

Madison County

Single Audit

January 1, 2005 through Decemeber 31, 2005

Fiscal Year Audited Under GAGAS: 2005

**BALESTRA, HARR & SCHERER, CPAs, INC.**  
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**Auditor of State  
Betty Montgomery**

County Commissioners  
Madison County  
1 East Main Street  
P. O. Box 47  
London, Ohio 43140-0047

We have reviewed the *Independent Auditor's Report* of Madison County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY  
Auditor of State

October 5, 2006

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**MADISON COUNTY**  
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Ohio Society of Certified Public Accountants

## Independent Auditor's Report

County Commissioners  
Madison County  
P. O. Box 47  
London, Ohio 43140-0047

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Madison County, Ohio, (the County) as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Matco Industries, Inc. which is included as a discrete presentation in the County's basic financial statements. These financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion insofar as it relates to the amounts included for Matco Industries, Inc., is based solely 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions based on our audit and the report of other auditors.

Ohio Administrative Code § 117-2-03 (B) requires the County to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash basis of accounting. This is a comprehensive basis of accounting 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.

In our opinion, based on our report and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of December 31, 2005, and the respective changes in financial position and the respective budgetary comparison for the General and major special revenue funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

County Commissioners  
Madison County  
Independent Auditor's Report  
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In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2006, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

As described in Note 12, the County implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosure* and GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employees*.



Balestra, Harr & Scherer, CPAs, Inc.  
September 26, 2006

**Madison County**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2005  
Unaudited

The discussion and analysis of Madison County's financial performance provides an overview of the County's financial activities for the fiscal year ended December 31, 2005, within the limitations of the County's cash basis of accounting. Please read this in conjunction with the County's financial statements that begin on page 11.

**Financial Highlights**

Key financial highlights for 2005 are as follows:

**Overall:**

Total net assets increased \$826,770 with Governmental Activities increasing by \$812,681 and Business- Type Activities increasing by \$14,089.

Total cash receipts were \$33,614,817 in 2005.

Total program cash disbursements were \$32,788,047 in 2005.

**Governmental Activities:**

Total program cash receipts were \$21,184,811 in 2005, while program cash disbursements were \$32,788,047.

Program cash disbursements were primarily composed of Human Services, Legislative and Executive, Public Works, Health and Public Safety related cash disbursements which were \$7,196,959, 5,703,650, 4,933,804, 4,340,940 and 3,632,751, respectively in 2005.

**Business-Type Activities:**

Program cash receipts were \$2,534,205 for Business-Type Activities, while corresponding cash disbursements were \$3,225,222.

**Using this Basic Financial Report**

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

The Statement of Net Assets-cash basis and Statement of Activities-cash basis provide information about the activities of the whole County, presenting both an aggregate view of the County's cash basis finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the County's most significant funds with all other non-major funds presented in total in one column. In the case of Madison County, the General Fund, the Motor Vehicle License Tax Fund, the Public Assistance Fund, and the MRDD Fund are the most significant funds and have been presented as major funds.



**Madison County**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2005  
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**Reporting the County as a Whole**

**The County's Reporting Entity Presentation**

This annual report includes all activities for which Madison County is fiscally responsible. These activities, defined as the County's reporting entity, are operated within separate legal entities that make up the primary government of Madison County and one other separate legal entity that is presented as a component unit. The primary government consists of Madison County; the component unit presentation includes the following separate legal entity:

- Matco Industries, Inc.

**Statement of Net Assets and the Statement of Activities**

While this document contains the large number of funds used by the County to provide programs and activities, the view of the County as a whole looks at all cash basis financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include only net assets using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid. These two statements report the County's net assets and changes in those assets. This change in net assets is important because it tells the reader whether, for the County as a whole, the cash basis financial position of the County has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the County's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated federal and state programs and other factors.

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

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

**Governmental Activities** - Most of the County's programs and services are reported here including general government, public safety, public works, health, human services, conservation and recreation, transportation, capital outlay, and debt service.

**Business-Type Activities** - These services are provided on a charge for goods or services basis to recover all of the cash disbursements of the goods or services provided. The County's wastewater treatment program is reported as business activities.

**Component Unit Activities** - Although Matco Industries, Inc. is a separate legal entity, the County includes their activities since the County is financially accountable for this entity.

**Madison County**  
Management's Discussion and Analysis  
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**Reporting the County's Most Significant Funds**

**Fund Financial Statements**

The analysis of the County's major funds begins on page 9. Fund financial reports provide detailed information about the County's major funds. The County uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the County's most significant funds. The County's most significant funds that have been presented as major governmental funds are the General Fund, the Motor Vehicle Gasoline Tax Fund, the Public Assistance Fund and the MRDD General Fund.

**Governmental Funds**

Most of the County's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various County programs. Since the County is reporting on the cash basis of accounting, there are no differences in the Net Assets and fund cash balances or changes in Net Assets and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements. However, differences will be apparent when comparing gross revenues and expenses on the Fund Financial Statements to the Statement of Activities due to transfers netted on the Statement of Activities.

**Proprietary Funds**

The County's proprietary funds use the same basis of accounting (cash basis) as governmental fund activities; therefore, these statements will essentially match the information provided in statements for the County as a whole.

**Fiduciary Funds**

Fiduciary Funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The County's only fiduciary funds are agency funds. Only the cash held at year end for the agency funds are reported.

**Madison County**  
Management's Discussion and Analysis  
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Unaudited

**The County as a Whole**

Recall that the Statement of Net Assets provides the perspective of the County as a whole. Table 1 provides a summary of the County's Net Assets for 2005 compared to the prior year:

Table 1

<b>ASSETS</b>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Cash & Cash						
Equivalents	<u>\$ 12,307,693</u>	<u>\$ 11,495,012</u>	<u>\$ 311,241</u>	<u>\$ 297,152</u>	<u>\$ 12,618,934</u>	<u>\$ 11,792,164</u>
 Total Assets	 <u>\$ 12,307,693</u>	 <u>\$ 11,495,012</u>	 <u>\$ 311,241</u>	 <u>\$ 297,152</u>	 <u>\$ 12,618,934</u>	 <u>\$ 11,792,164</u>
 <b>NET ASSETS</b>						
Restricted for:						
Debt Service	\$ 108,847	\$ 64,128	-	-	\$ 108,847	\$ 64,128
Capital Projects	1,055,139	1,038,979	-	-	1,055,139	1,038,979
Other Purposes	7,749,726	6,765,654	-	-	7,749,726	6,765,654
Unrestricted	<u>3,393,981</u>	<u>3,626,251</u>	<u>\$ 311,241</u>	<u>\$ 297,152</u>	<u>3,705,222</u>	<u>3,923,403</u>
 Total Net Assets	 <u>\$ 12,307,693</u>	 <u>\$ 11,495,012</u>	 <u>\$ 311,241</u>	 <u>\$ 297,152</u>	 <u>\$ 12,618,934</u>	 <u>\$ 11,792,164</u>

Total assets and net assets increased by \$826,770 from 2004 to 2005.

\$8,913,712 of the County's net cash assets are subject to external restrictions on how it may be used. The remaining balance of government-wide unrestricted net cash assets of \$3,705,222 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

**Madison County**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2005  
Unaudited

Table 2 shows changes in Net Assets for fiscal year 2005 and 2004.

	2005			2004		
	Governmental Activities	Business-Type Activities	Totals	Governmental Activities	Business-Type Activities	Totals
<b>Cash Receipts</b>						
Program Cash Receipts						
Charges for Services & Sales	\$ 3,753,892	\$ 2,184,205	\$ 5,938,097	\$ 3,152,603	\$ 844,871	\$ 3,997,474
Operating Grants & Contributions	14,331,824	350,000	14,681,824	13,272,695	-	13,272,695
Capital Grants & Contributions	564,890	-	564,890	1,387,213	-	1,387,213
<b>Total Program Receipts</b>	<b>18,650,606</b>	<b>2,534,205</b>	<b>21,184,811</b>	<b>17,812,511</b>	<b>844,871</b>	<b>18,657,382</b>
General Cash Receipts & Transfers						
Property Taxes Levied for General Purposes	5,169,930	-	5,169,930	5,603,492	-	5,603,492
Sales Taxes	4,337,455	-	4,337,455	4,389,103	-	4,389,103
Grants & Entitlements not Restricted to Specific Programs	1,462,490	-	1,462,490	939,337	-	939,337
Proceeds from Sale of Notes/Loans	-	678,316	678,316	2,131,553	223,834	2,355,387
Transfers In (out)	-	-	-	(8,411)	8,411	-
Interest Receipts	468,842	-	468,842	170,355	-	170,355
Miscellaneous	286,183	26,790	312,973	632,905	-	632,905
<b>Total General Cash Receipts &amp; Transfers</b>	<b>11,724,900</b>	<b>705,106</b>	<b>12,430,006</b>	<b>13,858,334</b>	<b>232,245</b>	<b>14,090,579</b>
<b>Total Cash Receipts &amp; Transfers</b>	<b>30,375,506</b>	<b>3,239,311</b>	<b>33,614,817</b>	<b>31,670,845</b>	<b>1,077,116</b>	<b>32,747,961</b>
<b>Cash Disbursements</b>						
Program Cash Disbursements						
General Government						
Legislative & Executive	5,703,650	-	5,703,650	6,004,050	-	6,004,050
Judicial	2,101,143	-	2,101,143	1,697,030	-	1,697,030
Public Safety	3,632,751	-	3,632,751	2,159,048	-	2,159,048
Public Works	4,933,804	-	4,933,804	4,903,147	-	4,903,147
Health	4,340,940	-	4,340,940	4,088,030	-	4,088,030
Human Services	7,196,959	-	7,196,959	6,805,611	-	6,805,611
Conservation & Recreation	326,283	-	326,283	-	-	-
Miscellaneous	-	-	-	486,292	-	486,292
Capital Outlay	748,723	-	748,723	3,602,584	-	3,602,584
Debt Service						
Principal Retirement	325,296	-	325,296	332,531	-	332,531
Interest & Fiscal Charges	253,276	-	253,276	266,521	-	266,521
<b>Total Program Cash Disbursements</b>	<b>29,562,825</b>	<b>-</b>	<b>29,562,825</b>	<b>30,344,844</b>	<b>-</b>	<b>30,344,844</b>
Business - Type Disbursements						
Airport Operations	-	593,048	593,048	-	388,805	388,805
Wastewater Treatment	-	2,632,174	2,632,174	-	453,767	453,767
<b>Total Business - Type Disbursements</b>	<b>-</b>	<b>3,225,222</b>	<b>3,225,222</b>	<b>-</b>	<b>842,572</b>	<b>842,572</b>
<b>Total Cash Disbursements</b>	<b>29,562,825</b>	<b>3,225,222</b>	<b>32,788,047</b>	<b>30,344,844</b>	<b>842,572</b>	<b>31,187,416</b>
<b>Increase in Net Cash Assets</b>	<b>812,681</b>	<b>14,089</b>	<b>826,770</b>	<b>1,326,001</b>	<b>234,544</b>	<b>1,560,545</b>
Net Cash Assets at Beginning of Year	11,495,012	297,152	11,792,164	10,169,011	62,608	10,231,619
Net Cash Assets at End of Year	\$ 12,307,693	\$ 311,241	\$ 12,618,934	\$ 11,495,012	\$ 297,152	\$ 11,792,164

**Madison County**  
Management's Discussion and Analysis  
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The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall monies generated by a voted levy do not increase solely as a result of inflation. Thus, the County's dependence upon property taxes is hampered by a lack of tax growth and it must return to voters to maintain a constant level of service. Property taxes and sales taxes made up 17 percent and 14 percent, respectively, of cash receipts for governmental activities for Madison County in fiscal year 2005. Operating grants and contributions made up 47 percent of cash receipts for governmental activities for the County.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax receipts and unrestricted State entitlements. The dependence upon tax receipts and intergovernmental monies for governmental activities is apparent. Almost 100 percent of human services activities are supported through charges for services and operating grants and contributions; for all governmental activities general cash receipts and transfers support is 63 percent as shown in Table 2. The taxpayers and the State of Ohio, as a whole, provide the vast majority of resources for Madison County. Table 3 below shows the total and net cost of services (on a cash basis) for the County.

Table 3  
Total cost of Program Services  
Governmental Activities and Business – Type Activities

	<b>Total Cost of Service</b>		<b>Net Cost of Service</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Governmental Activities</b>				
General Government				
Legislative & Executive	\$ 5,703,650	\$ 6,004,050	\$ 4,135,360	\$ 4,257,519
Judicial	2,101,143	1,697,030	1,155,394	1,359,906
Public safety	3,632,751	2,159,048	2,232,540	1,318,247
Public Works	4,933,804	4,903,147	(674,625)	581,304
Health	4,340,940	4,088,030	2,378,871	443,821
Human Services	7,196,959	6,805,611	730,846	1,635,609
Conservation & Recreation	326,283	-	182,783	-
Miscellaneous	-	486,294	-	394,750
Capital Outlay	748,723	3,602,584	263,722	2,233,140
Debt Service:				
Principal Retirement	325,296	332,531	254,052	141,644
Interest & Fiscal Charges	253,276	266,521	253,276	166,395
Total Governmental Activities	<u>\$ 29,562,825</u>	<u>\$ 30,344,846</u>	<u>\$ 10,912,219</u>	<u>\$ 12,532,335</u>
<b>Business - Type Activities</b>				
Airport Operations	\$ 593,048	\$ 388,805	\$ 172,412	\$ (153,005)
Wastewater Treatment	2,632,174	453,767	518,605	150,706
Total Business - Type Activities	<u>\$ 3,225,222</u>	<u>\$ 842,572</u>	<u>\$ 691,017</u>	<u>\$ (2,299)</u>

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Management's Discussion and Analysis  
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**Business-Type Activities**

Business-type activities include wastewater treatment services and a County-owned airport.

Overall Net Assets increased \$14,089 from 2004 to 2005.

**The County's Funds**

The County's Funds Information about the County's major funds starts on page 13. These funds are accounted for using the cash basis of accounting. All governmental funds had total cash receipts and other financing sources of \$30,756,972 and cash disbursements and other financing uses of \$29,944,291. The net change in fund balance for the year was most significant in the Motor Vehicle Gasoline Tax Fund cash balance which went from \$644,519 in 2004 to \$1,195,917 for 2005.

**General Fund Budgeting Highlights**

The County's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

For the general fund, both the original budget estimate and the final budget basis receipts and other financing sources was \$10,000,000.

Total actual disbursements and other financing uses on the budget basis (cash outlays plus encumbrances) were \$11,428,339, \$232,270 more than cash receipts.

**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 \$1,571,779 during fiscal year 2005.

**Debt**

Under the cash basis of accounting the County does not report bonds, long-term notes or short-term notes in the accompanying basic financial statements. However, in order to provide information to the readers of this report, we are providing the following detailed information about bonds, long-term notes and short-term notes. At December 31, 2005 the County had \$4,953,493 in bonds and related long-term debt for Governmental Activities and \$7,716,564 in bonds and related long-term debt for Business-Type Activities.

**Madison County**  
Management's Discussion and Analysis  
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Table 4 summarizes long-term obligations outstanding for the past two years:

Table 4  
Outstanding Debt at December 31

	<u>2005</u>	<u>2004</u>
Government Activities:		
General Obligation Bonds	\$1,338,509	\$1,443,509
Special Revenue Bonds	2,425,000	2,540,000
Special Assessment Bonds	<u>104,671</u>	<u>141,652</u>
Total Governmental Activities Debt	3,868,180	4,125,161
Business – Type Activities:		
OWDA Loans	8,560,858	9,582,428
OPWC Loan	<u>241,019</u>	<u>223,834</u>
Total Business – Type Activities Debt	<u>8,801,877</u>	<u>9,806,262</u>
<b>Total Outstanding Debt</b>	<b><u>\$12,670,057</u></b>	<b><u>\$13,931,423</u></b>

For more information regarding the County's debt, see Note 4 to the basic financial statements.

**Current Financial Related Activities**

Madison County is strong financially at the present time. However, as the preceding information shows, the County heavily depends on its property taxpayers as well as intergovernmental monies.

Since the property tax receipts do not grow at the same level as inflation, the County will be faced with significant challenges over the next several years to contain costs and ultimately determine what options are available to the County to increase financial resources.

In addition, the County's system of budgeting and internal controls has made significant improvements over the past several years. All of the County's financial abilities will be needed to meet the challenges of the future.

**Contacting the County's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the County's cash basis finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jim Williamson, County Auditor at Madison County, 1 North Main Street, London, Ohio 43140. Or e-mail at [auditor@co.madison.oh.us](mailto:auditor@co.madison.oh.us).

**Madison County**  
**Statement of Net Assets-Cash Basis**  
As of December 31, 2005

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Matco Industries, Inc.</b>
<b>ASSETS</b>				
Equity in Pooled Cash & Cash Equivalents	\$ 12,307,693	\$ 311,241	\$ 12,618,934	\$ 1,172,022
Total Assets	<u>\$ 12,307,693</u>	<u>\$ 311,241</u>	<u>\$ 12,618,934</u>	<u>\$ 1,172,022</u>
<b>NET ASSETS</b>				
Restricted for:				
Debt Service	\$ 108,847	\$ -	\$ 108,847	\$ -
Capital Projects	1,055,139	-	1,055,139	-
Other Purposes	7,749,726	-	7,749,726	1,172,022
Unrestricted	<u>3,393,981</u>	<u>311,241</u>	<u>3,705,222</u>	<u>-</u>
Total Net Assets	<u>\$ 12,307,693</u>	<u>\$ 311,241</u>	<u>\$ 12,618,934</u>	<u>\$ 1,172,022</u>

The notes to the financial statements are an integral part of this statement.



**Madison County**  
*Statement of Activities - Cash Basis*  
For the Year Ended December 31, 2005

	<b>Program Cash Receipts</b>				<b>Net Cash (Disbursements) Receipts and Changes in Net Cash Assets</b>			<b>Component Unit</b>
	<b>Program Cash Disbursements</b>	<b>Charges for Services &amp; Sales</b>	<b>Operating Grants &amp; Contributions</b>	<b>Capital Grants &amp; Contributions</b>	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>	<b>MATCO Industries, Inc.</b>
Governmental Activities								
General Government								
Legislative & Executive	\$ 5,703,650	\$ 1,555,993	\$ 12,297	\$ -	\$ (4,135,360)	\$ -	\$ (4,135,360)	\$ -
Judicial	2,101,143	741,781	203,968	-	(1,155,394)	-	(1,155,394)	-
Public Safety	3,632,751	579,405	813,533	7,273	(2,232,540)	-	(2,232,540)	-
Public Works	4,933,804	219,502	5,388,927	-	674,625	-	674,625	-
Health	4,340,940	90,956	1,871,113	-	(2,378,871)	-	(2,378,871)	-
Human Services	7,196,959	499,788	5,964,953	1,372	(730,846)	-	(730,846)	-
Conservation & Recreation	326,283	66,467	77,033	-	(182,783)	-	(182,783)	-
Capital Outlay	748,723	-	-	485,001	(263,722)	-	(263,722)	-
Debt Service:								
Principal Retirement	325,296	-	-	71,244	(254,052)	-	(254,052)	-
Interest & Fiscal Charges	253,276	-	-	-	(253,276)	-	(253,276)	-
<b>Total Governmental Activities</b>	<b>29,562,825</b>	<b>3,753,892</b>	<b>14,331,824</b>	<b>564,890</b>	<b>(10,912,219)</b>	<b>-</b>	<b>(10,912,219)</b>	<b>-</b>
Business-Type Activities								
Airport Operations	593,048	420,636	-	-	-	(172,412)	(172,412)	-
Wastewater Treatment	2,632,174	1,763,569	350,000	-	-	(518,605)	(518,605)	-
<b>Total Business-Type Activities</b>	<b>3,225,222</b>	<b>2,184,205</b>	<b>350,000</b>	<b>-</b>	<b>-</b>	<b>(691,017)</b>	<b>(691,017)</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 32,788,047</b>	<b>\$ 5,938,097</b>	<b>\$ 14,681,824</b>	<b>\$ 564,890</b>	<b>(10,912,219)</b>	<b>(691,017)</b>	<b>(11,603,236)</b>	<b>-</b>
Component Units:								
Matco Industries, Inc.	1,618,339	1,660,678	-	-				42,339
<b>Total Component Units</b>	<b>\$ 1,618,339</b>	<b>\$ 1,660,678</b>	<b>\$ -</b>	<b>\$ -</b>				<b>\$ 42,339</b>

**General Cash Receipts and Transfers**

Property Taxes Levied for:								
General Purposes					5,169,930	-	5,169,930	-
Sales Taxes					4,337,455	-	4,337,455	-
Grants and Entitlements not Restricted to Specific Programs					1,462,490	-	1,462,490	-
Proceeds from Loans					-	678,316	678,316	-
Interest Receipts					468,842	-	468,842	-
Miscellaneous					286,183	26,790	312,973	-
<b>Total General Cash Receipts</b>					<b>11,724,900</b>	<b>705,106</b>	<b>12,430,006</b>	<b>-</b>
Change in Net Cash Assets					812,681	14,089	826,770	42,339
Net Cash Assets Beginning of Year					11,495,012	297,152	11,792,164	1,129,683
<b>Net Cash Assets End of Year</b>					<b>\$ 12,307,693</b>	<b>\$ 311,241</b>	<b>\$ 12,618,934</b>	<b>\$ 1,172,022</b>

The notes to the financial statements are an integral part of this statement.

*Madison County*  
**Statement of Cash Basis Assets and Fund Balances,**  
**Cash Receipts, Cash Disbursements and Changes in Fund Balances - Governmental Funds - Cash Basis**  
For the Year Ended December 31, 2005

	General	Motor Vehicle Gasoline Tax	Public Assistance	MRDD General	Other Governmental Funds	Total Governmental Funds
<b>CASH RECEIPTS:</b>						
Taxes	\$ 6,974,784	\$ -	\$ -	\$ 2,097,399	\$ 435,202	\$ 9,507,385
Charges for Services	1,727,071	416	-	95,997	944,503	2,767,987
Licenses & Permits	2,647	-	-	-	22,876	25,523
Fines & Forfeitures	560,235	80,341	-	-	319,806	960,382
Intergovernmental Receipts	1,462,490	5,218,056	3,803,781	1,843,613	3,466,374	15,794,314
Special Assessments	-	-	-	-	564,890	564,890
Interest Income	468,842	-	-	-	-	468,842
All Other Revenue	-	-	-	-	286,183	286,183
<b>TOTAL CASH RECEIPTS</b>	<b>11,196,069</b>	<b>5,298,813</b>	<b>3,803,781</b>	<b>4,037,009</b>	<b>6,039,834</b>	<b>30,375,506</b>
<b>CASH DISBURSEMENTS:</b>						
General Government						
Legislative & Executive	4,931,161	-	-	-	772,489	5,703,650
Judicial	2,071,471	-	-	-	29,672	2,101,143
Public Safety	2,395,671	-	-	-	1,237,080	3,632,751
Public Works	209,655	4,719,091	-	-	5,058	4,933,804
Health	90,698	-	-	4,157,600	92,642	4,340,940
Human Services	1,216,400	-	3,827,549	-	2,153,010	7,196,959
Conservation-Recreation	326,283	-	-	-	-	326,283
Capital Outlay	-	-	-	-	748,723	748,723
Debt Service						
Bond Principal Payment	-	-	-	-	325,296	325,296
Interest & Fiscal Charges	-	-	-	-	253,276	253,276
<b>TOTAL CASH DISBURSEMENTS</b>	<b>11,241,339</b>	<b>4,719,091</b>	<b>3,827,549</b>	<b>4,157,600</b>	<b>5,617,246</b>	<b>29,562,825</b>
<b>EXCESS (DEFICIENCY) OF CASH RECEIPTS OVER (UNDER) CASH DISBURSEMENTS</b>	<b>(45,270)</b>	<b>579,722</b>	<b>(23,768)</b>	<b>(120,591)</b>	<b>422,588</b>	<b>812,681</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating Transfers-In	-	29,676	-	-	351,790	381,466
Operating Transfers-Out	(187,000)	(58,000)	-	-	(136,466)	(381,466)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(187,000)</b>	<b>(28,324)</b>	<b>-</b>	<b>-</b>	<b>215,324</b>	<b>-</b>
<b>NET CHANGE IN FUND CASH BALANCES CASH BASIS FUND BALANCE, BEGINNING OF YEAR</b>	<b>(232,270)</b>	<b>551,398</b>	<b>(23,768)</b>	<b>(120,591)</b>	<b>637,912</b>	<b>812,681</b>
<b>CASH BASIS FUND BALANCE, END OF YEAR</b>	<b>\$ 3,393,981</b>	<b>\$ 1,195,917</b>	<b>\$ 439,336</b>	<b>\$ 442,693</b>	<b>\$ 6,835,766</b>	<b>\$ 12,307,693</b>
<b>CASH BASIS ASSETS AT END OF YEAR</b>						
Equity in Pooled Cash and Cash Equivalents	\$ 3,393,981	\$ 1,195,917	\$ 439,336	\$ 442,693	\$ 6,835,766	\$ 12,307,693
<b>CASH BASIS FUND BALANCES AT END OF YEAR</b>						
Reserved for Encumbrances	\$ -	\$ -	\$ -	\$ -	\$ 71,197	\$ 71,197
Unreserved, Undesignated, Reported in:						
General Fund	3,393,981	-	-	-	-	3,393,981
Special Revenue Funds	-	1,195,917	439,336	442,693	5,600,583	7,678,529
Capital Project Funds	-	-	-	-	1,055,139	1,055,139
Dest Service Funds	-	-	-	-	108,847	108,847
<b>TOTAL CASH BASIS FUND BALANCES</b>	<b>\$ 3,393,981</b>	<b>\$ 1,195,917</b>	<b>\$ 439,336</b>	<b>\$ 442,693</b>	<b>\$ 6,835,766</b>	<b>\$ 12,307,693</b>

The notes to the financial statements are an integral part of this statement.

**Madison County**  
*Statement of cash Basis Assets and Fund Balances, Cash Receipts,  
Cash Disbursements and Changes in Fund Balances - Proprietary Funds - Cash Basis*  
For the Year Ended December 31, 2005

	<u><b>Other Enterprise Funds</b></u>
<b>OPERATING CASH RECEIPTS</b>	
Charges for Services	\$ 919,819
Special Assessments	1,264,386
Other Operating Revenues	26,791
<b>TOTAL OPERATING CASH RECEIPTS</b>	<u>2,210,996</u>
<b>OPERATING CASH DISBURSEMENTS</b>	
Personal Services	221,995
Contract Services	332,065
Supplies & Materials	233,721
Capital Outlay	823,056
<b>TOTAL OPERATING CASH DISBURSEMENTS</b>	<u>1,610,837</u>
<b>OPERATING CASH RECEIPTS OVER OPERATING CASH DISBURSEMENTS</b>	600,159
<b>NON-OPERATING CASH RECEIPTS (DISBURSEMENTS):</b>	
Grants	350,000
Bond Retirement	(1,264,386)
Loan Proceeds	678,316
O. W. D. A. Loan Retirement	(350,000)
<b>TOTAL NON-OPERATING CASH RECEIPTS (DISBURSEMENTS)</b>	<u>(586,070)</u>
<b>CHANGE IN NET CASH ASSETS</b>	14,089
<b>NET CASH ASSETS AT BEGINNING OF YEAR</b>	297,152
<b>NET CASH ASSETS AT END OF YEAR</b>	<u><u>\$ 311,241</u></u>
<b>CASH BASIS ASSETS AT END OF YEAR</b>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$ 311,241</u></u>
<b>CASH BASIS FUND BALANCES AT END OF YEAR</b>	
Unreserved, Undesignated	<u><u>\$ 311,241</u></u>

The notes to the financial statements are an integral part of this statement.

**Madison County**  
**Statement of Receipts, Disbursements and Changes in Fund Balances - Budget and Actual**  
**(Budgetary Basis)**  
For the Year Ended December 31, 2005

	<b>General Fund</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b>BUDGETARY BASIS RECEIPTS:</b>				
Taxes	\$ 7,206,000	\$ 7,206,000	\$ 6,974,784	\$ (231,216)
Charges for Services	1,275,000	1,275,000	1,727,071	452,071
Licenses & Permits	3,000	3,000	2,647	(353)
Fines & Forfeitures	416,000	416,000	560,235	144,235
Intergovernmental Receipts	950,000	950,000	1,462,490	512,490
Interest Income	150,000	150,000	468,842	318,842
All Other Revenue	-	-	-	-
<b>TOTAL RECEIPTS</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>11,196,069</b>	<b>1,196,069</b>
<b>BUDGETARY BASIS DISBURSEMENTS:</b>				
General Government				
Legislative & Executive	5,192,197	5,471,092	4,931,161	539,931
Judicial	2,415,777	2,402,405	2,071,471	330,934
Public Safety	2,883,534	2,950,034	2,395,671	554,363
Public Works	302,961	255,316	209,655	45,661
Health	87,834	94,603	90,698	3,905
Human Services	1,346,489	1,347,846	1,216,400	131,446
Conservation-Recreation	326,384	326,384	326,283	101
<b>TOTAL DISBURSEMENTS</b>	<b>12,555,176</b>	<b>12,847,680</b>	<b>11,241,339</b>	<b>1,606,341</b>
Excess of Receipts Over (Under) Disbursements	(2,555,176)	(2,847,680)	(45,270)	2,802,410
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers-Out	(187,000)	(187,000)	(187,000)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(187,000)</b>	<b>(187,000)</b>	<b>(187,000)</b>	<b>-</b>
Excess of Receipts Over (Under) Disbursements and Other Financing Uses	(2,742,176)	(3,034,680)	(232,270)	2,802,410
Fund Balance at Beginning of Year	3,598,326	3,598,326	3,598,326	-
Prior Year Encumbrances Appropriated	27,925	27,925	27,925	-
<b>Fund Balance at End of Year</b>	<b>\$ 884,075</b>	<b>\$ 591,571</b>	<b>\$ 3,393,981</b>	<b>\$ 2,802,410</b>

The notes to the financial statements are an integral part of this statement.

**Madison County**  
**Statement of Receipts, Disbursements and Changes in Fund Balances - Budget and Actual**  
**(Budgetary Basis)**

For the Year Ended December 31, 2005

	<b>Motor Vehicle Gasoline Tax Fund</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b>BUDGETARY BASIS RECEIPTS:</b>				
Charges for Services	\$ 1,000	\$ 1,000	\$ 416	\$ (584)
Fines & Forfeitures	75,555	75,555	80,341	4,786
Intergovernmental Receipts	4,727,674	4,727,674	5,218,056	490,382
<b>TOTAL RECEIPTS</b>	<b>4,804,229</b>	<b>4,804,229</b>	<b>5,298,813</b>	<b>494,584</b>
<b>BUDGETARY BASIS DISBURSEMENTS:</b>				
Public Works	4,804,065	5,020,330	4,719,091	301,239
<b>TOTAL DISBURSEMENTS</b>	<b>4,804,065</b>	<b>5,020,330</b>	<b>4,719,091</b>	<b>301,239</b>
Excess of Receipts Over (Under) Disbursements	164	(216,101)	579,722	795,823
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers-In	-	-	29,676	29,676
Operating Transfers-Out	(58,592)	(58,592)	(58,000)	592
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(58,592)</b>	<b>(58,592)</b>	<b>(28,324)</b>	<b>30,268</b>
Excess of Receipts Over (Under) Disbursements and Other Financing Uses	(58,428)	(274,693)	551,398	826,091
Fund Balance at Beginning of Year	644,519	644,519	644,519	-
Fund Balance at End of Year	<b>\$ 586,091</b>	<b>\$ 369,826</b>	<b>\$ 1,195,917</b>	<b>\$ 826,091</b>

The notes to the financial statements are an integral part of this statement.

**Madison County**  
**Statement of Receipts, Disbursements and Changes in Fund Balances - Budget and Actual**  
**(Budgetary Basis)**  
For the Year Ended December 31, 2005

	<b>Public Assistance Fund</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b>BUDGETARY BASIS RECEIPTS:</b>				
Intergovernmental Receipts	\$ 3,735,291	\$ 3,735,291	\$ 3,803,781	\$ 68,490
<b>TOTAL RECEIPTS</b>	3,735,291	3,735,291	3,803,781	68,490
<b>BUDGETARY BASIS DISBURSEMENTS:</b>				
Human Services	4,090,000	4,198,000	3,827,549	370,451
<b>TOTAL DISBURSEMENTS</b>	4,090,000	4,198,000	3,827,549	370,451
Excess of Receipts Over (Under) Disbursements	(354,709)	(462,709)	(23,768)	438,941
Fund Balance at Beginning of Year	463,104	463,104	463,104	-
Fund Balance at End of Year	\$ 108,395	\$ 395	\$ 439,336	\$ 438,941

The notes to the financial statements are an integral part of this statement.

**Madison County**  
**Statement of Receipts, Disbursements and Changes in Fund Balances - Budget and Actual**  
**(Budgetary Basis)**  
For the Year Ended December 31, 2005

	<b>MRDD General Fund</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b>BUDGETARY BASIS RECEIPTS:</b>				
Taxes	\$ 1,950,000	\$ 2,100,000	\$ 2,097,399	\$ (2,601)
Charges for Services	50,000	50,000	95,997	45,997
Intergovernmental Receipts	1,765,000	1,737,400	1,843,613	106,213
All Other Revenue	400,000	395,000	-	(395,000)
<b>TOTAL RECEIPTS</b>	<b>4,165,000</b>	<b>4,282,400</b>	<b>4,037,009</b>	<b>(245,391)</b>
<b>BUDGETARY BASIS DISBURSEMENTS:</b>				
Health	4,298,000	4,750,000	4,157,600	592,400
<b>TOTAL DISBURSEMENTS</b>	<b>4,298,000</b>	<b>4,750,000</b>	<b>4,157,600</b>	<b>592,400</b>
Excess of Receipts Over (Under) Disbursements	(133,000)	(467,600)	(120,591)	347,009
Fund Balance at Beginning of Year	563,284	563,284	563,284	
Fund Balance at End of Year	<u>\$ 430,284</u>	<u>\$ 95,684</u>	<u>\$ 442,693</u>	<u>\$ 347,009</u>

The notes to the financial statements are an integral part of this statement.

**Madison County**  
**Statement of Fiduciary Net Assets-Cash Basis**  
As of December 31, 2005

	<u>Agency</u>
<b>ASSETS</b>	
Equity in Pooled Cash & Cash Equivalents	\$ 4,348,789
Total Assets	<u>\$ 4,348,789</u>
<b>Net Cash Assets</b>	<u>\$ 4,348,789</u>

The notes to the financial statements are an integral part of this statement.



**MADISON COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**1. REPORTING ENTITY**

Madison County is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Ohio constitution and laws. The County operates under the direction of a three-member elected Board of County Commissioners. Other officials elected by the voters of the County that manage various segments of the County's operations are the Auditor, Treasurer, Recorder, Clerk of Courts, Coroner, Engineer, Prosecuting Attorney, Sheriff, a Common Pleas Court Judge, a Probate Juvenile Court Judge, and a Municipal court Judge.

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

Management believes the financial statements included in this report represent all of the funds of the County over which the County has the ability to exert direct operating control, except as described below:

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

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the County. For Madison County, this includes the Madison County Board of Mental Retardation and Developmental Disabilities (MRDD); the Madison County Airport, Madison County Emergency Management Agency (EMA) and other departments and activities that are directly operated by elected County officials.

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

**Component Unit**

Matco Industries Incorporated (Matco) is a legally separate, not-for-profit corporation, served by a self-appointing board of trustees. The workshop, under a contractual agreement with the Madison County Board of MRDD provides sheltered employment for mentally retarded or handicapped adults in Madison County. Matco received \$800,000 from the Madison County Board of MRDD for contractual services for the year ended December 31, 2005 and use of a County owned building which has been determined to be an in-kind contribution. Based on the significant resources provided by the County and the workshop's sole purpose of providing assistance to the retarded and handicapped adults of Madison County, the workshop is a component unit of Madison County. Separately issued financial statements can be obtained from Matco.

The County has elected to include in the component unit column Matco Industries, Inc as a discretely presented component unit in the accompanying basic financial statements. See also Note 2 to the basic financial statements entitled government-wide financial statements.

**MADISON COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**1. REPORTING ENTITY (Continued)**

**Separate Agencies**

In the case of the separate agencies and districts listed below, the County serves as fiscal agent but the organizations are not considered part of Madison County. Accordingly, the activity of the following organizations is presented as agency funds within the Fiduciary financial statements:

Madison County – London City General Health District  
Madison County Soil and Water Conservation District  
Madison County Family and Children First Council  
Madison County Law Library Association

**Other Organizations**

The County is associated with certain organizations which are defined as joint ventures or jointly governed organizations as defined by GASB Statement 14:

The Tri-County Corrections Board is a joint venture for the establishment of a central jail facility for the use of Champaign, Madison and Union Counties. The operation of the jail is controlled by a joint board whose membership consists of the sheriff, one judge, and one commissioner from each of the participating counties. Each County's ability to influence the operations of the jail is limited to their representation on the board. Each County is charged for their share of the operating costs of the Center based on the number of individuals from their County in attendance. The County has ongoing financial responsibility for this entity and, in 2005, contributed \$1,133,485 toward the operation of this facility. Champaign County has been appointed the fiscal agent for the joint venture. Complete financial statements of the joint venture may be obtained from the Champaign County Auditor, Champaign County Courthouse, 200 North Main Street, Urbana, Ohio 43078.

The Central Ohio Youth Center, formerly the Five-County Joint Juvenile Detention and Rehabilitation Center, is a jointly governed organization involving Union, Champaign, Delaware, and Madison Counties. The Center provides facilities for the training, treatment, and rehabilitation of delinquent, dependent, abused or neglected children and was established under Section 2151.34 of the Ohio Revised Code. The operation of the Center is controlled by a joint board of trustees whose membership consists of two appointees from the host County, Union, and one each from Champaign, Delaware and Madison Counties. Each County's ability to influence the operations of the Center is limited to their representation on the board of trustees. Appropriations are adopted by the joint board of trustees who exercise control over the operation, maintenance, and construction of the Center. Each County is charged for their share of the operating costs of the Center based on the number of individuals from their County in attendance. In 2005, the County's share of operating costs was \$253,546. Union County serves as the fiscal agent.

Madison County participates in a jointly governed Solid Waste Management District along with Allen, Champaign, Hardin, Shelby, and Union Counties. The District was established following the requirements of House Bill 592. The board of directors consists of County Commissioners from each County. Each County's ability to influence the operations of the District is limited to their representation on the board of directors. The original funding for the District was contributed by each County based on its population compared to the total population for all participating counties. It is the intent of the District to be self-supporting. Allen County, the largest of the six Counties, is fiscal agent of the District.

The Madison County Park District is defined as a related organization to the County. The County's probate judge appoints its board members and the County is its fiscal agent. Activities of the Park District are reflected as an agency fund of the County. In 2005, the County made no distributions to the Park District.

The County's management believes these financial statements present all activities for which the County is financially accountable.

**MADISON COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applies to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting principles. Madison County (the County and the primary government) follows GASB guidance as applicable to its governmental and business-type activities, and Financial Accounting Standards Board (FASB) statements issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements or that have been made applicable by the GASB. The County has elected to follow GASB guidance for business-type activities and enterprise funds rather than FASB guidance issued after November 30, 1989. The most significant of the County's accounting policies are described below.

**A. Basis of Presentation**

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

**Government-wide Financial Statements**

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

The 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 the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. 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.

The Government-wide Financial Statements also display information regarding one legally separate entity or component unit, for which the County is fiscally responsible. This component unit is Matco Industries, Inc. and is described further in these notes to the financial statements.

**Fund Financial Statements**

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

**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 in accordance with the cash basis of accounting. 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 the preceding paragraph.

**MADISON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

For comparability purposes, the component units' financial information has been presented on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP).

**C. Fund Accounting**

The County's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate 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.

**Governmental Funds**

Governmental funds are those through which most governmental functions typical are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which that may or must be used/ Cash disbursements are assigned to the fund from which they are paid. The difference between governmental fund assets and cash disbursements is reported as fund balance. The following are the County's major governmental funds:

**General Fund**

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

**Motor Vehicle Gasoline Tax**

The Motor Vehicle Gasoline Tax Special Revenue Fund is a major special revenue fund that accounts for monies received from state gasoline tax and motor vehicle registration fees designated for maintenance and repair of roads and bridges.

**Public Assistance**

The Public Assistance Special Revenue Fund is a major special revenue fund that accounts for various federal and state grants as well as transfers from the General Fund used to provide public assistance to general relief recipients, pay their providers of medical assistance, and for certain public social services.

**MRDD General**

The MRDD General Special Revenue Fund is a major special revenue fund that accounts for various federal and state grants and a property tax levy used to provide assistance and training to mentally retarded and developmentally disabled individuals.

The other governmental funds of the County account for grants and other resources, debt services, and capital projects, whose use is restricted to a particular purpose.

**MADISON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Proprietary Funds**

The 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 types.

**Enterprise**

These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The County's Enterprise Funds are used to account for airport operations and wastewater treatment.

**Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. The County's only fiduciary funds are agency funds.

**Agency Funds**

Agency funds are held in a purely custodial capacity by the County as fiscal agent for other entities, and for various taxes, state-shared revenues and fines and forfeitures collected on behalf of and distributed to other local governments. Agency fund transactions typically involve only the receipt, temporary investment and distributions of these fiduciary resources.

**D. Cash Receipts-exchange and Non-exchange Transactions**

Cash receipts resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the cash basis when the exchange takes place. On a cash basis, receipts are recorded in the year in which the resources are received.

Non-exchange transactions, in which the Count receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On a cash basis, receipts from property taxes are recognized in the year in which the taxes are received. Receipts from grants, entitlements and donation are recognized in the year in which the monies have been received.

**E. Cash Disbursements**

On the cash basis of accounting, disbursements are recognized at the time payments are made.

**F. Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually.

**Budget**

In accordance with Section 5747.53 of the Ohio Revised Code, the County Budget Commission has provided for the apportionment of undivided local government funds under an alternative method that has been approved by governmental subdivisions within the County. Under this alternative method, the County Budget Commission has waived the requirement for the Taxing Authority of a subdivision to adopt a tax budget.

**MADISON COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Estimated Resources**

The County Budget Commission certifies its actions to the County by September 1. As part of the certification, the County receives the official certificate of estimated resources that states 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 disbursements 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. Budget receipts as shown in the accompanying financial statements do not include January 1 unencumbered fund balances. However, those fund balances are available for appropriations.

**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. 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 by the County Commissioners during the year. The final budget figures that appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

**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 disbursement of funds are recorded to reserve a portion of the applicable appropriation. At the end 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 carried forward to the succeeding fiscal year and need not be re-appropriated.

**G. Property, Plant and Equipment**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**H. Unpaid Vacation, Personal and Sick Leave**

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

**I. Long-term Obligations**

In general, bonds and long-term loans, and capital leases are not recognized as a liability in the basic financial statements under the cash basis of accounting, but are recorded as cash disbursements in the basic financial statements when paid.

**J. Net Cash Assets**

Net cash assets represent the difference between assets and liabilities. Net cash assets consist of cash reduced by cash disbursements for the current year. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors or laws, or regulation of other governments. Restricted for Other Purposes is comprised of net assets restricted for grants. The County applies restricted resources when an expense is incurred for the purposes for which both restricted and unrestricted net assets are available.

**MADISON COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. Cash and Cash Equivalents and Investments**

Cash and cash equivalents consist of the total of fund cash balances of all funds as of December 31, 2005. To improve cash management, cash received by the County is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. County funds are maintained in several checking accounts as well as invested in certificates of deposit with terms of one to twelve months and a repurchase agreement. Individual fund balance integrity is maintained through the County's records. Balances of all funds are maintained in these accounts or are temporarily used to purchase certificates of deposit or investments. All interest receipts are reported in the General Fund except those specifically related to those funds deemed appropriate according to Board of County Commissioners policy. For the calendar year 2005, interest receipts amounted to \$468,841, all of which was recorded in the General Fund.

The County records all its investments at cost. For presentation on the statement of net assets-cash basis, investments of the cash management pool are considered to be cash equivalents. The County has invested in a repurchase agreement with a cost of \$10,715,000 during the calendar year 2005.

Investments with original maturities of three months or less at the time they are purchased by the County are reported as cash equivalents.

**3. DEPOSITS AND INVESTMENTS**

The County maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury, any other obligation guaranteed as to principal and interest by the United States, or any book-entry, zero-coupon United States Treasury security that is a direct obligation of the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. 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 same county as the investing authority;
4. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts in any eligible institution mentioned in Section 135.32 of the Ohio Revised Code;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. 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;

**MADISON COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**3. DEPOSITS AND INVESTMENTS (Continued)**

7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements with any eligible institution or dealer in which the District lends securities and the eligible institution or dealer agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. Up to 25% of the County's total average portfolio in either (a) high grade commercial paper when the aggregate value of the notes does not exceed 10% of the aggregate value of the outstanding commercial paper of the issuing corporation, and the notes mature no later than 270 days after purchase or (b) bankers acceptances of banks insured by the FDIC when the obligations are eligible for purchase or by the Federal Reserve System and mature no later than 180 days after purchase;
10. Up to 15% of the County's total average portfolio in high grade notes issued by U.S. corporations, and the notes mature not later than two years after purchase. Bankers acceptances for a period not to exceed 270 days in an amount not to exceed ten percent of the District's total average portfolio;
11. High grade debt interests issued by foreign nations diplomatically recognized by the U.S. government. All interest and principal shall be denominated and payable in U.S. funds. In the aggregate, this investment shall not exceed 1% of the County's total average portfolio and shall mature no later than five years after purchase.

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

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

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

**Cash on Hand:** At December 31, 2005, the County had cash on hand in the Treasury of \$212,313.

**Deposits:** The County's deposits are required to be categorized to give an indication of the level of risk assumed by the County at year end. Category 1 includes deposits that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered deposits which are held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered deposits for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name. For deposits, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

At December 31, 2005, the carrying amount of the County's deposits was \$6,040,410. Of the bank balance \$7,576,843, \$655,474 was covered by federal depository insurance (Category 1) and the remainder \$6,921,369 was uninsured and uncollateralized (Category 3) and therefore subject to custodial credit risk. Although the securities serving as collateral were held by the pledging financial institutions' trust departments in the County's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the County to a successful claim by the Federal Deposit Insurance Corporation.



**MADISON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**3. DEPOSITS AND INVESTMENTS (Continued)**

**Investments:** The County's investments are required to be categorized to give an indication of the level of risk assumed by the County at year end. Category 1 includes investments that are insured or registered, or securities held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name.

	Fair Value	Weighted Average Maturity (Yrs.)
Repurchase Agreement	\$10,715,000	0

**Interest Rate Risk –** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

In accordance with the investment policy, the County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

**Credit Risk –** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The County limits their investments to Repurchase Agreements.

**Concentration of Credit Risk –** Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

**Custodial Credit Risk –** For an investment, custodial credit risk is that risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The County's investment policy allows investments in Repurchase Agreements, Certificates of Deposit or within financial institutions within the State of Ohio as designated by the Federal Reserve Board. The County has invested 100% in investments with no weighted maturity. All of the County's investments at December 31, 2005, were in repurchase agreements.

All of the County's investments with the repurchase agreements are subject to custodial credit risk because they are uninsured and uncollateralized,

**MADISON COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**4. DEBT OBLIGATIONS**

Under the cash basis of accounting, debt obligations are not reported as a liability in the accompanying basic financial statements. Debt obligations are reported for informational purposes only. However, information regarding such changes in the County's long-term obligations during 2005 is as follows:

	Balance 12/31/2004	Additions	Deletions	Balance 12/31/2005	Due in One Year
<i>Governmental Activities Debt</i>					
Human Services Building Refunding Bonds 3.2%	\$ 1,443,509	\$ -	\$ 105,000	\$ 1,338,509	\$ 110,000
Engineer's Building Construction Bonds 3.4%	2,540,000	-	115,000	2,425,000	115,000
<i>Special Assessment Loans</i>					
PH Roberts Ditch Note 2.52%	15,689	-	15,689	-	
Yutzy Ditch Note 3.22%	68,461	-	11,145	57,316	11,145
Bridwell Bridenstine Note 2.95%	22,268	-	3,930	18,338	3,930
Dunkin Ditch Note 2.87%	35,234	-	6,217	29,017	6,218
Total Special Assessment Loans	141,652	-	36,981	104,671	21,293
<i>Total Governmental Activities Debt</i>	\$ 4,125,161	\$ -	\$ 256,981	\$ 3,868,180	\$ 246,293
<i>Business-Type Activities Debt</i>					
<i>OWDA Loans</i>					
I70/42 Sewer Construction 7.55%	874,517	-	53,810	820,707	57,872
Burr Oaks Sewer Construction 7.55%	193,035	-	12,717	180,318	13,677
Choctaw Lake Sewer Construction 4.4%	8,428,800	661,131	1,614,386	7,475,545	168,927
Camp Wissalohican Sewer Construction 6.41%	86,076	-	1,788	84,288	1,904
Total OWDA Loans	9,582,428	661,131	1,682,701	8,560,858	242,380
Choctaw Lake Sewer Construction OPWC 0%	223,834	17,185	-	241,019	12,051
<i>Total Business -Type Activities Debt</i>	\$ 9,806,262	\$ 678,316	\$ 1,682,701	\$ 8,801,877	\$ 254,431

The Special Assessment Loans outstanding at December 31 consist of notes and bonds issued for one to five year terms. Proceeds from these notes were used for land purchase, ditch construction, and related fees. Special assessments from property owners are used to pay this debt.

The OWDA loans were issued by the Ohio Water Development Authority for construction of sewer districts in the Burr Oaks subdivision, the I-70/U.S. Route 42 Interchange, the Camp Wissalohican subdivision and the Choctaw Lake subdivision. These loans are collateralized by sewer receipts. User fees charged to residents in these subdivisions are used to pay this debt.

The OPWC loan was issued by the Ohio Public Works Commission for construction of the Choctaw Lake sewer district. This loan is interest-free and is collateralized by sewer receipts. User fees charged to residents of this district are used to pay this debt.

In 1999 the County issued \$2,028,092 of current interest bonds to provide resources that were placed in an irrevocable trust for the purpose of paying for all future debt service payments on \$1,745,000 of debt originally issued in 1995 for the construction of a Job and Family Services Building. As a result, the refunded bonds are considered fully defused. This advanced refunding was undertaken to reduce total debt service payments over the next 24 years by \$227,813.

The Engineer's Building Construction Bonds were issued for construction of an Engineering Facility. Building rentals and General Fund monies are used to pay this debt.

**MADISON COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**4. DEBT OBLIGATIONS (Continued)**

Annual debt service requirements to maturity for debt, including interest are as follows:

Year Ending December 31, 2005	Principal	Interest	Total
2006	\$500,724	\$568,757	\$1,069,481
2007	523,765	546,551	1,070,316
2008	588,350	524,213	1,112,563
2009	555,851	497,303	1,053,154
2010	581,283	470,560	1,051,843
2011-2015	3,163,538	2,068,118	5,231,656
2016-2020	2,680,027	1,501,309	4,181,336
2021-2025	1,861,660	715,046	2,576,706
2026-2030	2,214,859	276,122	2,490,981
Total	\$12,670,057	\$7,167,979	\$19,838,036

**5. PROPERTY TAXES**

Real property taxes are levied on assessed values which equal 35% of appraised value. The County Auditor reappraises all real property every six years with a triennial update.

Real property taxes become a lien on all non-exempt real property located in the County on January 1. Real property taxes are payable semiannually. Historically in Madison County the first payment is due in mid-February with the remainder due in mid-June of the following year. Under certain circumstances, state permits later payment dates to be established.

The full tax rate applied to real property for calendar year 2005 was \$10.60 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$8.93 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$9.05 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 reductions is reimbursed to the County by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for calendar year 2005 was \$10.60 per \$1,000 of assessed valuation.

The assessed values upon which fiscal year 2005 taxes were collected are:

Residential/Agricultural	\$596,037,970
Commercial/Industrial	102,294,030
Other Real Property	163,630
General Personal Property	73,407,290
Public Utilities Personal Property	<u>32,861,520</u>
Total Assessed Valuation	<u>\$804,764,440</u>

The Madison County Treasurer collects property tax on behalf of all taxing districts within the County. The Madison 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.

**MADISON COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**6. PERMISSIVE SALES AND USE TAX**

The County Commissioners, by resolution, imposed a 1.25 percent tax on all retail sales, except sales of motor vehicles, made in the County, or on the storage, use, or consumption of tangible personal property in the County, including automobiles. Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies to the State Auditor the amount of the tax to be returned to the County. The Tax Commissioner certifies to the State Auditor the amount of the tax to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of each month. The State Auditor then has five days in which to draw the warrant payable to the County.

Proceeds of the tax are credited entirely to the General Fund. Sales and Use tax revenue for 2004 amounted to \$4,337,455.

**7. INSURANCE**

**A. General Risk**

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 2005, the County contracted with the County Risk Sharing Authority (CORSA) for property, general liability, commercial fleet, liability employee's benefit, data processing equipment, 911 equipment, County Engineer contractor equipment, valuable paper's additional, theft/disappearance/destruction for inside and outside, crime coverage, forgery and alteration of checks, and umbrella liability insurance.

**B. Health**

The County provides fully insured health coverage to its employees through Anthem with the exception of the County Engineer's Department. Beginning December 1, 1991, the County Engineer provided employees with self-funded insurance through Managed Care of America, formerly Buckeye Employee Benefit Services, Inc. Claims paid in calendar year 2005 were \$344,986. In accordance with the cash basis of accounting, as more fully described in Note 2, the County does not record a liability for any incurred but unpaid claims as of year end.

**8. DEFINED BENEFIT RETIREMENT SYSTEMS**

**A. Ohio Public Employees Retirement System**

All County full-time employees, other than teachers, participate in the Ohio Public Employees Retirement System

(OPERS). OPERS administers three separate pension plans. The Traditional Plan (TP) is a cost-sharing, multiple-employer defined benefit plan. The Member-Directed Plan (MD) is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan (CO) is a cost-sharing, multiple-employer defined benefit plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar to the Traditional Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member Directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional and Combined Plans. Members of the Member-Directed Plan do not qualify for the ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

**MADISON COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**8. DEFINED BENEFIT RETIREMENT SYSTEMS (Continued)**

For the year ended December 31, 2005, the members of all three plans, except those engaged in law enforcement, were required to contribute 8.5% of their annual covered salaries. Members participating in the Traditional Plan who were law enforcement contributed 10.1% of their annual covered salary; members in public safety contributed 9%. The employer contribution rate for pension benefits for 2005 was 13.55%, except for those members in law enforcement or public safety. For those classifications, the employer pension contribution was 16.7% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The County's required contributions to OPERS for the years ended December 31, 2005, 2004, and 2003 were \$1,602,113, \$1,542,731, & \$1,710,106, respectively. 100 percent has been contributed for 2005, 2004 and 2003.

**B. State Teachers Retirement System**

Certified teachers employed by the school for the Mental Retarded/Developmentally Disabled participate in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

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 allocate all their member contributions and employer contributions equal to 10.5% 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 Plan and Combined members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC Plan or Combined Plan.

**DB Plan Benefits** – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit

(including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. Under the “money-purchase benefit” calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**DC Plan Benefits** – Benefits are established under Sections 3307.80 to 3370.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. 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.

**MADISON COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**8. DEFINED BENEFIT RETIREMENT SYSTEMS (Continued)**

**Combined Plan Benefits** – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependent. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who become disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10% of their annual covered salaries and the County was required to contribute 14%; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The County's contributions for pension obligations to STRS for the years ended December 31, 2005, 2004, and 2003 were \$51,722, \$47,880, and \$60,616, respectively.

**9. POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System of Ohio (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment 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 postretirement health care based on authority granted by State statute. The 2005 employer contribution rate was 13.55% of covered payroll for employees not engaged in law enforcement. The employer contribution rate for law enforcement employees for 2005 was 15.70%. The portion of each contribution rate that was used to fund health care was 4%.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8%, an annual increase in active employee total payroll of 4% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 % and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 1% to 6% annually for the next eight years and 4% annually after eight years.

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

At year-end, the number of active contributing participants was 376,109. The County's actual contributions for 2005 which were used to fund post-employment benefits were \$472,623. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

**MADISON COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**9. POSTEMPLOYMENT BENEFITS (Continued)**

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) effective January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund. Under HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The HCPP 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.

**B. State Teachers Retirement System**

Comprehensive health care benefits are provided to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through OPERS. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Ohio Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefits recipients pay a portion of the health care costs in the form of a monthly premium.

The Ohio 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 coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund from which health care benefits are paid. The balance in the Fund at June 30, 2005 was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and there were 115,395 eligible benefit recipients.

**10. CONDUIT DEBT OBLIGATIONS**

During 1997, the County served as the issuer of \$2,700,000 in Multifamily Housing Revenue Bonds. The proceeds were used by a private corporation to fund the construction of an assistant living facility. The amount outstanding on this issue is \$2,600,000. In 1998, the County served as the issuer of \$8,900,000 in Hospital Improvement and Refunding Revenue Bonds. The proceeds were used to refund outstanding Hospital Improvement Revenue Refunding Bonds and to acquire, construct, improve and equip certain Hospital facilities. The amount outstanding on this issue is \$8,780,000. These bonds do not constitute a general obligation, debt or indebtedness of the County. Also, in 2002, the County served as the issuer of \$4,200,000 in Multifamily Housing Mortgage Revenue Bonds. The proceeds were used by a private corporation to acquire, construct and equip a multifamily residential rental housing facility. None are the full faith and credit to taxing power of the County pledged to make repayment. The County also served as issuer of \$1,700,000 in Hospital Facilities Revenue Bonds, the proceeds of which will be used to acquire, construct, improve and equip certain Hospital facilities.

**11. HOSPITAL AGREEMENT**

In 1975, the County ceased business activity at the County hospital. However, the County maintains the land and facilities of the hospital and entered into a lease agreement with the Madison County Hospital, Inc., (MCHI) to provide for the health and welfare of the people. As disclosed in Note 10 above, the County has issued conduit debt on behalf of MCHI. The County amends the lease agreement whenever new conduit debt is issued, with the most current amendment being in 1998.

According to the most recent lease agreement the County only charges MCHI a "basic rent", for the lease. "Basic rent" has been defined as an amount necessary to make the deposits required in the bond indenture and any other amounts required under the lease to be paid as "basic rent" on or prior to the respective rental payment dates during the lease term.

**MADISON COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**12. CHANGE IN ACCOUNTING PRINCIPLES**

For the year ended December 31, 2005, the County has implemented Government Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employees". GASB 40 establishes and modifies disclosure requirements related to investment risks; credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments. GASB Technical Bulletin No. 2004-2, addresses the amount that should be recognized as an expenditure/expense and as liability each period by employers participating in a cost-sharing, multiple-employer pension and other post-employment benefit (OPEB) plans. The implementation of GASB Technical Bulletin No. 2004-2 and GASB Statement No. 40 had no effect on the County's financial statements.

**13. CONTINGENCIES & LITIGATION**

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

The County is party to certain legal proceedings however; it is the opinion of Management that ultimate disposition of claims will not have a material effect on the financial condition of the County.



MADISON COUNTY

Schedule of Federal Awards Expenditures  
For the Year Ended December 31, 2005

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Federal Pass Through Entity Number	Disbursements	Non Cash Disbursements
<b>General Services Administration (GSA) on Behalf of The Election Assistance Commission (EAC)</b>				
<i>Passed Through The Ohio Secretary of State:</i>				
Election Reform Payments	39.011	05-SOS-HAVA-39	\$ 12,297	\$ -
<b>Total General Services Administration</b>			12,297	-
<b>U.S. Department of Housing and Urban Development</b>				
<i>Passed Through Ohio Department of Development:</i>				
Community Development Block Grants / State's Program	14.228	B-F-045	73,625	-
Home Investment Partnerships Program	14.239	B-C-045	170,289	-
<b>Total U.S. Department of Housing and Urban Development</b>			243,914	-
<b>U.S. Department of Justice</b>				
<i>Passed Through the Office of Criminal Justice Services:</i>				
Edward Byrne Memorial Program	16.579	DG-D02-7132	6,109	-
<b>Total U.S. Department of Justice</b>			6,109	-
<b>U.S. Department of Homeland Security</b>				
<i>Passed through the State Dept of Homeland Security</i>				
Emergency management Performance Program	97.042	EMC-GR-7007-EM-T5-0001	98,481	-
Citizen Corps	97.053	EMC-GR-7066-GC-T4-0025	46,379	-
State Domestic Preparedness Equipment Program	97.004	GE-T4-0025	240,023	-
State Homeland Security Grant	97.073	TE-TX-0199	33,840	-
Total Emergency Management Performance Grant			418,723	-
<b>Total U.S. Department of Homeland Security</b>			418,723	-
<b>U.S. Department of Education</b>				
<i>Passed Through the Ohio Department of Health</i>				
Help Me Grow	84.181	N/A	45,967	-
<i>Passed Through Ohio Department of Education:</i>				
Even Start - Family Literacy Program	84.213	EVS1	142,204	-
State Grants for Innovative Programs	84.298	G2S1	133	-
Special Education Cluster:				
Special Education - Grants to States	84.027	N/A	11,857	-
Special Education - Preschool Grants	84.173	N/A	13,324	-
Total Special Education Cluster			25,181	-
<b>Total U.S. Department of Education</b>			213,485	-
<b>U.S. Department of Labor</b>				
<i>Passed Through Workforce Investment Act, Area 7:</i>				
Workforce Investment Act Cluster				
Workforce Investment Act-Adult Program			98,621	-
Workforce Investment Act-Adult Administrativ			9,713	-
Total Workforce Investment Act - Adul	17.258	N/A	108,334	-
Workforce Investment Act-Youth Activities:				
Workforce Investment Act-Youth Administrativ			3,922	-
Total Workforce Investment Act - Youtl	17.259	N/A	37,768	-
Workforce Investment Act-Dislocated Worker:				
Workforce Investment Act-Dislocated Workers Administrativ			56,420	-
Total Workforce Investment Act - Dislocated Worker	17.260	N/A	59,780	-
Total WIA Cluster			205,882	-
<b>Total U.S. Department of Labor</b>			205,882	-
<b>U.S. Department of Transportation</b>				
<i>Passed through the Ohio Governor Highway Safety Office</i>				
Highway Planning and Construction	20.205		42,780	-
<i>Passed through the Federal Aviation Agency</i>				
Airport Improvement Program	20.106		81,335	-
<b>Total U.S. Department of Transportation</b>			124,115	-
<b>U.S. Department of Health and Human Services</b>				
<i>Passed Through the Ohio Department of Mental Retardation and Development Disabilities:</i>				
Medical Assistance Program (Title XIX)	93.778	N/A	580,316	-
Social Services Block Grant (Title XX)	93.667	N/A	29,709	-
State Children Health Insurance Program	93.767	31-6400075	1,707	-
<b>Total U.S. Department of Health and Human Services</b>			611,732	-
<b>U.S. Department of Agriculture</b>				
<i>Passed through the State Department of Agriculture</i>				
Child Nutrition Cluster:				
Food Distribution	10.550	N/A	-	3,650
National School Lunch	10.555	066-100-03-PU	6,223	-
<b>Total U.S. Department of Agriculture</b>			6,223	3,650
<b>TOTAL FEDERAL AWARDS EXPENDITURES</b>			\$ 1,842,480	\$ 3,650

N/A- Passthrough Entity Not Available  
See accompanying notes to Schedule of Federal Awards Expenditure

**MADISON COUNTY**  
**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

**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 – FOOD DISTRIBUTION**

Non-monetary assistance, such as food received from the U.S. Department of Agricultural, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with state grants. It is assumed federal monies are expended first. At December 31, 2005, the County had no significant food commodities in inventory.

**NOTE C – MATCHING REQUIREMENTS**

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

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Ohio Society of Certified Public Accountants

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

Board of Commissioners  
Madison County  
P. O. Box 47  
London, Ohio 43140

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Madison County, London Ohio (the County), as of and for the year ended December 31, 2005 which collectively comprise the County's basic financial statements and have issued our report thereon dated September 26, 2006, wherein we noted the County prepared its financial statements on a basis of accounting other than accounting principles generally accepted in the United States of America and implemented GASB Statement No. 40 and GASB Technical Bulletin 2004-2. We did not audit the financial statements of Matco Industries, Inc. which is included as a discrete presentation in the County's basic financial statements. These financial statements were audited by other auditors whose report thereon has been furnished to us and our opinion insofar as it relates to the amounts included for Matco Industries, Inc. is solely 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' *Governmental Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting 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 misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2005-001.

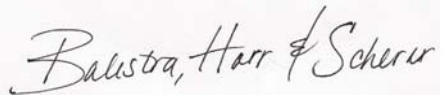
Madison County

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

Page 2

We also noted certain additional matters that we reported to management of the County in a separate letter dated September 26, 2006.

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.  
September 26, 2006

# BALESTRA, HARR & SCHERER, CPAs, INC.

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

Board of Commissioners  
Madison County  
P. O. Box 47  
London, Ohio 43140

### **Compliance**

We have audited the compliance of the Madison 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 are applicable to each of its major federal programs for the year ended December 31, 2005. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

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

### **Internal Control Over Compliance**

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

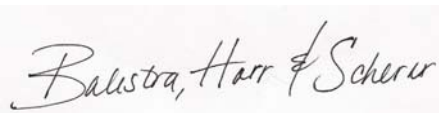
Madison County

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

Page 2

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, regulation, 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 detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

September 26, 2006

MADISON COUNTY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**OMB CIRCULAR A -133 Section .505**  
**December 31, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(I)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(I)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(I)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(I)(iii)</i>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(I)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(I)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(I)(v)</i>	<b>Type of Major Programs Compliance Opinion</b>	Unqualified
<i>(d)(I)(vi)</i>	<b>Are there any reportable findings under .510?</b>	No
<i>(d)(I)(vii)</i>	<b>Major Program (list):</b>	Medical Assistance Program, CFDA# 93.778; State Domestic Preparedness Equipment Support Program, CFDA# 97.004; Even Start – Family Literacy Program, CFDA # 84.213
<i>(d)(I)(viii)</i>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(I)(ix)</i>	<b>Low Risk Auditee?</b>	No

MADISON COUNTY

**SCHEDULE OF FINDINGS**  
*OMB CIRCULAR A -133 Section .505*  
**December 31, 2005**  
(Continued)

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

**Finding Number 2005-001**

**Noncompliance Citation**

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

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

We recommend the County prepare its annual financial report in accordance with generally accepted accounting principles.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

**CORRECTIVE ACTION PLAN**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person:</b>
2005-001	The County officials do not believe that preparing financial statement in accordance with generally accepted accounting principles is cost beneficial.	N/A	County Commissioners



**MADISON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS**  
*OMB CIRCULAR A-133 § .315 (b)*  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2004-001	Ohio Admin Code Section 117-22-03(B) requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. The County filed its report using the cash basis.	No	See current year finding 2005-001





**Auditor of State  
Betty Montgomery**

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## **FINANCIAL CONDITION**

### **MADISON 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  
OCTOBER 17, 2006**