



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

HIGHLAND COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Highland County
200 Governor Foraker Place
Hillsboro, Ohio 45133

To the Board of County Commissioners:

We have audited the accompanying financial statements of Highland County, Ohio (the County), as of and for the year ended December 31, 2000, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government 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 opinion.

Ohio Administrative Code, Section 117-2-03 (which replaced Ohio Administrative Code, Section 117-1-11 effective July 1, 2000) requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, the County prepares its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of Highland County, Ohio, as of December 31, 2000, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2001 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the County, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, elected officials, federal awarding agencies and pass-through entities, and other officials authorized to receive this report under Section 117.26, of the Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

August 8, 2001

HIGHLAND COUNTY

COMBINED STATEMENT OF CASH, INVESTMENTS,
AND FUND CASH BALANCES - ALL FUND TYPES
AS OF DECEMBER 31, 2000

Cash and Cash Equivalents	\$15,123,681
Investments	<u>2,539,849</u>
Total cash and investments	<u><u>\$17,663,530</u></u>

CASH BALANCES BY FUND TYPE

Governmental funds:	
General fund	\$4,482,737
Special revenue funds	4,159,647
Debt service funds	1,701,553
Capital projects funds	5,250,215
Proprietary funds:	
Enterprise funds	403,203
Fiduciary funds:	
Expendable trust funds	58,897
Agency funds	<u>1,607,278</u>
Total	<u><u>\$17,663,530</u></u>

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

HIGHLAND COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2000

	Governmental Fund Types					Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Cash Receipts:						
Local Taxes	\$3,902,786	\$1,488,467	\$0	\$0	\$0	\$5,391,253
Intergovernmental	1,289,147	9,929,129	356,231	776,485	0	12,350,992
Special Assessments	0	0	484,393	0	0	484,393
Charges for Services	965,387	543,437	0	0	0	1,508,824
Licenses, Permits, and Fees	5,095	0	0	0	0	5,095
Fines, Forfeitures, and Penalties	139,586	93,285	0	0	0	232,871
Earnings on Investments	805,645	92,486	0	116,689	0	1,014,820
Other Revenue	113,297	766,093	6,341	0	8,672	894,403
Total Cash Receipts	7,220,943	12,912,897	846,965	893,174	8,672	21,882,651
Cash Disbursements:						
Current:						
General Government - Legislative and Executive	2,157,802	408,264	0	0	0	2,566,066
General Government - Judicial	960,240	0	0	0	0	960,240
Public Safety	1,628,897	104,510	0	0	0	1,733,407
Public Works	174,776	7,209,884	0	0	0	7,384,660
Health	42,302	765,907	0	0	0	808,209
Human Services	159,180	4,912,509	0	0	0	5,071,689
Miscellaneous	490,337	205,501	0	0	2,003	697,841
Debt Service:						
Redemption of Principal - Bonds	0	0	76,200	0	0	76,200
Redemption of Principal - Notes	0	0	723,429	0	0	723,429
Interest and Fiscal Charges	0	0	502,692	0	0	502,692
Capital Outlay	0	0	0	3,063,153	0	3,063,153
Total Cash Disbursements	5,613,534	13,606,575	1,302,321	3,063,153	2,003	23,587,586
Total Receipts Over/(Under) Disbursements	1,607,409	(693,678)	(455,356)	(2,169,979)	6,669	(1,704,935)
Other Financing Receipts/(Disbursements):						
Proceeds from the Sale of Notes	0	0	0	5,808,320	0	5,808,320
Proceeds of Loans	0	0	545,000	0	0	545,000
Transfers-In	80,000	169,063	41,270	140,000	0	430,333
Advances-In	16,000	29,764	0	0	0	45,764
Transfers-Out	(305,063)	(84,000)	0	(41,270)	0	(430,333)
Advances-Out	(49,764)	(16,000)	0	0	0	(65,764)
Other Sources	170,707	408,632	170,033	76,437	0	825,809
Other Uses	(210,098)	(198,990)	0	(2,106)	0	(411,194)
Total Other Financing Receipts/(Disbursements)	(298,218)	308,469	756,303	5,981,381	0	6,747,935
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	1,309,191	(385,209)	300,947	3,811,402	6,669	5,043,000
Fund Cash Balances, January 1	3,173,546	4,544,856	1,400,606	1,438,813	52,228	10,610,049
Fund Cash Balances, December 31	\$4,482,737	\$4,159,647	\$1,701,553	\$5,250,215	\$58,897	\$15,653,049
Reserve for Encumbrances, December 31	\$21,291	\$251,406	\$0	\$269,754	\$0	\$542,451

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

HIGHLAND COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND CASHBALANCES - PROPRIETARY FUND TYPE AND AGENCY FUNDS -
FOR THE YEAR ENDED DECEMBER 31, 2000

	<u>PROPRIETARY FUND TYPE</u>	<u>FIDUCIARY FUND TYPE</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating cash receipts:			
Charges for services	\$211,706	\$0	\$211,706
Other operating revenues	<u>3,241</u>	<u>0</u>	<u>3,241</u>
Total operating cash receipts	214,947	0	214,947
Operating cash disbursements:			
Contractual services	<u>470,716</u>	<u>0</u>	<u>470,716</u>
Total operating cash disbursements	<u>470,716</u>	<u>0</u>	<u>470,716</u>
Operating income/(loss)	(255,769)	0	(255,769)
Non-operating cash receipts/ disbursements			
Intergovernmental	481,000	0	481,000
Connection Fees	120,773	0	120,773
Debt Service	(20,000)	0	(20,000)
Other non-operating cash receipts	0	44,436,110	44,436,110
Other non-operating cash disbursements	<u>(24,386)</u>	<u>(44,863,335)</u>	<u>(44,887,721)</u>
Excess non-operating cash receipts over/(under) non-operating cash disbursements	<u>557,387</u>	<u>(427,225)</u>	<u>130,162</u>
Net receipts over/(under) disbursements before transfers	301,618	(427,225)	(125,607)
Advances-in	<u>20,000</u>	<u>0</u>	<u>20,000</u>
Net receipts over/(under) disbursements	321,618	(427,225)	(105,607)
Fund cash balances, January 1	<u>81,585</u>	<u>2,034,503</u>	<u>2,116,088</u>
Fund cash balances, December 31	<u>\$403,203</u>	<u>\$1,607,278</u>	<u>\$2,010,481</u>
Reserve for Encumbrances, December 31	<u>\$4,638</u>	<u>\$0</u>	<u>\$4,638</u>

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

HIGHLAND COUNTY

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2000**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Governmental:			
General fund	\$6,738,000	\$7,471,650	\$733,650
Special revenue funds	13,451,832	13,490,592	38,760
Debt service funds	1,247,037	1,603,268	356,231
Capital projects funds	6,644,225	6,917,931	273,706
Proprietary:			
Enterprise fund	826,377	816,720	(9,657)
Fiduciary:			
Expendable trust funds	<u>8,640</u>	<u>8,672</u>	<u>32</u>
Totals (Memorandum only)	<u><u>\$28,916,111</u></u>	<u><u>\$30,308,833</u></u>	<u><u>\$1,392,722</u></u>

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

HIGHLAND COUNTY

COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES
 COMPARED WITH EXPENDITURE AUTHORITY
 FOR THE YEAR ENDED DECEMBER 31, 2000

Fund Types/Funds	Prior Year Carryover Appropriations	Appropriations	Total	Disbursements	Encumbrances Outstanding At 12/31/00	Total	Variance Favorable/ (Unfavorable)
Governmental:							
General fund	\$0	\$7,810,010	\$7,810,010	\$6,128,695	\$21,291	\$6,149,986	\$1,660,024
Special revenue funds	312,649	15,368,251	15,680,900	13,889,565	251,406	14,140,971	1,539,929
Debt service funds	0	1,304,988	1,304,988	1,302,321	0	1,302,321	2,667
Capital projects funds	0	5,113,855	5,113,855	3,106,530	269,754	3,376,284	1,737,571
Proprietary:							
Enterprise fund	0	569,720	569,720	515,102	4,638	519,740	49,980
Fiduciary:							
Expendable trust funds	0	10,000	10,000	2,003	0	2,003	7,997
Totals (Memorandum only)	\$312,649	\$30,176,824	\$30,489,473	\$24,944,216	\$547,089	\$25,491,305	\$4,998,168

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

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HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Highland County (the County) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The County operates under the direction of a three-member Board of County Commissioners. The County Auditor is responsible for the fiscal controls of the resources of the County which are maintained in the funds described below. The County Treasurer is the custodian of funds and the investment officer. All of these officials are elected. Services provided by the County include general government, public safety, health, public works, human services, conservation-recreation services, sanitation, and maintenance of highways and streets.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the County are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the County. For Highland County, this includes the Highland County Board of Mental Retardation and Developmental Disabilities and all departments and activities that are not directly operated by the elected County officials.

Highland County provides services and/or subsidies are the Law Library Association, Regional Airport Authority, District Board of Health, Soil and Water Conservation District, and the Family and Children First Council. These are separate reporting entities. Separate financial and compliance audits are performed for these entities. The County Auditor is the fiscal agent for the District Board of Health, the Family and Children First Council, and the Soil and Water Conservation District, and the receipts and disbursements of these entities are accounted for in the Agency Funds of the County.

Highland County has several County departments that maintain separate bank accounts and records. Elected or appointed departmental officials are responsible for their financial records. The County Auditor does not have any operating control over these monies. The financial activity related to these accounts is reported in the accompanying financial statements as agency funds.

Highland County is involved in a joint venture with the Solid Waste Management District. Ross, Pickaway, Fayette, and Highland Counties make up the District. Ross County is considered the fiscal agent over the District. Highland County has no liability to the District nor do they expend any monies to the District. A separate financial and compliance audit is performed for the District.

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

Highco, Inc. is a legally separate, not-for-profit corporation, served by a board of trustees appointed by the Highland County Board of Mental Retardation and Developmental Disabilities (MRDD). The workshop, under contractual agreement with the Highland County Board of MRDD, provides sheltered employment for mentally and/or physically handicapped adults in Highland County. The Highland County Board of MRDD provides the workshop with staff salaries, transportation, equipment, staff to administer and supervise training programs, and other funds

HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)

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

A. Description of the Entity (Continued)

necessary for the operation of the workshop. Based on the significant services and resources provided by the County to the workshop and the workshop's sole purpose of providing assistance to the mentally and/or physically handicapped adults of Highland County, the workshop is considered a component unit of Highland County. Separately issued financial statements can be obtained from Highco, Inc., 8919 U.S. Route 50, Hillsboro, Ohio 45133.

Management believes the financial statements included in this report represent all of the funds for which the County is financially accountable.

B. Basis of Accounting

The County prepares its financial statements on a basis of cash receipts and disbursements, consequently, certain revenues and the related assets are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred. A general fixed asset group and long-term debt group of accounts are not recorded on the financial statements by the County under the basis of accounting used. By virtue of Ohio law, the County is required to maintain the encumbrance method of accounting and to make appropriations.

Although required by Ohio Administrative Code, Section 117-2-03 (which replaced Ohio Adm Code Section 117-1-11 effective July 1, 2000) to prepare its annual financial report in accordance with generally accepted accounting principles, the County chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements 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 expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as formerly prescribed or permitted by the Auditor of State.

C. Cash, Cash Equivalents and Investments

The County Treasurer invests all available funds of the County. County funds are invested in "Now" checking accounts with local commercial banks, certificates of deposit, US government securities and mutual funds. The County pools its cash for investment purposes to capture the highest rate of return. Investment income is distributed to County funds based upon the Ohio Revised Code. Investments are stated at cost.

D. Fund Accounting

The County maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

1. Governmental Funds

General Fund

The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds

Special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. According to governmental accounting principles, the debt service funds account for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund may also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds. For purposes of this report, these funds have been classified into the proper groups, if practicable.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

2. Proprietary Funds

Enterprise Funds

Enterprise 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 purpose.

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Fiduciary Funds

Trust and Agency Funds

Trust and agency funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, other governmental units, and/or other funds. These include Expendable Trust and Agency Funds.

E. Budgetary Process

The Ohio Revised Code requires that each fund except certain agency funds be budgeted annually.

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission certifies its actions to the County by September 1. As part of this certification, the County receives the official certificate of estimated resources which 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 expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include January 1, 2000 unencumbered fund balances. However, those fund balances are available for appropriations.

3. 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.

4. Encumbrances

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

HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

4. Encumbrances (Continued)

fiscal year and need not be reappropriated. During the year, the County did not always encumber funds prior to their commitment.

5. Legal Level of Control

Each County department prepares a budget which is approved by the Board of County Commissioners. The County maintains budgetary control within an organizational unit and fund by not permitting expenditures and encumbrances to exceed appropriations at the object level (the legal level of control). Modifications to the original budget within expenditure objects require the approval of the Board of Commissioners.

F. 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.

G. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

2. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS

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

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

- A. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States.
- B. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
- C. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2000 (Continued)

2. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS (Continued)

- D. Bond and other obligations of the State of Ohio or its political subdivision, provided that such political subdivisions are located wholly or partly within the County;
- E. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
- F. No-load money market 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;
- G. The State Treasurer's investment pool (STAROhio);
- H. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;
- I. High grade commercial paper in an amount not to exceed five percent of the County's total average portfolio;
- J. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the County's total average portfolio;

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

Protection of the County's deposits is provided by the Federal Deposit Insurance Corporation, 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 may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

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

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

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

2. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS (Continued)

Deposits (Continued)

At December 31, 2000, the carrying amount of the County's deposits was \$15,123,681. The bank balance of \$16,287,980 for deposits is classified by risk as follows:

- A. \$446,910 was insured by the Federal Depository Insurance Corporation.
- B. \$15,841,070 was covered by collateral held by third party trustees pursuant to Section 135.181, of the Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. The Code specifies that the total value of securities pledged as collateral must be at least equal to 110% of the total amount of the insured deposits, including any portion covered by federal deposit insurance. The code also specifies what kind of securities are eligible to be pledged and what percentage of their face value counts as being eligible for collateral.

Investments

The County's investments are categorized below 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 are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments with securities held by the broker's or dealer's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments with the securities held by the broker or dealer, or by its trust department or agent, but not in the County's name.

	<u>Category 3</u>	<u>Unclassified</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
U.S. Government Agencies	\$ 2,536,879	\$ 0	\$ 2,536,879	\$ 2,568,745
Money Market Mutual Fund	0	2,970	2,970	2,970
Total Investments	<u>\$ 2,536,879</u>	<u>\$ 2,970</u>	<u>\$ 2,539,849</u>	<u>\$ 2,571,715</u>

The Money Market Mutual Fund is not classified by risk category because it is not evidenced by securities that exist in physical or book entry form.

3. DEBT

Debt outstanding at December 31, 2000 consisted of the following:

General Obligation Notes	
Principal Outstanding	\$5,545,000
Interest Rate	4.69% - 4.77%
General Obligation Bonds	
Principal Outstanding	\$1,732,800
Interest Rate	4.50%-5%

HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)

3. DEBT (Continued)

Special Assessment Bonds
Principal Outstanding \$755,400
Interest Rate 4.50%

Ohio Water Development Authority (OWDA)
Water Pollution Control Loan
Principal Outstanding \$7,818,216
Interest Rate 2.20%

Ohio Public Works Commission (OPWC)
Wastewater Collection Loan
Principal Outstanding \$370,000
Interest Rate 0%

Unsecured Bank Loan
Principal Outstanding \$500,000
Interest Rate 5.70%

The County's General Obligation Notes consisted of two bond anticipation note issuances in 2000. The County issued bond anticipation notes in the amount of \$5,000,000 to provide temporary financing for the construction of a correctional facility. The County also issued \$545,000 in bond anticipation notes to renew bond anticipation notes which were issued in 1999. These notes were originally issued in 1998 to provide financing for a building addition and bus garage at the Board of Mental Retardation and Developmental Disabilities.

The annual requirements to amortize all note debt outstanding as of December 31, 2000, including interest payments of \$264,060 are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>General</u> <u>Obligation Notes</u>
2001	\$ <u>5,809,060</u>

The County's General Obligation Bonds consisted of Series "A" and "B" bonds issued for the acquisition, construction, and improvement costs on the Training and Education Center (TEC Center) and Series "B" Sanitary Sewer Subdistrict No. 2 (Madison Township) Bonds issued for Madison Township sewer improvements. The TEC Center Series "A" and Series "B" Bonds were issued in 1997 and are being repaid over a period of twenty years from the County's general revenues. The Madison Township Sewer Improvement Series "B" bonds were issued in 1994 and are being repaid over a period of forty years from the County's general revenues.

The County's Special Assessment Bonds consist of Series "A" Sanitary Sewer Subdistrict No. 2 (Madison Township) Improvement Bonds issued to finance Madison Township sewer improvements. The Bonds were issued in 1994 and are being repaid over a period of forty years from special assessments to users of the Madison Township sewer system.

The OWDA Water Pollution Control Loan is a line of credit loan used as part of the financing package for the Rocky Fork Lake Sewer Project. The total line of credit for this project is \$8,130,000. The loan is for twenty (20) years, with the first payment due January 1, 2001. The first payment was made December 31, 2000. The loan will be repaid through special assessments applied to Rocky Fork Lake area property. Property owners had the option to pay the special assessment in full or have the

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

3. DEBT (Continued)

special assessment included in their property tax over a twenty year period beginning in 2000. As of December 31, 2000, \$148,883 of the line of credit had not been drawn. The remaining line of credit will be used to complete the project subsequent to December 30, 2000. The annual requirements to amortize the loan presented below assumes that the full \$8,130,000 will be borrowed.

The OPWC Rocky Fork Lake Area Wastewater Collection System Loan of \$400,000 was issued in 1999 to assist in financing the Rocky Fork Lake Sewer Project. The loan is for twenty (20) years, and will be repaid through special assessments applied to Rocky Fork Lake area property as described in the previous paragraph.

The unsecured bank loan was obtained during 2000 from Merchants National Bank, Hillsboro, Ohio for ten (10) years. Proceeds from this loan were used to build a new salt barn. This loan will be repaid with motor vehicle license, permissive motor vehicle license tax, and gasoline tax monies from the County Engineer's annual budget.

The annual requirements to amortize all long term debt outstanding as of December 31, 2000, including interest payments of \$3,654,085 are as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	<u>Special Assessment Bonds</u>	<u>OWDA and OPWC Loans</u>	<u>Unsecured Bank Loan</u>	<u>Totals (Memorandum Only)</u>
2001	\$156,094	\$43,793	\$262,331	\$66,695	\$528,913
2002	156,201	43,852	524,662	66,695	791,410
2003	156,129	43,788	524,662	66,695	791,274
2004	156,176	43,807	524,662	66,695	791,340
2005	156,130	43,803	524,662	66,695	791,290
2006-2010	780,652	218,936	2,623,308	333,473	3,956,369
2011-2015	780,665	218,993	2,623,308		3,622,966
2016-2020	181,503	218,978	2,603,350		3,003,831
2021-2025	31,674	219,017			250,691
2026-2030	31,761	219,062			250,823
2031-2035	<u>25,314</u>	<u>175,163</u>			<u>200,477</u>
Totals	<u>\$ 2,612,299</u>	<u>\$ 1,489,192</u>	<u>\$10,210,945</u>	<u>\$666,948</u>	<u>\$ 14,979,384</u>

4. PROPERTY TAX

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. The last update was completed for tax year 1997 and the reappraisal will be completed for tax year 2000.

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

The full tax rate applied to real property for the fiscal year ended December 31, 2000 was \$9.25 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property

HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)

4. PROPERTY TAX (Continued)

values, the effective tax rate was \$6.30 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$6.47 per \$1000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the County by the State of Ohio.

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 the fiscal year ended December 31, 2000 was \$9.25 per \$1,000 of assessed valuation.

Real Property - 1999 Valuation	
Residential/Agricultural	\$ 306,635,160
Commercial/Industrial	48,033,760
Public Utilities	32,820
Tangible Personal Property - 1999 Valuation	
General	51,702,134
Public Utilities	<u>30,777,930</u>
Total Valuation	\$ <u>437,181,804</u>

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

5. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters. The County addresses these risks by maintaining a comprehensive risk management program through the purchase of various types of liability, inland marine, and property insurance from private carriers.

The County's exposure for the safety of its employees is covered by Ohio's Workers' Compensation department. The County carries commercial insurance for employee health and accident insurance. The County pays all elected and appointed officials' bonds by statute.

6. PENSION PLANS

1. Public Employees Retirement System of Ohio

The County contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement benefits, disability, and survivor benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215.

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

6. PENSION PLANS (Continued)

1. Public Employees Retirement System of Ohio (Continued)

Plan members, other than those engaged in law enforcement, are required to contribute 8.5% of their annual covered salary to fund pension obligation and the employer is required to contribute 13.55%. For 2000, the County contributed an amount equal to 10.84% of participants' gross salaries resulting from a temporary reduction in the employer contribution rate. For law enforcement employees, the employee contribution is 9% and the employer contribution is 16.7%. Contributions are authorized by state statute. The contribution rates are determined actuarially. The County's required contributions to PERS for the years ended December 31, 2000, 1999, and 1998 were \$1,026,691, \$1,100,446, and \$1,015,889, respectively. As of December 31, 2000, the County has made all required contributions.

2. State Teachers Retirement System of Ohio

The County contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, and survivor benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3% of their annual covered salary and the employer is required to contribute 14%. 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 to STRS for the years ended December 31, 2000, 1999, and 1998 were \$28,903, \$27,836, and \$35,116, respectively. As of December 31, 2000, the County has made all required contributions.

7. COUNTY SALES TAX

The permissive tax was levied locally in the amount of one-half of one percent upon every retail sale made in Highland County. In 2000, the County received a total of \$2,784,851 from the State of Ohio as its share of the sales tax. Such receipts were credited to the County General Fund.

8. COMPLIANCE

During 2000, the County received on-behalf loan assistance from the Ohio Water Development Authority for the Rocky Fork Lake Area Sewer Works Improvements Project and on-behalf grant assistance from the Ohio Public Works Commission Issue II Program for a bridge replacement project. These funds were subject to budgetary requirements, but the County did not budget them as required by Ohio law. Expenditures exceeded appropriations in the OWDA Rocky Fork Lake Sewer Construction Fund by \$204,240 and in the OPWC Issue II Fund by \$69,467.

The County did not properly certify that funds were appropriated and available for expenditure for some of the County's disbursements, as required by the Ohio Revised Code, Section 5705.41(D).

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000
(Continued)**

9. CONTINGENT LIABILITIES

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

10. ACCUMULATED UNPAID VACATION, PERSONAL, COMPENSATORY TIME AND SICK LEAVE

Accumulated unpaid vacation, personal, compensatory time and sick leave are not accrued under the cash basis of accounting described in Note 1. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees. It is not practicable to determine the value of these benefits as of December 31, 2000.

HIGHLAND COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2000

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
Food Distribution Program (See Note B)	N/A	10.550	\$0	\$2,078
National School Lunch Program (See Note C)	IRN - 066035	10.555	2,851	0
Total U.S. Department of Agriculture - Nutrition Cluster			2,851	2,078
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
<i>Passed Through Ohio Department of Development</i>				
Community Development Block Grant	B-F-99-033-1	14.228	131,507	0
Community Development Block Grant	B-F-98-033-1	14.228	56,381	0
Community Development Block Grant	B-C-98-033-1	14.228	117,958	0
Total U.S. Department of Housing and Urban Development			305,846	0
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through State Department of Mental Retardation and Developmental Disabilities</i>				
Social Services Block Grant - Title XX	N/A	93.667	29,457	0
Medical Assistance Program - Medicaid - Title XIX	N/A	93.778	463,890	0
Total U. S. Department of Health and Human Services			493,347	0
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through State Department of Education</i>				
Special Education Grants to States:				
Special Education Cluster:				
Special Education - Grants to States	066035-6B-SF-01P	84.027	11,739	0
Special Education - Preschool Grants	066035-PG-S1-01P	84.173	5,555	0
Total Special Education Cluster			17,294	0
Indicators of Success	066035-PG-SC-01P	84.173A	2,911	0
Total U. S. Department of Education			20,205	0
U.S. DEPARTMENT OF JUSTICE				
<i>Passed Through Office of the Ohio Attorney General</i>				
Criminal Victim Assistance Grant	99-VAGENE-025	16.575	5,748	0
Criminal Victim Assistance Grant	2000-VAGENE-025	16.575	53,762	0
Criminal Victim Assistance Grant	2000-VAGENEO25X	16.575	14,710	0
			74,220	0
<i>Passed Through Ohio Office of Criminal Justice Service</i>				
Byrne Formula Grant Program	99-DG-A01-7220	16.579	100,000	0
Total U.S. Department of Justice			174,220	0
U.S. DEPARTMENT OF LABOR				
<i>Passed Through Community Action Organization- Service Delivery Area #18</i>				
Job Training Partnership Act Cluster:				
Job Training Partnership Act - Title II	1-99-18-00-00-H	17.250	5,674	0
Job Training Partnership Act - Title II	3-98-18-00-00-H	17.250	17,384	0
Job Training Partnership Act - Title II	4-99-18-00-01-H	17.250	8,901	0
Job Training Partnership Act - Title II	0-99-18-00-00-H	17.250	72,525	0
Job Training Partnership Act - Title II	5-99-18-00-00-H	17.250	204	0
Job Training Partnership Act - Title II	Y-99-18-00-00-H	17.250	55,224	0
			159,912	0
Employment & Training Assistance - Dislocate Workers - Title III	B-99-18-00-00	17.246	16,309	0
Employment & Training Assistance - Dislocate Workers - Title III	A-99-18-00-00	17.246	21,759	0
			38,068	0
Total Job Training Partnership Act Cluster			197,980	0
Total U.S. Department of Labor			197,980	0
Total Federal Financial Assistance			\$1,194,449	\$2,078

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

HIGHLAND COUNTY

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
DECEMBER 31, 2000**

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 - JOB TRAINING PARTNERSHIP ACT - SCHEDULE OF VARIANCES

Highland County Job Training Partnership Act reports to grantor agencies on the accrual basis of accounting. Highland County's financial statements and schedule of federal awards expenditures are presented on the cash basis of accounting. The differences presented below are a result of expenditures accrued and reported by JTP in 1999, which are included in cash basis expenditures in Highland County's financial statements and the schedule of federal awards expenditures for the year ended December 31, 2000.

TITLE II	JTP OHIO	AUDIT REPORT	VARIANCE
1-99-18-00-00-H	\$4,485	\$5,674	(\$1,189)
3-98-18-00-00-H	17,384	17,384	0
4-99-18-00-01-H	8,184	8,901	(717)
0-99-18-00-00-H	65,657	72,525	(6,868)
5-99-18-00-00-H	204	204	0
Y-99-18-00-00-H	49,618	55,224	(5,606)
TOTAL CFDA # 17.250	\$145,532	\$159,912	(\$14,380)
TITLE III			
B-99-18-00-00-H	\$16,309	\$16,309	\$0
A-99-18-00-00-H	18,269	21,759	(3,490)
TOTAL CFDA # 17.246	\$34,578	\$38,068	(\$3,490)

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, 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, 2000, the County had no significant food commodities in inventory.

NOTE D - NATIONAL SCHOOL LUNCH PROGRAM

Federal funds were commingled with state subsidy and revenue from sale of meals. Assumed federal revenues were expended on a first-in/first-out basis.



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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Highland County
114 Governor Foraker Place
Hillsboro, Ohio 45133

To the Board of County Commissioners:

We have audited the financial statements of Highland County, Ohio (the County), as of and for the year ended December 31, 2000, and have issued our report thereon dated August 8, 2001, wherein we noted that the County did not prepare its annual financial report in accordance with generally accepted accounting principles, which is required by statute. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-60436-001, 2000-60436-002, 2000-60436-003, and 2000-60436-004. We also noted an immaterial instance of noncompliance that we have reported to management of the County in a separate letter dated August 8, 2001.

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 assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2000-60436-004.

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the County in a separate letter dated August 8, 2001.

Highland County
Report on Compliance and on Internal Control Required by
Government Auditing Standards
Page 2

This report is intended for the information and use of management, the Board of County 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.

Jim Petro
Auditor of State

August 8, 2001



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

Highland County
114 Governor Foraker Place
Hillsboro, Ohio 45133

To the Board of County Commissioners:

Compliance

We have audited the compliance of Highland County, Ohio (the County) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2000. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to 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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2000.

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.

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 condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants 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.

Highland County
Report on Compliance with Requirements Applicable to Each
Major Federal Program and Internal Control over
Compliance in Accordance with OMB Circular A-133
Page 2

We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the Board of County 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.

Jim Petro
Auditor of State

August 8, 2001

**HIGHLAND COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2000**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Medicaid - Title XIX, CFDA #93.778, Byrne Formula Grant Program, CFDA #16.579
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A > \$300,000 Type B - all other programs
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2000-60436-001

Noncompliance Citation

Ohio Administrative Code, Section 117-2-03 (which replaced Ohio Administrative Code, Section 117-1-11 effective July 1, 2000) requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. However, the County prepares its financial statements on the basis of accounting formerly prescribed or permitted by the Auditor of State, which is a basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The County can be fined and various other administrative remedies may be taken against the County.

FINDING NUMBER 2000-60436-002

Noncompliance Citation

Ohio Revised Code, Section 5705.09, requires the County to establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose. Upon establishing a fund, estimated receipts should be certified as available for expenditure and anticipated expenditures should be included in the County's appropriations.

During 2000, the County participated in the Ohio Water Development Authority (OWDA) Pollution Control Loan Program and in the Ohio Public Works Commission Issue II Program. Under these programs, the State made payments to contractor's on behalf of the County. The County did not formally establish the required funds to account for these monies within its annual budget. The financial statements include an adjustment to include OWDA and OPWC transactions. We recommend that the County formally establish an OWDA Rocky Fork Sewer Construction Fund and an OPWC Issue II Fund and record all future payments by the State to contractors on behalf of the County in these funds. Guidance on the accounting treatment for these types of transactions is set forth in Auditor of State Bulletin 2000-08.

FINDING NUMBER 2000-60436-003

Noncompliance Citation

Ohio Revised Code, Section 5705.41(B), prohibits a subdivision from making an expenditure unless it has been properly appropriated. The financial statements reflect an adjustment to include OWDA and OPWC receipts and expenditures, however, the County did not include these monies within its annual budget, which resulted in expenditures exceeding appropriations in the OWDA Rocky Fork Lake Sewer Construction Fund by \$204,240 and in the OPWC Issue II Fund by \$69,467.

The County should include all OWDA and OPWC monies in its annual budget and continue to monitor budgetary activity and obtain all necessary amendments. Guidance on the accounting treatment for these types of transactions is set forth in Auditor of State Bulletin 2000-08.

FINDING NUMBER 2000-60436-004

Noncompliance Citation - Reportable Condition

Ohio Revised Code, Section 5705.41 (D), provides that a subdivision or taxing unit shall not make any contract or order involving the disbursement of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment.

This section also provides two “exceptions” to the above requirements:

1. Then and Now Certificate- This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that the fiscal officer is completing the certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.
2. Amounts of less than \$100 for counties, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Our tests indicated that 36% of disbursements had obligations entered into prior to the certification occurring and no “then and now” certificate was issued, contrary to this requirement. Additionally, there were unencumbered purchase commitments at December 31, 2000. The financial statements have been adjusted to reflect these purchase commitments.

This procedure is not only required by Ohio law, but it is also a key control in the disbursement process. Without proper certification of funds, disbursements could be made without adequate current resources being available or disbursements could be made in excess of authorized appropriations. We recommend that prior certifications be provided for all disbursements. In instances when prior certifications are not practical, “then and now” certifications should be made.



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HIGHLAND COUNTY FINANCIAL CONDITION

HIGHLAND 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
AUGUST 28, 2001**