical supplies, food, and drugs are valued at the lower of cost or market determined on the first in, first out (FIFO) basis.

Assets Limited as to Use – Assets limited as to use include assets set aside by the Hospital board of directors for future capital improvements over which the board retains control and may, at its discretion, subsequently use for other purposes. Assets limited as to use also include assets restricted by contributors for education and other purposes of the home health department

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
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Capital Assets – Capital assets are recorded at cost, or if donated, at fair value at the date of receipt. Depreciation is provided over the estimated useful life and is computed principally on the straight-line method. Equipment under capital lease is amortized on the straight-line method over the useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Notes Receivable – Notes receivable represents loans to physicians under various cash flow support and loan arrangements. These loans are to be repaid in varying monthly installments including varying interest rates, ranging from the minimum applicable federal rate to 8 percent, and are unsecured. A majority of the physician notes receivable are forgiven over time under the terms specified in the physician loan agreement.

Compensated Absences – Paid time off is charged to operations when earned. The unused and earned benefits are recorded as a current liability in the financial statements. Employees accumulate vacation days at varying rates depending on years of service. Employees also earn sick leave benefits at a Hospital determined rate for all employees. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the Hospital may convert accumulated sick leave to termination payments equal to one-half of the accumulated balance calculated at the employee's base pay rate as of the retirement date. Employees hired after June 8, 2001 are only eligible to receive termination payments on one-half of the accumulated sick leave balance up to a maximum of 240 hours.

Classification of Net Assets – Net assets of the Hospital are classified in four components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees, are required by revenue bond indentures. Restricted nonexpendable net assets equal the principal portion of permanent endowments. Unrestricted assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Net Patient Service Revenue – The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others. Retroactive adjustments to these estimated amounts are recorded in future periods as final settlements are determined.

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

Income From Operations – The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services. Non-exchange revenues, including taxes, grants and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Investment Income – Investment income on board-designated funds (funded depreciation) and general funds is recorded as non-operating gains. Interest earnings on funds restricted by contributors are also recorded as non-operating gains.

Charity Care – The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
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Pension Plan – Substantially all of the Hospital’s employees are eligible to participate in a defined benefit pension plan sponsored by the Ohio Public Employees Retirement System (OPERS). The Hospital funds pension costs accrued based on contribution rates determined by OPERS.

Federal Income Tax – As a political subdivision, the Hospital is exempt from taxation under the Internal Revenue Code.

Reclassification – Certain prior year amounts have been reclassified to conform to current year presentation.

B. DEPOSITS AND INVESTMENTS

The Hospital’s deposits and investments are comprised of the following:

	2004	2003
2004:		
Deposits	\$ 1,259,117	\$ -
Certificates of deposit	-	3,765,049
Total	\$ 1,259,117	\$ 3,765,049
2003:		
Deposits	379,014	-
Certificates of deposit	-	3,979,065
Total	\$ 379,014	\$ 3,979,065
Deposits:		
Amounts of deposits reflected on the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit)	5,264,280	4,628,216
Amounts of deposits covered by federal depository insurance	(713,768)	(613,754)
Amounts of deposits uninsured	\$ 4,550,512	\$ 4,014,462

Amounts of deposits not insured by federal depository insurance are collateralized by pools of securities pledged by the depository bank and held in the name of the respective bank.

C. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

	<u>2004</u>	<u>2003</u>
Gross patient accounts receivable	\$ 2,886,450	\$ 3,214,471
Uncollectible accounts	(647,117)	(631,019)
Contractual adjustments	<u>(593,008)</u>	<u>(667,307)</u>
Net patient accounts receivable	<u>\$ 1,646,325</u>	<u>\$ 1,916,145</u>

The Hospital provides services without collateral to its patients, most of whom are local residents and insured under third-party payer arrangements. The mix of receivables from patients and third-party payers was as follows:

	<u>2004</u>	<u>2003</u>
Medicare	34%	32%
Medical Mutual of Ohio	11%	10%
Medicaid	9%	11%
Other third-party payers	26%	28%
Patient pay	<u>20%</u>	<u>19%</u>
Total	<u>100%</u>	<u>100%</u>

D. ASSETS LIMITED AS TO USE

The composition of these assets is described in Note A. The classification and limited uses of these assets are described below:

	<u>2004</u>	<u>2003</u>
Restricted by contributors for construction, education, and other purposes-Deposits in financial institutions	\$ 13,768	\$ 13,754
Designated by the board for capital improvements:		
Deposits in financial institutions	3,751,281	3,965,311
Accrued interest receivable	<u>31,801</u>	<u>27,422</u>
Total assets limited as to use	<u>\$ 3,796,850</u>	<u>\$ 4,006,487</u>

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

E. CAPITAL ASSETS

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

	2003	Additions	Transfers	Retirements	2004	Depreciation Life-Years
Land	\$ 30,609	\$ -	\$ -	\$ -	\$ 30,609	
Land improvements	163,553	-	-	-	163,553	5-25
Buildings and improvements	9,655,763	9,166	-	(650)	9,664,279	5-50
Fixed equipment	1,455,292	-	-	(76,354)	1,378,938	5-20
Moveable equipment	4,812,667	189,799	-	(1,070,478)	3,931,988	5-20
Moveable equipment-Capital leases	1,976,948	-	-	-	1,976,948	5
Construction in progress	94,587	2,060,164	-	-	2,154,751	
Total	<u>18,189,419</u>	<u>2,259,129</u>	<u>-</u>	<u>(1,147,482)</u>	<u>19,301,066</u>	
Less accumulated depreciation:						
Land improvements	91,878	8,374	-	-	100,252	
Buildings and improvements	4,117,028	428,400	-	(650)	4,544,778	
Fixed equipment	1,450,858	1,168	-	(76,354)	1,375,672	
Moveable equipment	4,163,710	260,007	-	(1,009,831)	3,413,886	
Moveable equipment-Capital leases	933,822	163,899	-	-	1,097,721	
Total	<u>10,757,296</u>	<u>861,848</u>	<u>-</u>	<u>(1,086,835)</u>	<u>10,532,309</u>	
Net carrying amount	<u>\$ 7,432,123</u>	<u>\$ 1,397,281</u>	<u>\$ -</u>	<u>\$ (60,647)</u>	<u>\$ 8,768,757</u>	

Capital asset activity for the year ended December 31, 2003 was as follows:

	2002	Additions	Transfers	Retirements	2003	Depreciation Life-Years
Land	\$ 30,609	\$ -	\$ -	\$ -	\$ 30,609	
Land improvements	163,553	-	-	-	163,553	5-25
Buildings and improvements	9,462,106	203,408	-	(9,751)	9,655,763	5-50
Fixed equipment	1,455,292	-	-	-	1,455,292	5-20
Moveable equipment	4,418,002	539,706	-	(145,041)	4,812,667	5-20
Moveable equipment-Capital leases	1,961,188	15,760	-	-	1,976,948	5
Construction in progress	-	94,587	-	-	94,587	
Total	<u>17,490,750</u>	<u>853,461</u>	<u>-</u>	<u>(154,792)</u>	<u>18,189,419</u>	
Less accumulated depreciation:						
Land improvements	82,859	9,019	-	-	91,878	
Buildings and improvements	3,677,853	446,650	-	(7,475)	4,117,028	
Fixed equipment	1,449,660	1,198	-	-	1,450,858	
Moveable equipment	4,004,870	245,285	-	(86,445)	4,163,710	
Moveable equipment-Capital leases	769,925	163,897	-	-	933,822	
Total	<u>9,985,167</u>	<u>866,049</u>	<u>-</u>	<u>(93,920)</u>	<u>10,757,296</u>	
Net carrying amount	<u>\$ 7,505,583</u>	<u>\$ (12,588)</u>	<u>\$ -</u>	<u>\$ (60,872)</u>	<u>\$ 7,432,123</u>	

Construction in progress as of December 31, 2004 consisted of architect fees and construction costs associated with the construction of a new medical office building.

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

The lease obligations consist of three amounts summarized as follows:

- Capital lease payable over 60 months with monthly payments of \$4,324, including interest at 5.75 percent, collateralized by equipment.
- Capital lease payable over 120 months, with monthly payments of \$18,385, including interest at 5.52 percent, collateralized by HVAC system.
- Capital lease payable over 60 months, with monthly payments of \$262, at 0.00 percent interest, collateralized by an automobile.

The notes payable are summarized below:

- Note payable over 60 months, with monthly payments of \$1,881, including interest at 5.94 percent, collateralized by a roof.
- Notes payable over 120 months, with monthly payments of \$13,631, including interest at 3.13 percent, collateralized by future revenues of the Hospital.

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

F. LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2004 was as follows:

	<u>2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>2004</u>	<u>Current Portion</u>
Leases and notes payable:					
Lease obligations	\$ 569,238	\$ -	\$ (250,768)	\$ 318,470	\$ 246,512
Notes payable	32,232	1,400,000	(51,102)	1,381,130	132,888
Compensated absences	320,648	477,208	(409,920)	387,936	87,036
Total long-term liabilities	<u>\$ 922,118</u>	<u>\$ 1,877,208</u>	<u>\$ (711,790)</u>	<u>\$ 2,087,536</u>	<u>\$ 466,436</u>

Long-term debt activity for the year ended December 31, 2003 was as follows:

	<u>2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>2004</u>	<u>Current Portion</u>
Leases and notes payable:					
Lease obligations	\$ 791,673	\$ 15,760	\$ (238,195)	\$ 569,238	\$ 250,769
Notes payable	52,202	-	(19,970)	32,232	21,205
Compensated absences	320,542	416,262	(416,156)	320,648	46,008
Total long-term liabilities	<u>\$ 1,164,417</u>	<u>\$ 432,022</u>	<u>\$ (674,321)</u>	<u>\$ 922,118</u>	<u>\$ 317,982</u>

The following is a schedule by years of note principal and interest, and future minimum lease payments as of December 31, 2004:

	<u>Note Payable</u>	<u>Note Interest</u>	<u>Leases Payable</u>
2005	\$ 132,888	\$ 41,908	\$ 257,269
2006	125,786	37,791	55,037
2007	129,836	33,740	19,659
2008	133,930	29,646	-
2009	138,330	25,247	-
2010-2014	720,360	56,627	-
Total payments	<u>\$ 1,381,130</u>	<u>\$ 224,959</u>	331,965
Less amount representing interest			(13,495)
Net present value			<u>\$ 318,470</u>

The carrying value of equipment under capital lease obligations is as follows:

	<u>2004</u>	<u>2003</u>
Cost of equipment under capital lease	\$ 1,976,948	\$ 1,976,948
Less accumulated depreciation	(1,097,721)	(933,822)
Net carrying amount	<u>\$ 879,227</u>	<u>\$ 1,043,126</u>

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

G. ACCRUED LIABILITIES

The details of accrued liabilities at December 31, 2004 and 2003 are as follows:

	2004	2003
Payroll and related amounts	\$ 437,459	\$ 369,260
Compensated absences (Note F)	87,036	46,008
Workers' compensation premiums	177,228	193,487
Health insurance claims (Note M)	124,449	174,213
Other	253,446	108,205
Total accrued liabilities	\$ 1,079,618	\$ 891,173

H. COST REPORT SETTLEMENTS

Approximately 54 percent of the Hospital's revenues from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payers that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for service and amounts reimbursed by third-party payers. A summary of the basis of reimbursement with third-party payers follows.

Medicare – Effective January 1, 2001, the Hospital received full accreditation from the Center for Medicare and Medicaid Services for the Critical Access Hospital designation. As a Critical Access Hospital, the Hospital will receive reasonable, cost-based reimbursement for both inpatient and outpatient services provided to Medicare beneficiaries.

Medicaid – Inpatient, acute-care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Capital costs relating to Medicaid inpatients are paid on a cost-reimbursement method. The Hospital is reimbursed for outpatient services on an established fee-for-service methodology.

The Medicaid payment system in Ohio is a prospective one, whereby rates for the following state fiscal year beginning July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant changes in rates, or the payment system itself, could future Medicaid funding to providers.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

H. COST REPORT SETTLEMENTS

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

I. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

	2004	2003
Patient revenue:		
Inpatient services:		
Routine services	\$ 736,946	\$ 653,706
Ancillary services	2,885,036	2,393,090
Outpatient ancillary services	17,132,933	15,777,347
Total patient revenue	20,754,915	18,824,143
Less:		
Provision for bad debts	425,060	227,136
Contractual adjustments under third-party reimbursement programs	5,652,259	4,308,187
Total	\$ 14,677,596	\$ 14,288,820

J. DEFINED BENEFIT PENSION PLAN

Plan Description – The Hospital contributes to the Ohio Public Employees Retirement System of Ohio (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit plan and a defined contribution plan. OPERS provides retirement, disability, survivor, and death benefits, annual cost of living adjustments, and postretirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS board of trustees. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-6705 or 1-800-222-PERS (7377).

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For 2004, member and employer contributions rates were consistent across all three plans (TP, MD and CO), and are actuarially determined. The 2004 member contribution rate for members of local government units was 8.50 percent of their annual covered salary. The 2004 employer contribution rate for local government units was 13.55 percent of covered payroll. The Hospital’s contributions to OPERS for the years ended December 31, 2004, 2003 and 2002 were \$957,456, \$924,584, and \$855,337, respectively. Required employer contributions for all plans are equal to 100 percent of employer charges and must be extracted from the employer’s records.

Post-retirement Benefits – In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered another post-employment benefit (OPEB), as described in GASB Statement No. 12. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2004 and 2003 employer contribution rate for local government employer units was 13.55 percent of covered payroll. Of this amount, 4.0 percent and 5.0 percent was the portion that was used to fund health care during 2004 and 2003, respectively. The portion of the employer’s contributions used to fund post-employment benefits for 2004 and 2003 was \$282,644 and \$341,171, respectively. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS.

An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between the assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually. The investment return assumption rate for 2003 was 8.00 percent. An annual increase of 4.00

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00 percent base increase were assumed to range from 0.50 percent to 6.30 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1.00 percent to 6.00 percent for the next eight years. In subsequent years (nine and beyond), health care costs were assumed to increase at 4.00 percent (the projected wage inflation rate) annually. These assumptions and calculations are based on the system's latest actuarial reviewed performed as of December 31, 2003.

The number of active contributing participants in the Traditional and Combined Plan during 2004 was 369,885. As of December 31, 2003, the actuarial value of the retirement system's net assets available for OPEB was \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

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

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

K. RISK MANAGEMENT

The Hospital was insured against medical malpractice claims under an occurrence-based policy. The policy covers claims resulting from incidents that occurred during the policy terms, regardless of when the claims are reported to the insurance carrier. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding \$1,000,000 or aggregate claims exceeding \$3,000,000 for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional \$5,000,000 of coverage. These policies expired May 23, 2003, and were replaced by a claims-made policy, whereby only the claims reported during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding \$1,000,000 or aggregate claims exceeding \$3,000,000 for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional \$5,000,000 of coverage.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on the occurrences during the policy term, but reported subsequent to the policy term, will be uninsured.

While there is pending litigation against the Hospital, management is not aware of any such medical malpractice claims; either asserted or unasserted, that would exceed the policy limits. The cost of this insurance policy represents the Hospital's cost for such claims for the year, and it has been charged to operations as a current expense. There have been no claims settled in the last three years that have exceeded insured limits.

The Hospital is exposed to various risks of loss related to property and general losses and employee injuries (workers' compensation). The Hospital has purchased commercial insurance for claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years. See Note M for discussion of self-insured health programs.

L. DEFERRED COMPENSATION PLAN

All full-time employees of the Hospital may participate in a deferred compensation plan created by the State of Ohio under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and

PAULDING COUNTY, OHIO
Notes to the Basic Financial Statements
December 31, 2004

Local Governments). Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

Compensation assets deferred under a plan, all property, and rights and all income attributable to those amounts, property, or rights is held in trust at the state level for the benefit of the participants.

M. SELF-INSURANCE

The Hospital is partially self-insured under a plan covering all employees for employee health insurance. The plan is covered by a stop-loss policy that covers claims over \$35,000 per employee or total claims in excess of \$760,515. The plan policy year ends on December 31. Claims, charged to operations when incurred, were approximately \$886,000 and \$875,000 for the years ended December 31, 2004 and 2003, respectively.

Reconciliation of accrued health insurance at December 31, 2004 and 2003, consists of the following:

Balance at January 1, 2003:	\$ 90,557
Health insurance expense	875,000
Payments made	<u>(791,344)</u>
Balance at December 31, 2003	174,213
Health insurance expense	886,000
Payments made	<u>(935,764)</u>
Balance at December 31, 2004	<u>\$ 124,449</u>

N. LOSS ON INVESTMENTS

At December 31, 2001, the Hospital maintained \$1.48 million of investments at a local bank. In February 2002, it was discovered that bank was defrauded of most of its assets. The Hospital was only insured for \$100,000 (FDIC) and was collateralized on additional amounts totaling \$95,620. Due to the uncertainty of recovering any of the funds beyond insured and collateralized amounts, the Hospital wrote down the uninsured portion of the investments totaling \$1.29 million at December 31, 2001. The Hospital has recovered the insured and collateralized amounts as of December 31, 2004, as well as an additional \$512,869 of uninsured amounts, which were previously written down at December 31, 2001.

During 2003, the Hospital wrote off the remaining portion of the long-term physician receivables, as these funds were determined to be uncollectible.

The details of other non-operating gains (losses) at December 31, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Recovery on uninsured investments	\$ 21,531	\$ 241,561
Write-off physician receivable	-	(254,223)
Loss on disposal of capital assets	(40,671)	(4,612)
Other	<u>(30,027)</u>	<u>2,373</u>
Total other nonoperating losses	<u>\$ (49,167)</u>	<u>\$ (14,901)</u>

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PAULDING COUNTY

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

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
<u>Child Nutrition Cluster:</u>			
Food Distribution Program	-	10.550	\$ 1,756
National School Lunch Program	-	10.555	3,296
Total Child Nutrition Cluster			<u>5,052</u>
Total U.S. Department of Agriculture			<u>5,052</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
<u>Special Education Cluster:</u>			
Special Education - Grants to States (Title VI-B)	066183-6BSF-2004	84.027	1,890
Special Education - Grants to States (Title VI-B)	066183-6BSF-2005		<u>7,016</u>
Total			8,906
Invocation Education Program Strategies	066183-C251-2004	84.173	150
Invocation Education Program Strategies	066183-C231-2005		<u>4</u>
Total			154
Total Special Education Cluster			<u>9,060</u>
<i>Passed through Ohio Department of Health</i>			
Special Education Grants for Infants and Families with Disabilities	63-1-002-1-EG-03	84.181	<u>11,846</u>
Total U.S. Department of Education			<u>20,906</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>Passed Through Ohio Department of Emergency</i>			
<i>Management Disaster Assistance</i>			
State Domestic Preparedness Equipment Support Grant - FY 2001	2002-TE-CX-0016	97.004	33,466
State Domestic Preparedness Equipment Support Grant - FY 2002	2002-TE-CX-0106	97.004	50,625
State Homeland Security Grant Program - FY 2003	2003-TE-TX-0199	97.004	60,000
State Homeland Security Grant Program - Part 2 Equipment	2003-MU-T3-0015	97.004	74,116
State Homeland Security Grant Program - Part 2 Exercise	2003-MU-T3-0015	97.004	4,685
Total			<u>222,892</u>
Emergency Management Performance Grants - FY 2003	S03-FE03-63-0308	97.042	19,912
Pre-Disaster Mitigation Grant Program		97.047	1,779
FEMA FY 2002 Supplemental Planning Grant	S03-FS02-63-0151	97.051	<u>22,376</u>
Total U.S. Department of Homeland Security			<u>266,959</u>

(Continued)

PAULDING COUNTY

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed Through Ohio Department of Health</i>			
Social Services Block Grant (Title XX)	-	93.667	18,237
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>			
Medical Assistance Program (Medicaid: Title XIX)	-	93.778	92,636
<i>Passed Through Ohio Job and Family Services</i>			
Child Welfare Subsidy (Title IV-B)	63-6010-04	93.645	31,670
ESSA Family Preservation	63-6400-04	93.645	2,776
ESSA Family Reunification	63-6401-04	93.645	499
Total			<u>34,945</u>
Child Abuse and Neglect State Grants	63-6020-04	93.669	2,000
Chaffee Foster Care Independence Program	63-6018-04	93.674	<u>1,023</u>
Total U.S. Department of Health and Human Services			<u>148,841</u>
U.S. DEPARTMENT OF LABOR			
<i>Passed Through Ohio Job and Family Services</i>			
<u>Workforce Investment Act Cluster:</u>			
Workforce Investment Act - Adult		17.258	19,754
Workforce Investment Act - Adult Administration		17.258	5,125
Total			<u>24,879</u>
Workforce Investment Act - Youth		17.259	36,801
Workforce Investment Act - Dislocated Worker		17.260	14,927
Workforce Investment Act - Dislocated Worker Administration		17.260	4,067
Total			<u>18,994</u>
<i>Passed Through Montgomery County</i>			
<u>Workforce Investment Act Cluster:</u>			
Workforce Investment Act - Adult		17.258	14,787
Workforce Investment Act - Adult Administration		17.258	30
Total			<u>14,817</u>
Workforce Investment Act - Youth		17.259	16,788
Workforce Investment Act - Dislocated Worker		17.260	<u>17,064</u>
Total U.S. Department of Labor - Workforce Investment Act Cluster			<u>129,343</u>

(Continued)

PAULDING COUNTY

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

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Engineer's Association</i>			
Highway Planning and Construction	04N088	20.205	394,358
Highway Planning and Construction	03N130	20.205	174,520
Highway Planning and Construction	02N114	20.205	15,971
Highway Planning and Construction	03N149	20.205	<u>2,781,157</u>
Total U.S. Department of Transportation			<u>3,366,006</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Home Investment Partnerships Program (Chip)	B-C-02-058-2	14.239	247,441
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grant (Chip)	B-C-02-058-1	14.228	88,650
Community Development Block Grant (Formula)	B-F-02-058-1	14.228	30,920
Community Development Block Grant - (Formula)	B-F-03-058-1	14.228	52,000
Community Development Block Grant - (Chip)	B-M-00-058-1	14.228	<u>25,000</u>
Total			<u>196,570</u>
Total U.S. Department of Housing and Urban Development			<u>444,011</u>
U.S. DEPARTMENT OF JUSTICE			
<i>Passed Through the Office of Criminal Justice Services</i>			
Victims of Crimes Act Grant	03SVAGENE325	16.575	<u>30,902</u>
U.S. GENERAL SERVICES ADMINISTRATION			
<i>Passed through the Ohio Security of State</i>			
Election Reform Payments	-	39.011	<u>6,000</u>
Total			<u>\$ 4,418,020</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

PAULDING COUNTY

NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES DECEMBER 31, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the County's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - SUBRECIPIENTS

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

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

NOTE C - COMMUNITY DEVELOPMENT BLOCK GRANT 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 and to rehabilitate homes. 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 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 was \$629,074.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require that the County to 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.



**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***

Paulding County
115 North Williams Street
Paulding, Ohio 45879

To the Board of Commissioners:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Paulding 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 November 7, 2005, wherein, we noted the County, except for the Paulding County Hospital (the Hospital), the County's enterprise fund, uses a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, and wherein we noted the County's modified cash basis financial statements do not include amounts related to the Hospital in its fund statements or its entity wide statements. Accordingly, the County's financial statements do not present fairly the financial position of the proprietary funds or business type activities of the County as of December 31, 2004 or the changes in its modified cash basis financial position for the year then ended. We did not audit the financial statements of the Hospital as of and for the years ended December 31, 2004 and 2003, which are presented as stand alone statements of the County. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Hospital is based on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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.

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Other auditors performed procedures to obtain an understanding of the internal controls of the Hospital. There were no comments related to the Hospital which were considered reportable to the County.

In a separate letter to the County's management dated November 7, 2005, 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 2005-001 through 2005-003.

Other auditors performed tests of noncompliance related to the Hospital and the results of those tests are reported separately in the audit report of the Hospital. There was no noncompliance related to the Hospital which was considered reportable to the County.

In a separate letter to the County's management dated November 7, 2005, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

November 7, 2005



**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**

Paulding County
115 North Williams Street
Paulding, Ohio 45879

To the Board of Commissioners:

Compliance

We have audited the compliance of Paulding 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 program 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 each major federal program. 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 a major federal program. 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, Paulding County complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2004. In a separate letter to the County's management dated November 7, 2005, we reported other matters 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 a major federal program 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.

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.

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



Betty Montgomery
Auditor of State

November 7, 2005

PAULDING COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2004

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Revised Code § 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 §117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

Ohio Administrative Code §117-2-03(B) requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. The County, with the exception of the Paulding County Hospital, prepares its financial statements in accordance with the modified cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis –for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. The County can be fined and various other administrative remedies may be taken against the County.

FINDING NUMBER 2004-001
(Continued)

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

FINDING NUMBER 2004-002

Noncompliance Citation

The Certificate under Section 103(b)(2) and 148 of the Internal Revenue Code of 1986, Subsection E. Expenditure of Proceeds for the Project, requires the acquisition of the project will commence shortly and the Issuer has incurred, or will incur within six months after the closing date, a substantial binding commitment to expend at least five percent of the net sale proceeds of the obligations on the project will proceeds within three years of the closing date.

On June 15, 2004, the County issued \$2,800,000 in bond anticipation notes to finance the construction of a county correctional facility.

As of December 31, 2004, which was more than six months after the closing date of June 14, 2004, approximately \$20,000 in project costs had actually occurred. This is significantly less than five percent. There was no binding commitment to expend at least five percent of the net sale proceeds of the obligations on the project. Noncompliance with this certificate could affect the tax-exempt status of the County's debt.

FINDING NUMBER 2004-003

Noncompliance Citation

Chapter 5705 of the Revised Code sets forth a scheme that provides for a uniform budget and appropriation process in order to assure that a governmental entity expends no more than it expects to receive in revenue. In order to accomplish this end, all appropriations must be accounted to and from each appropriation fund. While federal and state loans and grants are deemed appropriated and in the process of collection so as to be available for expenditure, they must still be recorded. R.C. 5705.42. Thus, a mechanism is still required to account for receipt and expenditure. That mechanism is an amendment of, or a supplement to, the entity's estimated resources, or its appropriation measure, which shall comply with all provisions of law governing the taxing authority in making an original appropriation. R.C. 5705.40. An original appropriation measure must be passed by the taxing authority, and any amendment of, or supplement to, that measure also requires legislative action. R.C. 5705.38.

Ohio Revised Code § 5705.41 (B) states in part that no subdivision is to expend money unless it has been appropriated as provided in this chapter. As of December 31, 2004, the County had not appropriated for expenditures from the Engineer's Construction Capital Projects Fund. As a result expenditures exceeded appropriations by \$3,353,380 in that fund.

The County Auditor should not certify the availability of funds and should deny payment requests exceeding appropriations. The County Auditor may request the Commissioners approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

PAULDING COUNTY

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Ohio Administrative Code § 117-2-03(B) – Not reporting on GAAP.	No	Not Corrected. Reissued as finding 2004-001. The County believes reporting on a basis of accounting other than GAAP is more cost efficient.
2003-002	Ohio Revised Code § 4503.03 – Not all fees collected and retained by a clerk for conducting deputy registrar services were paid into the county treasury. A finding for recovery was issued for \$6,075.76.	Yes	The Clerk of Courts repaid the amount of the finding for recovery on October 7, 2004.



**Auditor of State
Betty Montgomery**

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FINANCIAL CONDITION

PAULDING 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
DECEMBER 20, 2005**