



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

PAULDING COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Paulding County
115 North Williams Street
Paulding, Ohio 45879-1284

To the Board of Commissioners:

We have audited the accompanying financial statements of Paulding County (the County) as of and for the year ended December 31, 2001. 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 did not audit the financial statements of the Paulding County Hospital, the County's enterprise fund type. Those 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 Paulding County Hospital, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 and the report of the other auditors provide a reasonable basis for our opinion.

Ohio Administrative Code § 117-2-3b 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 County, except for Paulding County Hospital, 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 accounting principles generally accepted in the United States of America. The accompanying financial statements, except for the financial statements of Paulding County Hospital, 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, other than the financial statements of Paulding County Hospital, present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of Paulding County, as of December 31, 2001, 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. Also in our opinion, based on the report of other auditors, the financial statements of Paulding County Hospital present fairly, in all material respects, the financial position of Paulding County Hospital, as of December 31, 2001, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2002, 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 federal awards expenditures 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 the audit committee, management, the Board of Commissioners, federal awarding agencies and pass-through entities, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

July 17, 2002

PAULDING COUNTY

COMBINED STATEMENT OF CASH AND CASH EQUIVALENTS
AND FUND CASH BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
AS OF DECEMBER 31, 2001

| | |
|---------------------------------------|----------------------------------|
| Cash and Cash Equivalents | <u><u>\$8,782,300</u></u> |
| Cash Balances by Fund Type | |
| Governmental Fund Types: | |
| General Fund | \$1,784,567 |
| Special Revenue Funds | 2,653,230 |
| Debt Service Fund | 2,021,174 |
| Capital Projects Funds | 690,622 |
| Fiduciary Fund Types: | |
| Expendable Trust Funds | 340,531 |
| Agency Funds | <u>1,292,176</u> |
| Total | <u><u>\$8,782,300</u></u> |

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

PAULDING COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001

| | <u>Governmental Fund Types</u> | |
|---|--------------------------------|----------------------------|
| | <u>General</u> | <u>Special Revenue</u> |
| Receipts: | | |
| Taxes | \$2,444,575 | \$1,283,504 |
| Charges for Services | 425,078 | 68,151 |
| Licenses and Permits | 1,800 | 90,575 |
| Fines and Forfeitures | 268,180 | 205,552 |
| Intergovernmental Receipts | 420,384 | 6,694,601 |
| Special Assessments | | |
| Other Receipts | 562,554 | 846,307 |
| | <hr/> | <hr/> |
| Total Receipts | 4,122,571 | 9,188,690 |
| | <hr/> | <hr/> |
| Disbursements: | | |
| General Government: | | |
| Legislative and Executive | 1,380,478 | 137,234 |
| Judicial | 565,131 | 356 |
| Public Safety | 1,259,427 | 361,200 |
| Public Works | 75,449 | 2,981,166 |
| Health | 3,008 | 2,273,058 |
| Human Services | 88,113 | 2,925,029 |
| Conservation - Recreation | | 44,000 |
| Miscellaneous | 130,637 | 514,877 |
| Capital Outlay | 22,852 | 885,457 |
| Debt Service: | | |
| Note Principal Payment | | |
| Interest and Fiscal Charges | | |
| | <hr/> | <hr/> |
| Total Disbursements | 3,525,095 | 10,122,377 |
| | <hr/> | <hr/> |
| Excess of Receipts Over/(Under) Disbursements | 597,476 | (933,687) |
| | <hr/> | <hr/> |
| Other Financing Sources (Uses): | | |
| Proceeds of Bonds | | |
| Proceeds of Notes | | |
| Operating Transfers - In | | 220,001 |
| Operating Transfers - Out | (248,652) | (28,500) |
| Other Financing Sources | | |
| Other Financing Uses | (175,761) | |
| | <hr/> | <hr/> |
| Total Other Financing Sources/(Uses) | (424,413) | 191,501 |
| | <hr/> | <hr/> |
| Excess of Receipts and Other Sources Over/(Under) Disbursements and Other Uses | 173,063 | (742,186) |
| | <hr/> | <hr/> |
| Fund Cash Balance - January 1 | 1,611,504 | 3,395,416 |
| | <hr/> | <hr/> |
| Fund Cash Balance - December 31 | <u>\$1,784,567</u> | <u>\$2,653,230</u> |

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

| <u>Governmental Fund Types</u> | | <u>Fiduciary Fund Types</u> | <u>Totals (Memorandum Only)</u> |
|--------------------------------|-----------------------------|---------------------------------|---|
| <u>Debt Service</u> | <u>Capital Projects</u> | <u>Expendable Trust</u> | |
| \$132,032 | | | \$3,860,111 |
| | | | 493,229 |
| | | | 92,375 |
| | | | 473,732 |
| | | | 7,114,985 |
| | \$434,333 | | 434,333 |
| 6,831 | 58,966 | \$323,919 | 1,798,577 |
| <u>138,863</u> | <u>493,299</u> | <u>323,919</u> | <u>14,267,342</u> |
| | | | 1,517,712 |
| | | | 565,487 |
| | | | 1,620,627 |
| | | | 3,056,615 |
| | | | 2,276,066 |
| | | | 3,013,142 |
| | | | 44,000 |
| 5,486 | | 65,532 | 716,532 |
| | 498,624 | | 1,406,933 |
| 3,800,000 | 1,683,678 | | 5,483,678 |
| 78,412 | 95,888 | | 174,300 |
| <u>3,883,898</u> | <u>2,278,190</u> | <u>65,532</u> | <u>19,875,092</u> |
| <u>(3,745,035)</u> | <u>(1,784,891)</u> | <u>258,387</u> | <u>(5,607,750)</u> |
| 1,900,000 | 2,134,545 | | 4,034,545 |
| 3,800,000 | | | 3,800,000 |
| | 57,151 | | 277,152 |
| | | | (277,152) |
| | | | (175,761) |
| <u>5,700,000</u> | <u>2,191,696</u> | | <u>7,658,784</u> |
| 1,954,965 | 406,805 | 258,387 | 2,051,034 |
| 66,209 | 283,817 | 82,144 | 5,439,090 |
| <u>\$2,021,174</u> | <u>\$690,622</u> | <u>\$340,531</u> | <u>\$7,490,124</u> |

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PAULDING COUNTY
COMBINED STATEMENT OF RECEIPTS
BUDGET AND ACTUAL
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---------------------------------|----------------------------|----------------------------|---|
| Governmental Fund Types: | | | |
| General Fund | \$4,909,088 | \$4,122,571 | (\$786,517) |
| Special Revenue Funds | 9,511,391 | 9,408,691 | (102,700) |
| Debt Service | 3,973,370 | 5,838,863 | 1,865,493 |
| Capital Projects Funds | 2,845,068 | 2,684,995 | (160,073) |
| Fiduciary Fund Type: | | | |
| Trust Funds | <u>55,678</u> | <u>323,919</u> | <u>268,241</u> |
| Total (Memorandum Only) | <u>\$21,294,595</u> | <u>\$22,379,039</u> | <u>\$1,084,444</u> |

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

PAULDING COUNTY

COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001

| | <u>Prior Year Carryover Appropriations</u> | <u>2001 Appropriations</u> |
|---------------------------------|--|--------------------------------|
| Governmental Fund Types: | | |
| General Fund | | \$4,443,473 |
| Special Revenue Funds | | 12,040,610 |
| Debt Service Fund | | 3,905,855 |
| Capital Projects Funds | | 3,615,096 |
| Fiduciary Fund Type: | | |
| Trust Funds | | 220,901 |
| Total (Memorandum Only) | | \$24,225,935 |

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

| <u>Total</u> | <u>Actual 2001 Disbursements</u> | <u>Encumbrances Outstanding at 12/31/01</u> | <u>Total</u> | <u>Variance Favorable (Unfavorable)</u> |
|----------------------------|--|---|----------------------------|---|
| \$4,443,473 | \$3,949,508 | | \$3,949,508 | \$493,965 |
| 12,040,610 | 10,150,877 | | 10,150,877 | 1,889,733 |
| 3,905,855 | 3,883,898 | | 3,883,898 | 21,957 |
| 3,615,096 | 2,278,190 | | 2,278,190 | 1,336,906 |
| 220,901 | 65,532 | | 65,532 | 155,369 |
| <u>\$24,225,935</u> | <u>\$20,328,005</u> | | <u>\$20,328,005</u> | <u>\$3,897,930</u> |

PAULDING COUNTY
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCE
AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

| | Fiduciary Fund Type |
|---|--------------------------------|
| | Agency Funds |
| Nonoperating Receipts: | |
| Other Nonoperating Receipts | \$21,894,900 |
| Nonoperating Disbursements: | |
| Other Nonoperating Disbursements | 21,771,911 |
| Excess of Nonoperating Receipts Over Nonoperating Disbursements | 122,989 |
| Fund Cash Balance - January 1 | 1,169,187 |
| Fund Cash Balance - December 31 | \$1,292,176 |

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

PAULDING COUNTY HOSPITAL

BALANCE SHEET
DECEMBER 31, 2001

ASSETS - General Fund

Assets:

Current Assets:

| | |
|-----------------------------------|-----------|
| Cash and Cash Equivalents | \$437,345 |
| Patient Accounts Receivable, Net | 1,914,697 |
| Notes Receivable, Current Portion | 82,164 |
| Inventories | 286,558 |
| Prepaid Expenses | 157,186 |
| Third Party Settlements | 44,651 |
| Other Receivables | 6,817 |

Total Current Assets 2,929,418

Assets Limited as to Use:

| | |
|--|-----------|
| Investments | 2,489,194 |
| Accrued Interest Receivable | 107,135 |
| Property and Equipment, Net | 7,090,894 |
| Notes Receivable, Net of current portion | 268,494 |

Total Assets - General Fund \$12,885,135

Donor Restricted Funds

| | |
|-----------------------------|-----------|
| Investments | \$634,840 |
| Accrued Interest Receivable | 25,693 |

Total Donor Restricted Assets \$660,533

(Continued)

PAULDING COUNTY HOSPITAL

BALANCE SHEET
DECEMBER 31, 2001
(Continued)

LIABILITIES AND FUND BALANCES - General Fund

Liabilities:

Current Liabilities:

| | |
|-----------------------------------|------------------|
| Current portion of Long Term Debt | \$201,185 |
| Accounts Payable | 610,475 |
| Construction Payable | 261,164 |
| Accrued Expenses: | |
| Payroll and Taxes | 314,907 |
| Vacation Pay | 313,377 |
| Other | <u>63,711</u> |
| Total Current Liabilities | <u>1,764,819</u> |

Long-Term Debt:

| | |
|--|------------------|
| Long Term Debt, Net of Current Portion | <u>645,165</u> |
| Total Liabilities | <u>2,409,984</u> |

Fund Balances - General Fund:

| | |
|---------------------------|-------------------|
| Contributed Capital | 1,900,000 |
| Unrestricted Fund Balance | <u>8,575,151</u> |
| Total Fund Balances | <u>10,475,151</u> |

Total Liabilities and Fund Balances \$12,885,135

Donor Restricted Funds

| | |
|------------------------|----------------|
| Specific Purpose Funds | \$13,577 |
| Endowment Funds | <u>646,956</u> |

Total Donor Restricted Funds \$660,533

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

PAULDING COUNTY HOSPITAL

STATEMENT OF REVENUES AND EXPENSES OF THE GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2001

| | |
|--|----------------------------------|
| Operating Revenues: | |
| Net Patient Service Revenue | \$12,765,735 |
| Other Revenue | <u>185,993</u> |
| Total Operating Revenues | <u>12,951,728</u> |
| Operating Expenses: | |
| Salaries and Wages | 5,906,193 |
| Employees Benefits | 1,625,774 |
| Professional Fees | 259,057 |
| Supplies and Other Expenses | 2,664,132 |
| Purchased Services | 972,685 |
| Depreciation | 723,246 |
| Interest | 53,384 |
| Provisions for Bad Debt | <u>205,342</u> |
| Total Operating Expenses | <u>12,409,813</u> |
| Operating Income | <u>541,915</u> |
| Other Income: | |
| Investment Income | 253,403 |
| Contributions | <u>156,523</u> |
| Total Other Income | 409,926 |
| Nonoperating Losses: | |
| Loss on Uninsured Investments | <u>(1,269,223)</u> |
| Expenses in Excess of Revenues and Losses | <u><u>(\$317,382)</u></u> |

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

PAULDING COUNTY HOSPITAL

STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2001

| | <u>Unrestricted</u> | <u>Donor Restricted Funds</u> | | <u>Total Funds</u> |
|---|---------------------------|-------------------------------|-------------------------|---------------------------|
| | <u>General Fund</u> | <u>Specific Purpose Funds</u> | <u>Endowment Funds</u> | |
| Balances - December 31, 2000 | \$8,892,533 | \$13,385 | \$611,629 | \$9,517,547 |
| Expenses in Excess of Revenue and Gains | (317,382) | | | (317,382) |
| Investment Income | | 192 | 35,327 | 35,519 |
| Balances - December 31, 2001 | <u>\$8,575,151</u> | <u>\$13,577</u> | <u>\$646,956</u> | <u>\$9,235,684</u> |

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

PAULDING COUNTY HOSPITAL

STATEMENT OF CASH FLOWS OF THE GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2001

Cash Flows from Operating and Non-Operating Activities

| | |
|--|----------------|
| Cash Received from Patients and Third Party Payers | \$12,221,335 |
| Cash Payments to Suppliers for Services and Goods | (3,890,103) |
| Cash Payments to Employees for Services | (7,362,592) |
| Other Operating Revenue (Loss) Received | <u>301,144</u> |

Net Cashed Provided by Operating and Non-Operating Activities 1,269,784

to Net Cash Provided by Operating Activities:

Cash Flows from Investing Activities

| | |
|---|------------------|
| Investment Income | 253,403 |
| Loss on uninsured investments | (1,269,223) |
| Advances to physicians - net of forgiveness | (44,687) |
| Decrease in assets limited to use | <u>2,021,237</u> |

Net Cashed Provided by Investing Activities 960,730

Cash Flows from Noncapital and Related Financing Activities

| | |
|-------------------------------------|---------|
| Unrestricted Contributions Received | 156,523 |
|-------------------------------------|---------|

Cash Flows From Capital and Related Financing Activities:

| | |
|--------------------------------------|------------------|
| Purchase of Property and Equipment | (1,717,216) |
| Interest Paid on Long-Term Debt | (53,384) |
| Principal Payments on Noted Payable | (75,339) |
| Principal Payments on Capital Leases | <u>(172,604)</u> |

Net Cash Used for Capital and Related Financing Activities (2,018,543)

Net Increase in Cash and Cash Equivalent 368,494

Cash and Cash Equivalent - Beginning of Year 68,851

Cash and Cash Equivalent - End of Year \$437,345

(Continued)

PAULDING COUNTY HOSPITAL

STATEMENT OF CASH FLOWS OF THE GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)

Cash Flows from Operating Activities and Non-Operating Gains

| | |
|--|----------------------------------|
| Income from Operations | \$541,915 |
| Interest Expense Considered Capital Financing Activities | 53,384 |
| Adjustments to Reconcile Revenue and Gains in Excess of Expenses to Net Cash Provided by Operating Activities and Non-Operating Gains | |
| Depreciation | 723,246 |
| Provision for Bad Debt | 205,342 |
| Decrease (Increase) in Patient Accounts Receivable | (514,636) |
| Decrease (Increase) in Inventories | (3,281) |
| Decrease (Increase) in Prepaid Expenses and Other Receivables | 49,635 |
| Decrease (Increase) in Third-Party Settlements | (29,764) |
| Decrease (Increase) in Accounts Payable | 173,041 |
| Decrease (Increase) in Other Accrued Expenses | <u>70,902</u> |
| Net Cash Provided by Operating Activities and Non-Operating Gains | <u><u>\$1,269,784</u></u> |

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

PAULDING COUNTY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2001

NOTE 1 - DESCRIPTION OF THE ENTITY AND REPORTING ENTITY

The County's reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, effective for financial statements for periods beginning after December 15, 1992. The financial statements and notes include all funds, agencies, boards, commissions, and component units for which Paulding County and the County Commissioners are "accountable". Accountability as defined in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the County and whether exclusion would cause the County's financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of PCU's board; fiscal dependency and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the County. Responsibility was evaluated on the basis of financial dependence and the manifestations of oversight exercised by the Commissioners. Among the factors considered were budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the County, obligation of the County to finance any deficits that may occur, reliance of the organization on continuing subsidies from the County, selection of governing authority, and designation of management.

The Paulding County Hospital (the Hospital) operates under the authority of § 339, Ohio Revised Code. It is governed by a Board of Trustees appointed by the County Commissioners, the Probate Judge, and the Judge of the Court of Common Pleas of Paulding County. The Hospital is not considered legally separate from the County and for financial reporting purposes is treated as an Enterprise Fund of the County.

Based on the foregoing criteria, the financial activities of the following entities should be reflected in the accompanying financial statements and notes:

Jointly Governed Organizations

Maumee Valley Planning Organization

Paulding County is a member of the Maumee Valley Planning Organization (MVPO) which is a jointly governed organization between Defiance, Fulton, Henry, Paulding, and Williams Counties and the respective townships and municipalities in each of those counties. The purpose of MVPO is to act as a joint regional planning commission to write and administer state and federal grants and help with housing rehabilitation in the area. MVPO is governed by a Board consisting of fifteen members. The Board is made up of one County Commissioner from each member county as well as one township representative and one municipal representative for each of the five member counties. The main source of revenue is fees charged by MVPO to administer grants and a per capita amount from each county. In 2001, the County paid administrative fees of \$37,571 to MVPO.

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

The Tri-County Mental Health Board is a jointly governed organization among Mercer, Paulding, and Van Wert Counties. The Tri-County Mental Health Board provides leadership in planning for and supporting community-based alcohol, drug addiction, and mental health services in cooperation with public and private resources with emphasis on the development of prevention and early intervention programming while respecting, protecting, and advocating for the rights of persons as consumers of alcohol, drug addiction, and mental health services. The ability to influence operations depends on the County's representation on the board. The Board of Trustees consists of eighteen members: four members are appointed by the Director of the Ohio Department of Mental Health, four members are appointed by the Director of the Ohio Department of Alcohol and Drug Addiction Services, and the remaining ten members are appointed by the County Commissioners of Mercer,

PAULDING COUNTY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2001 (Continued)

Paulding, and Van Wert Counties in the same proportion as the County's population bears to the total population of the three counties combined. During 2001, a tax levy provided \$201,658 for the operations of the organization.

West Central Partnership, Inc.

The West Central Partnership, Inc. (the Partnership) is a jointly governed not-for-profit organization among Allen, Hancock, Hardin, Mercer, Paulding, Putnam, and Van Wert Counties. The Partnership was formed to administer local loan programs in these counties for the State of Ohio Department of Development using 166 funds and raising money for such purpose and to expend, contribute, disburse, or otherwise handle and dispose of the same for such purpose. The Board of Trustees consists of nine members, including a County Commissioner from each of the member counties and the Director of Region 3, West Central SBDC Partnership.

Community Improvement Corporation

The County is a member of the Community Improvement Corporation of the Village of Antwerp and Paulding County (CIC) which is a jointly governed organization between the Village of Antwerp, Paulding County, the Village of Payne and respective Townships of Paulding County. The purpose of the CIC is to promote and encourage the establishment and growth of industrial, commercial, and research facilities within member subdivisions.

The CIC is governed by a Board of Trustees consisting of 14 self appointed members. Not less than two-fifths of the members are to be composed of elected officials. Seven of these Trustees include: a member of the Board of County Commissioners of Paulding County, the Mayor and his/her elected officials of the Village of Antwerp, the Mayor and his/her elected official of the Village of Payne, and an elected official of Carryall Township. The remaining members represent private residents of Paulding County or employees of the Paulding County businesses or firms. The County paid the CIC \$40,000 in 2001.

Joint Ventures

Four County Solid Waste District

The County is a member of the Four County Solid Waste District (the District), which is a joint venture between Defiance, Fulton, Paulding, and Williams Counties. The purpose of the District is to make disposal of waste in the four-county area more comprehensive in terms of recycling, incinerating, and land filling. The District was created in 1989.

The Four County Solid Waste District is governed and operated through a twelve member board of directors, comprised of three commissioners from each county. Financial records are maintained by the Williams County auditor in Bryan, Ohio. The District's sole revenue source is a waste disposal fee for in-district and out-of-district waste.

The County has an ongoing financial interest in the District. The County Commissioners are able to influence the Board of Directors to use the District's surplus resources to undertake special projects of interest to the County's citizens. In the event that a county withdraws from the District, this access to the net resources has not been explicitly defined, nor is it currently measurable. The County has no ongoing financial responsibility for the District. The County received \$55,000 from the District in 2001 to administer its local solid waste reduction program.

PAULDING COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

Multi-Area Narcotics Task Force (the Task Force)

Paulding County is a member of a drug task force which is a joint venture between Defiance, Paulding, and Putnam Counties and the Cities of Defiance and Bryan. The purpose of the drug task force is to act as a joint task force in the fight against narcotics. The Task Force is jointly controlled by the chief law enforcement officer of each respective entity.

The main source of revenue for the Task Force is federal grants and local matching shares made by the participating entities. The County has no ongoing financial responsibility to the Task Force. The County has indirect access to the net resources of the Task Force since the County is able to influence the Task Force to use its surplus resources to undertake projects of interest to the County's residents. This access to the net resources of the Board has not been explicitly defined, nor is it currently measurable. Paulding County contributed \$4,541 to the Task Force in 2001. Complete financial statements for the Task Force can be obtained through the Defiance County Sheriff's Office located at 113 Biede Street, Defiance, Ohio.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Administrative Code § 117-2-3b to prepare its annual financial report in accordance with generally accepted accounting principles, the County, with the exception of the Paulding County Hospital, the County's Enterprise fund type, 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.

A general fixed asset group and general long-term debt obligation group of accounts is 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.

A. Basis of Presentation - Fund Accounting

The County uses fund accounting to segregate cash and investments which are restricted to use. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain County functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations.

For financial statement presentation purposes, the various funds of the County are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

1. Governmental Fund Types

Governmental funds are those through which most governmental functions of the County are financed. The acquisition, use, and balances of the County's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds and trust funds) are

PAULDING COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

accounted for through governmental funds. The following are the County's governmental fund types:

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

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

Debt Service Fund - This fund is used for the accumulation of resources for, and the payment of, general obligation long-term debt principal and interest other than that accounted for in the proprietary fund.

Capital Projects Funds - The 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 or trust funds).

2. Proprietary Fund Types

Proprietary funds are used to account for the County's ongoing activities which are similar to those found in the private sector.

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

3. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The County's fiduciary funds include expendable trust and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Funds for which the County is acting in an agency capacity are classified as agency funds.

B. Budgetary Process

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

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

Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

PAULDING COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

1. Budget

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

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, 2001, 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.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

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 canceled at year end and reappropriated at the beginning of the subsequent year.

C. Property, Plant, and Equipment

With the exception of the Enterprise Fund, acquisition of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

D. Unpaid Vacation and Sick Leave

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

PAULDING COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

E. Cash and Investments

The County maintains a cash and investment pool which is available for all funds except the Enterprise Fund. Individual fund integrity is maintained through County records. Each fund's interest in the pool is presented as "Cash and Cash Equivalents" on the Combined Statement of Cash and Cash Equivalents and Fund Cash Balances. During fiscal year 2001, investments were limited to certificates of deposits and STAR Ohio. All investments of the County had a maturity of two years or less. Investments are stated at cost. Investment earnings are allocated as authorized by State statute.

F. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Total - (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.

NOTE 3 - PAULDING COUNTY HOSPITAL (ENTERPRISE FUND)

A. Significant Accounting Policies

1. Basis of Presentation

The financial statements have been presented in conformity with accounting principles generally accepted in the United States of America as recommended in the Audit Guide (Audits of Providers of Health Care Services) published by the American Institute of Certified Public Accountants. The significant accounting policies conform to accounting principles for governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Hospital also applies the Financial Accounting Standards Board Statements and Interpretation issued to the extent that they do not contradict or conflict with GASB pronouncements.

2. Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term highly-liquid investments purchased with initial maturities of three months or less. Cash and Cash equivalents included in assets limited as to use are not considered cash and cash equivalents for purposes of the statements of cash flows of general funds.

3. Inventories

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

4. Assets Limited as to Use

Assets limited as to use include assets set aside by the Hospital Board of Directors for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes.

5. Property and Equipment

Property and equipment for the Enterprise Fund are recorded at cost or, if donated, at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of

PAULDING COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

depreciable asset and is computed on the straight-line method. Equipment under capital leases is amortized on the straight-in method over the useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Cost of maintenance and repairs are charged to expense when incurred.

6. Notes Receivable

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

7. Compensated Absences

Paid time off is charged to operations when earned. Unused and earned benefits are recorded as a current liability in the financial statements.

8. Unrestricted and Restricted Funds

Restricted funds represent contributions and bequests whose use is specified by the donor. Restricted gifts and other restricted resources are initially recognized as revenue of the restricted fund and are recognized by the Hospital as direct additions to the general fund in the period in which the expenditures are made for the purpose intended by the donor.

Unrestricted gifts represent contributions and bequests upon which donors place no restrictions or that arise as a result of the operation of the Hospital for its stated purpose. Assets limited as to use are not considered to be restricted funds. Unrestricted contributions are included in nonoperating revenue in the statements of revenue and expenses in the period received by the Hospital.

9. Net Patient Service Revenue

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

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

10. Income from Operations

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as non-operating gains or losses.

PAULDING COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

11. Investment Income

Investment income on board-designated funds (funded depreciation) and general funds are recorded as non-operating gains. All investment income from donor-restricted funds is added to the restricted fund balance.

12. Charity Care

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

13. Use of Estimates

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

14. Pension Plan

Substantially all of the Hospital's employees are eligible to participate in a defined benefit pension plan sponsored by the Public Employees Retirement System of Ohio (PERS). The Hospital funds pension costs accrued based on contribution rates determined by PERS.

B. Deposits and Investments

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

| | Cash and Cash Equivalents | Assets Limited as to Use | Restricted Cash and Cash Equivalents |
|---|------------------------------|-----------------------------|--|
| Deposits | \$437,345 | | |
| Certificates of Deposit | | \$2,596,329 | \$660,533 |
| Total | \$437,345 | \$2,596,329 | \$660,533 |
| | | | Cash and Cash Equivalents |
| Amount of deposits reflected on the accounts of the bank (without recognition of checks written but yet not cleared or of deposits in transit). | | | \$3,919,660 |
| Amount of deposits covered by federal depository insurance | | | (400,000) |
| Amount of deposits uninsured | | | \$3,519,660 |

PAULDING COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

Amounts of deposits not insured by federal depository insurance are collateralized by pools of securities pledged by the depository banks and held in the name of the respective bank. See the subsequent events note regarding the Hospital's investments.

C. Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

| | |
|-----------------------------------|---------------------------|
| Gross Patient Accounts Receivable | \$2,862,615 |
| Less Allowance For: | |
| Uncollectible Accounts | |
| Contractual Adjustments | <u>(407,502)</u> |
| Patient Accounts Receivable, Net | <u><u>\$1,914,697</u></u> |

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

| | |
|--------------------------|--------------------|
| | 2001 |
| Medicare | 28% |
| Medicaid | 8% |
| Blue Cross | 13% |
| Patient Pay | 21% |
| Other Third-Party Payers | <u>30%</u> |
| Total | <u><u>100%</u></u> |

D. Property and Equipment

Property and equipment is summarized at December 31, 2001, as follows:

| | <u>Depreciable Life-Years</u> | |
|-------------------------------------|-------------------------------|---------------------------|
| Land | Not applicable | \$30,609 |
| Land Improvements | 5-25 years | 124,444 |
| Building and Improvements | 5-50 years | 6,234,931 |
| Fixed Equipment | 5-20 years | 1,455,292 |
| Moveable Equipment | 5-20 years | 4,154,843 |
| Moveable Equipment - Capital Leases | 5 years | 1,736,188 |
| Construction in Progress | Not Applicable | <u>2,667,595</u> |
| Total Property and Equipment | | 16,403,902 |
| Less Accumulated Depreciation | | <u>(9,313,008)</u> |
| Property and Equipment, Net | | <u><u>\$7,090,894</u></u> |

PAULDING COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

Construction in Progress at December 31, 2001 consists of renovations to the Hospital's facilities. The estimated costs to complete the project are approximately \$500,000 at December 31, 2001, and are expected to be funded via operations, contributed capital, and existing cash funds.

E. Long Term Debt

| | |
|--|-------------------------|
| Note payable to First Federal Bank, payable over 60 months with monthly payments of \$1,881, including interest at 5.94%, secured by roof. | \$70,892 |
| Capital lease payable to Fifth Third Bank over 120 months, with monthly payments of \$18,385, including interest at 5.52%, secured by HVAC system. | 775,458 |
| Total | <u>846,350</u> |
| Less Current Portion | <u>201,185</u> |
| Long Term Portion | <u><u>\$645,165</u></u> |

At December 31, 2001, future minimum payments on the note payable and capital lease payable are as follows:

| | Note Payable | Lease Payable |
|-----------------------------------|--------------|---------------|
| 2002 | \$18,805 | \$220,615 |
| 2003 | 19,970 | 220,615 |
| 2004 | 21,205 | 220,615 |
| 2005 | 10,912 | 202,231 |
| Total | \$70,892 | 864,076 |
| Less Amount Representing Interest | | (88,618) |
| Net Lease Payments | | \$775,458 |

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

| | |
|---------------------------------------|---------------------------|
| Cost of Equipment Under Capital Lease | \$1,736,188 |
| Less Accumulated Amortization | <u>624,179</u> |
| Net Carrying Amount | <u><u>\$1,112,009</u></u> |

F. Contributed Capital

The Hospital has received \$1,900,000 from Paulding County to pay for the costs of renovating, expanding, modernizing, and equipping Paulding County Hospital. The voters of Paulding County passed a levy in November 1999 to approve the levy of ad valorem taxes on all property in the County subject to ad valorem taxes levied by the County, which taxes are unlimited as to amount. Due to the County not collecting property tax revenue on this levy until the year 2001, the County issued a bond

PAULDING COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)

anticipation note. The Hospital received the proceeds of the note from the County, which matured September 14, 2000, with an interest rate of 4.5%. The Hospital has no obligation for the retirement of the notes or the bonds, which are backed by the full faith of Paulding County.

G. Cost Report Settlements

Approximately 50 percent of the Hospital's revenues from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payers that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payers. A summary of reimbursement with third-party payers follows.

Medicare - Effective January 1, 2001, the Hospital received full accreditation from the Center for Medicare and Medicaid Services for the Critical Access Hospital designation. As a Critical Access Hospital, the Hospital will receive reasonable, cost-based reimbursement for both inpatient and outpatient services provided to Medicare beneficiaries. During the year ended December 31, 2000, inpatient, acute care services rendered to Medicare program beneficiaries were paid at prospectively determined rates per discharge. These rates varied according to a patient classification system based on clinical, diagnostic, and other factors. Inpatient capital costs were paid at prospectively determined rates per discharged. Outpatient services for surgery, radiology, and other diagnostics services were reimbursed on a blend of cost and established fee-for-service methodology, through July 31, 2000, and on the Ambulatory Payment Classification system from August 1, 2000 through December 31, 2000.

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

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

H. Net Patient Service Revenue

Net patient service revenue consists of the following:

| | |
|------------------------------------|----------------------------|
| Revenue: | |
| Inpatient Services: | |
| Routine Services | \$1,050,239 |
| Ancillary Services | 3,241,623 |
| Outpatient ancillary services | <u>12,248,756</u> |
| Total Patient Revenue | 16,540,618 |
| Less Contractual Adjustments Under | |
| Third-Party reimbursement Programs | <u>(3,774,883)</u> |
| Total Net Patient Service Revenue | <u><u>\$12,765,735</u></u> |

PAULDING COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

I. Defined Benefit Pension Plan

Plan Description - The Hospital contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the public Employees Retirement System. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the PERS Board of Trustees. PERS issues a stand-alone financial report available to the public that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-466-2085 or 1-800-222-PERS (7377).

Funding Policy - Plan members are required to contribute 8.5 percent of their annual covered salary and the Hospital is required to contribute at an actuarially determined rate of annual covered payroll. The employer rate was 13.55 percent for 2001 and from January 1, 2000, through June 30, 2000, and a rolled-back rate of 8.13 percent from July 1, 2000 to December 31, 2000. The contribution requirement of plan members and the Hospital is established and may be amended by the PERS Board of Trustees. The Hospital's contribution to PERS for the years ended December 31, 2001, 2000, and 1999, were \$801,597, \$536,065, and \$1,054,482, respectively.

Post-Retirement Benefits - Public Employees Retirement System of Ohio provides post-retirement health care coverage to age and service retirants with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB), as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2001 employer contribution rate for local government employer units was 13.55 percent of covered payroll for 2001 and from January 1, 2000 through June 30, 2000, and 8.13 percent of covered payroll from July 1, 2000 to December 31, 2000. Of this amount, 4.3 percent was the portion that was used to fund health care throughout the year. The portion of the employer's contribution used to fund post-employment benefits was \$254,344.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirements health care through their contributions to PERS.

OPEB's are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

The number of active contributing participants during 2000 was 411,076. As of December 31, 2000, the actuarial value of the Retirement System's net assets available from OPEB was \$11,736 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,365 million and \$2,629 million, respectively.

J. Risk Management

The Hospital is insured against medical malpractice claims under an occurrence-based policy. The policy covers claims resulting from incidents that occur during the policy terms, regardless of when the claims are reported to the insurance carries. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding \$1,000,000 or aggregate claims exceeding

PAULDING COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
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(Continued)**

\$3,000,000 for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional \$5,000,000 of coverage.

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

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

K. Deferred Compensation Plan

All full-time employees of the Hospital may participate in a deferred compensation plan created by the State of Ohio under the provisions of the Internal Revenue Code (IRC) Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments). Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

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

L. Self-Insurance

The Hospital is partially self-insured under a plan covering all employees for employee health insurance. The plan is covered by a stop-loss policy that covers claims over \$25,000 per employee or total claims in excess of \$1,000,000. The plan policy year ends on December 31. Claims, charged to operations when incurred, were approximately \$665,000 and \$618,000 for the years ended December 31, 2001 and 2000, respectively.

M. Subsequent Event

The Hospital maintained \$1.48 million of investments at a local bank. In February 2002, it was discovered the bank was defrauded of most of its assets. The Hospital was only insured for \$100,000 (FDIC) and was collateralized an additional amount totaling \$95,620. Due to the uncertainty of recovering any of the funds beyond insured and collateralized amounts, the Hospital wrote down the uninsured portion of investments totaling \$1.29 million in 2001.

NOTE 4 - COMPONENT UNIT - PC WORKSHOP, INC.

PC Workshop, Inc. (the Workshop) was organized in 1977 in order to provide sheltered employment for mentally retarded and developmentally disabled persons in Paulding County. The Workshop operates in facilities owned by, and with a staff provided by, the Paulding County Board of Mental Retardation and Developmental Disabilities. The major work performed by the Workshop is assembly for the automotive industry, various janitor services, recycling, and day care. All are performed in Northwest Ohio. The financial activity of the PC Workshop is not included as a part of the accompanying financial statements. To obtain the financial statements contact the PC Workshop, Finance Department, 900 West Caroline Street, Paulding, Ohio 45879.

PAULDING COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 5 - DEPOSITS AND INVESTMENTS

The County maintains a cash and investment pool used by all funds, except for the Enterprise Fund. Each fund type's portion of this pool is displayed on the Combined Statement Cash and Cash Equivalents and Fund Cash Balances "Cash and Cash Equivalents".

A. Legal Requirements

Statutes require the classification of monies held by the County into two categories. The first category consists of "active" monies, those monies required to be kept in a "cash" or "near-cash" status for current demands upon the County Treasury. Such monies must be maintained either as cash in the County Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

The second category consists of "inactive" monies, those monies in excess of the amount determined to be "active" monies. 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 or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the County;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the County's total average portfolio;
10. 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;

PAULDING COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
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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.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of pledging specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure the repayment of all public monies deposited in the financial institution, provided that at all times the total value of the securities so pledged is at least equal to 110% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

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.

B. Cash on Hand

Cash on hand consists of \$31,058 in undeposited cash which is included on the Combined Statement of Cash and Cash Equivalents and Fund Cash Balances as part of "Cash and Cash Equivalents."

C. Deposits

At year-end, the carrying amount of the County's deposits, excluding the Paulding County Hospital, including non-negotiable certificates of deposit, was \$8,539,523 and the bank balance, including non-negotiable certificates of deposit was \$9,333,534. Of the bank balance:

1. \$619,604 was covered by federal depository insurance;
2. \$1,245,417 was collateralized by securities specifically pledged by the financial institution to the County;
3. \$7,217,841 was covered by collateral held by third party trustee pursuant to § 135.181, Revised Code, in collateralized pools securing all public funds on deposits with specific depository institutions; and
4. \$250,672 was not properly collateralized by either specific or pooled securities (Refer to note 15)

D. Investments

The County's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

As of December 31, 2001, the County's investments were as follows:

| | <u>Uncategorized</u> | <u>Carrying Amount</u> | <u>Market Value</u> |
|-----------|----------------------|----------------------------|-------------------------|
| STAR Ohio | <u>\$211,719</u> | <u>\$211,719</u> | <u>\$211,719</u> |

PAULDING COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

NOTE 6 - PROPERTY TAXES

Real property taxes are levied on assessed values which equal 35 percent 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 1998.

Real property taxes become a lien on all nonexempt 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, 2001, was \$11.01 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$8.79 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$9.18 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the County by the State of Ohio.

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, 2001, was \$11.01 per \$1,000 of assessed valuation.

| | |
|---|-----------------------------|
| Real Property - 2000 Valuation | |
| Residential/Agricultural | \$187,378,850 |
| Commercial/Industrial | 22,733,010 |
| Public Utilities | 232,920 |
| | |
| Tangible Personal Property - 2001 Valuation | |
| General | 28,450,979 |
| Public Utilities - 2000 | <u>29,303,440</u> |
| | |
| Total Valuation | <u><u>\$268,099,199</u></u> |

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

NOTE 7 - RISK MANAGEMENT

The County is a member of the County Risk Sharing Authority, Inc., (CORSA) (the Pool). The Pool assumes the risk of loss up to the limits of the County's policy. The Pool may make supplemental assessments if the experience of the overall pool is unfavorable. The Pool covers the following risks:

- Comprehensive general liability;
- Automobile liability;
- Certain property insurance; and
- Public officials' errors and omissions liability insurance.

PAULDING COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)

The Pool reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities as of December 31:

| | <u>2001</u> | <u>2000</u> |
|-----------------------|--------------|--------------|
| Cash and investments | \$41,390,053 | \$37,099,626 |
| Actuarial liabilities | \$11,381,615 | \$10,081,676 |

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

Public Employees Retirement System of Ohio (PERS) is a cost-sharing multiple-employer defined benefit pension plan.

PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

The Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614)466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5% for employees other than law enforcement. In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continued to contribute at 9%

For local government employer units the rate was 13.55% of covered payroll. The 2001 employer contribution rate for both the law enforcement and public safety divisions was 16.70% of covered payroll.

Required employer contributions are equal to 100% of the dollar amount billed each employer and must be extracted from the employer's records.

The County has paid all contributions required through December 31, 2001.

B. State Teachers Retirement System

Certified teachers employed by the school for the Mentally Retarded/Developmentally Disabled (MRDD) participate in the State Teachers Retirement System of Ohio (STRS) cost sharing multiple-employer public employee's retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

PAULDING COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and the County is required to contribute 14 percent; 10.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The County has paid all contributions required through December 31, 2001.

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

Public Employees Retirement System of Ohio provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement service is considered an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The PERS law enforcement program was separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. For local government employers units the rate was 13.55% of covered payroll; 4.30% was the portion that was used to fund health care for the year. The 2001 employer rate was 16.70% and 4.30% was used to fund health care for both the law enforcement and public safety divisions.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

Summary of Assumptions:

Actuarial Review: The following assumptions and calculations were based on the System's latest Actuarial Review as of December 31, 2000.

Funding Method: An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability.

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

Investment Return: The investment assumption rate for 2000 was 7.75%.

Active Employee Total Payroll: An annual increase of 4.75% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75% base increase, were assumed to range from 0.54% to 5.1%.

Health Care: Health care costs are assumed to increase 4.75% annually.

OPEB is financed through employer contributions and investments earnings thereon. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

PAULDING COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

OPEB is advance-funded on an actuarially determined basis. The retirement board elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding methodology. As of December 31, 2000, the actuarial value of the Retirement System's net assets was \$11,735,900,000. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364,600,000 and \$2,682,700,000, respectively. The number of active contributing participants was 411,076.

In 2001, the portion of the County's employer contributions that were used to fund post employment benefits were \$241,109.

In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continue to contribute 9%. The employer contribution rate for both the law enforcement and public safety divisions is 16.70%.

Law enforcement officer benefits permit age and service retirement at an earlier age with a different formula that for PERS members not covered under this division.

B. State Teachers Retirement System

The County provides comprehensive health care benefits to retired employees and their dependents through the State Teachers Retirement System (STRS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. This system is on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2001, the board allocated employer contributions equal to 4.5% percent of covered payroll to Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion on June 30, 2001.

For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000. There were 102,132 eligible benefit recipients.

NOTE 10 - EMPLOYEE BENEFITS

A. Sick Leave and Vacation Leave Benefits

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

Employees earn sick leave at the rate of one and one-fourth days per month. Unused sick leave shall accumulate without limit. Upon retirement, payment is made for one-half of all accrued, but unused sick leave credit provided the employee has ten or more years of service with the County.

PAULDING COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

B. Deferred Compensation

Employees of the County may elect to participate in the Ohio Public Employees Deferred Compensation Program or the County Commissioners Association of Ohio Program. Under these programs employees authorize a voluntary payroll deduction which is invested in a plan of their choice. The accumulated value of the account is not distributed to the employee until a future date, usually after retirement. The deferred pay and any income earned on it is not subject to taxation until the distribution is made to the employee.

The County Commissioners' Association Program, in 1997, and the Ohio Public Employees Deferred Compensation Program, in 1998, placed these assets in trust to comply with recent changes in the Internal Revenue Code. These assets, and the related receipts and disbursements, are not reflected in the accompanying financial statements.

NOTE 11 - DEBT OBLIGATIONS

The County's outstanding debt at December 31, 2001, was as follows:

| | <u>Principal</u> | <u>Interest Rate</u> |
|---|------------------|----------------------|
| Ohio Public Works Commission Loans | \$292,739 | 0% |
| Tax Anticipation Notes | 563,631 | Various |
| General Obligation Notes | 1,505,211 | Various |
| Hospital Improvement Bond Anticipation Notes, Series 2001-2 | 1,900,000 | 3.70% |
| Hospital Improvement Bonds, Series 2001 | 1,900,000 | Various |

Proceeds of the Ohio Public Works Commission (OPWC) loans were used for road resurfacing projects. The loans will be repaid in semi-annual installments of \$8,706 through 2019.

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

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

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

The Hospital Improvement Bond Anticipation Note, Series 2001-2, was issued to pay costs of renovating, expanding, modernizing, and equipping the Paulding County Hospital. The Notes will be refunded with the issuance of bonds in January 2002. The Hospital Improvement Bonds, Series 2001, were received in December 2001.

PAULDING COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

The following is a summary of the County's future debt payments, including interest:

| | Hospital Improvement Notes | Hospital Improvement Bonds | Tax Anticipation Notes | General Obligation Notes | OPWC Loan |
|---------------------|----------------------------------|----------------------------------|------------------------------|--------------------------------|-----------|
| 2002 | \$1,935,150 | \$133,786 | \$583,283 | \$1,576,639 | \$17,412 |
| 2003 | | 138,848 | | | 17,412 |
| 2004 | | 137,723 | | | 17,412 |
| 2005 | | 136,417 | | | 17,412 |
| 2006 | | 139,955 | | | 17,412 |
| 2007 and Thereafter | | 2,768,810 | | | 205,679 |
| Total | \$1,935,150 | \$3,455,539 | \$583,283 | \$1,576,639 | \$292,739 |

NOTE 12 - PERMISSIVE SALES AND USE TAX

In 1984, the County Commissioners by resolution imposed a one percent tax on all retail sales, except sales of motor vehicles, made in the County, and on the storage, use, or consumption in the County of tangible personal property, including automobiles, not subject to the sales and use tax, and renewed a resolution to levy an additional one-half percent for permissive sales and use tax. Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies to the State Auditor the amount of the tax to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of each month. The State Auditor then has five days in which to draw the warrant payable to the County.

Proceeds of the tax are credited to the General Fund. Sales and use tax revenue for 2001 amounted to \$1,508,322.

NOTE 13 - CONTINGENT LIABILITIES

A. Litigation

Several claims and lawsuits involving the County are pending. In the opinion of the County Prosecutor, any potential liability would not have a material effect on the County's financial statements.

B. Contractually Assumed Obligations

The Ohio Rail Development Commission (the Commission) has loaned RMW Ventures (RMW) \$1,200,000 to purchase a railroad line, portions of which lie in Henry, Defiance, and Paulding Counties. The loan is to be amortized over 120 months with a balloon payment due after the fifth anniversary of the first installment.

As a condition of loaning such funds, the Commission has required the three Counties to jointly guarantee payment of \$600,000 of the balloon payment, each County to guarantee to pay \$200,000 to the Commission upon default by RMW. The Commissioners signed the Guarantee Agreement in February 1998.

RMW has agreed to repay to the County any sums it pays under the Guarantee Agreement and to secure this obligation by granting the County a security interest and mortgage in all property of the railroad, both real and personal.

As of the date of this report, the loan guarantee had not been called.

PAULDING COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

NOTE 14 - COMPLIANCE

Ohio Administrative Code § 117-2-3b requires that the County should prepare its annual financial report in accordance with generally accepted accounting principles. The County prepared its 2001 financial report on a basis of accounting formerly prescribed or permitted by the Auditor of State.

Ohio Revised Code § 5705.39 requires that the total appropriation from each fund should not exceed the total estimated revenue. Appropriations materially exceeded estimated revenue in the following funds by the following amounts:

| Fund | Estimated Revenue | Appropriations | Variance |
|------------------------|----------------------|----------------|----------|
| Dog and Kennel | \$40,903 | \$53,582 | \$12,679 |
| Motor Vehicle Gas Tax | 3,516,243 | 3,855,745 | 319,502 |
| MRDD | 2,289,820 | 2,306,859 | 17,039 |
| WMEA | 43,318 | 57,754 | 14,436 |
| Sheriff's Fees | 451 | 3,000 | 2,549 |
| CDBG Formula | 23,500 | 25,520 | 2,020 |
| Ditch Construction | 1,475,728 | 2,066,456 | 590,728 |
| County Projects | 4,236 | 50,000 | 45,764 |
| Stoller TIF II | 3,742 | 17,000 | 13,258 |
| Cooper TIF | 77,633 | 78,038 | 405 |
| Schlinderink Dairy TIF | 117,000 | 122,355 | 5,355 |
| Tax Incentive | 9,000 | 12,926 | 3,926 |
| Jacob Farm | 68,526 | 195,000 | 126,474 |

Ohio Revised Code § 5705.41(D) requires certification of the availability of funds in advance of expenditures. The County did not fully comply with this requirement.

Ohio Revised Code § 133.22 requires that when a subdivision issues notes, the financial officer of the subdivision must notify the County Auditor that such notes have been sold. The County did not certify the proceeds of the Hospital Improvement Bonds received in December 2001.

Ohio Revised Code § 135.18 requires the treasurer to ensure that banks provide enough collateral to cover all funds deposited. All of the County's deposits were not covered by collateral.

NOTE 15 - SUBSEQUENT EVENTS

The County maintained \$802,235 of certificates of deposit at a local bank. In February 2002, it was discovered the bank was allegedly defrauded of most of its assets. The County was only insured for \$100,000 (FDIC) and was collateralized an additional amount totaling \$451,563. In June 2002, the County received \$28,707 of dividends and is awaiting a meeting with the Federal Deposit Insurance Corporation (FDIC) to determine what portion of the uncollateralized monies the County is eligible to receive after liquidation of the bank's assets.

PAULDING COUNTY

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2001**

| FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title | Pass Through Entity Number | Federal CFDA Number | Disbursements |
|---|----------------------------------|---------------------------|---------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| <i>Passed Through Ohio Job and Family Services:</i> | | | |
| Stop Welfare Fraud | - | 10.561 | \$2,003 |
| <i>Passed Through the Local Agricultural Stabilization and Conservation Service:</i> | | | |
| Crop Deficiency Program | - | 10.XXX | <u>2,932</u> |
| Total U.S. Department of Agriculture | | | <u>4,935</u> |
| U.S. DEPARTMENT OF EDUCATION | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | |
| Special Education - Grants to States (Title VI-B) | 066183-6B-SF-01P | 84.027 | 2,190 |
| | 066183-6B-SF-02P | | <u>3,455</u> |
| Total Special Education - Grants to States | | | 5,645 |
| <i>Passed Through Ohio Department of Health:</i> | | | |
| Special Education Grants for Infants and Families with Disabilities (Early Intervention) | 63-1-02-F-AN-392 | 84.181 | <u>68,094</u> |
| Total U.S. Department of Education | | | <u>73,739</u> |
| U.S. DEPARTMENT OF FEDERAL EMERGENCY MANAGEMENT DISASTER ASSISTANCE | | | |
| <i>Passed Through Ohio Department of Emergency/ Management Disaster Assistance:</i> | | | |
| Federal Emergency Management Agency - Special Project | OH-01-028HM | 83.552 | 11,071 |
| Total U.S. Department of Federal Emergency Management Disaster Assistance | | | <u>11,071</u> |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| <i>Passed Through Ohio Department of Health:</i> | | | |
| Social Services Block Grant (Title XX) | - | 93.667 | 20,588 |
| <i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i> | | | |
| Medical Assistance Program (Medicaid: Title XIX) | - | 93.778 | 60,994 |
| <i>Passed Through Ohio Job and Family Services:</i> | | | |
| Child Welfare Subsidy (Title IV-B) | 63-6010-01 | 93.645 | 12,189 |
| ESSA Family Preservation | 63-6035-01 | 93.645 | 582 |
| ESSA Family Preservation | 63-6035-02 | 93.645 | 3,726 |
| ESSA Family Reunification | 63-6035-01 | 93.645 | 4,243 |
| ESSA Family Reunification | 63-6035-02 | 93.645 | <u>2,470</u> |
| Total | | | 23,210 |

(Continued)

PAULDING COUNTY

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)**

| FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title | Pass Through Entity Number | Federal CFDA Number | Disbursements |
|--|----------------------------------|---------------------------|---------------------------|
| Independent Living | 63-6015-01 | 93.674 | 1,827 |
| Basic Child Abuse and Neglect | 20-6020-01 | 93.669 | 2,108 |
| Total U.S. Department of Health and Human Services | | | <u>108,727</u> |
| U.S. DEPARTMENT OF LABOR | | | |
| <i>Passed Through Ohio Job and Family Services:</i> | | | |
| Employment and Training Administration, Department of Labor | - | 17.255 | 178,019 |
| Total U.S. Department of Labor | | | <u>178,019</u> |
| U.S. DEPARTMENT OF FEDERAL HIGHWAY ADMINISTRATION | | | |
| <i>Passed Through Ohio Engineer's Association:</i> | | | |
| Highway Planning and Construction | PAU-TR-51 | 20.205 | 121,362 |
| Total U.S. Department of Federal Highway Administration | | | <u>121,362</u> |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | |
| Home Investment Partnerships Program (Chip) | B-C-00-058-2 | 14.239 | 154,233 |
| <i>Passed Through Ohio Department of Development:</i> | | | |
| Community Development Block Grant (Chip) | B-C-00-058-1 | 14.228 | 53,364 |
| Community Development Block Grant (Formula) | B-F-99-058-1 | 14.228 | 14,600 |
| Community Development Block Grant - (Formula) | B-F-00-058-1 | 14.228 | 52,250 |
| Community Development Block Grant - (Economic Development) | B-E-00-058-1 | 14.228 | 350,000 |
| Community Development Block Grant (Chip) | B-E-00-058-2 | 14.228 | 261,010 |
| Total U.S. Department of Housing and Urban Development | | | <u>885,457</u> |
| U.S. DEPARTMENT OF JUSTICE | | | |
| <i>Passed Through The Office of Criminal Justice Services:</i> | | | |
| Victims of Crimes Act Grant | 00-VAG-ENE-325 | 16.575 | 28,327 |
| | 01-VAG-ENE-325 | 16.575 | 10,118 |
| Total U.S. Department of Justice | | | <u>38,445</u> |
| Total Federal Awards Expenditures | | | <u><u>\$1,421,755</u></u> |

The accompanying notes are an integral part of this schedule.

PAULDING COUNTY

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED DECEMBER 31, 2001**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - SUBRECIPIENTS

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

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

NOTE C - COMMUNITY DEVELOPMENT BLOCK GRANT REVOLVING LOAN PROGRAMS

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

These loans are collateralized by mortgages on the property. At December 31, 2001, the gross amount of loans outstanding under this program was \$780,474.

NOTE D - MATCHING REQUIREMENTS

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

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Paulding County
115 North Williams Street
Paulding, Ohio 45879-1284

To the Board of Commissioners:

We have audited the financial statements of Paulding County as of and for the year ended December 31, 2001, and have issued our report thereon dated July 17, 2002, in which we noted that the County prepares its financial statements, except for the Enterprise Fund Type, on the basis of accounting formerly prescribed by the Auditor of State, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 2001-60623-001 through 2001-60623-005. We also noted certain immaterial instances of noncompliance that we have reported to management of the County in a separate letter dated July 17, 2002.

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. A reportable condition is described in the accompanying schedule of findings as item 2001-60623-006.

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 considered to be material weaknesses. However, we do not believe the reportable condition described above is 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 July 17, 2002.

This report is intended for the information and use of the audit committee, management, the Board of Commissioners, 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 black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

July 17, 2002



STATE OF OHIO
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Paulding County
115 North Williams Street
Paulding, Ohio 45879-1284

To the Board of Commissioners:

Compliance

We have audited the compliance of Paulding 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, 2001. 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, 2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings as items 2001-60623-007 through 2001-60623-009. We also noted certain instances of noncompliance that do not require inclusion in this report that we have reported to management in a separate letter dated July 17, 2002.

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. 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 the audit committee, management, the Board of Commissioners, 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

July 17, 2002

PAULDING COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
DECEMBER 31, 2001

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 noncompliance at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510? | Yes |
| (d)(1)(vii) | Major Programs (list): | Community Development Block Grant Program (CDBG) CFDA # 14.228 Employment and Training Administration CFDA # 17.255 |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

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

FINDING NUMBER 2001-60623-001

Noncompliance Citation

Ohio Administrative Code § 117-2-3b requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. However, with the exception of the Enterprise Fund Type, the County prepared 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. With the exception of the Enterprise Fund Type, 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 2001-60623-002

Noncompliance Citation

Ohio Revised Code § 5705.39 states that the total appropriation from each fund should not exceed the total estimated revenue. Appropriations materially exceeded estimated revenue at year end in the following funds by the following amounts:

| Fund | Estimated Revenue | Appropriations | Variance |
|------------------------|-------------------|----------------|----------|
| Dog and Kennel | \$40,903 | \$53,582 | \$12,679 |
| Motor Vehicle Gas Tax | 3,516,243 | 3,855,745 | 319,502 |
| MRDD | 2,289,820 | 2,306,859 | 17,039 |
| WMEA | 43,318 | 57,754 | 14,436 |
| Sheriff's Fees | 451 | 3,000 | 2,549 |
| CDBG Formula | 23,500 | 25,520 | 2,020 |
| Ditch Construction | 1,475,728 | 2,066,456 | 590,728 |
| County Projects | 4,236 | 50,000 | 45,764 |
| Stoller TIF II | 3,742 | 17,000 | 13,258 |
| Cooper TIF | 77,633 | 78,038 | 405 |
| Schlinderink Dairy TIF | 117,000 | 122,355 | 5,355 |
| Tax Incentive | 9,000 | 12,926 | 3,926 |
| Jacob Farm | 68,526 | 195,000 | 126,474 |

Appropriations in excess of estimated resources may result in deficit spending. We recommend that appropriations be reviewed by County officials to ensure they do not exceed estimated resources.

FINDING NUMBER 2001-60623-003

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states no subdivision shall make any contract or order any expenditure of money unless a certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

This section provides two exceptions to the above requirements:

- a. 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 he is completing his 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 the warrant. The taxing authority has 30 days from the receipt of such a certificate to approved 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 authority.
- b. 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.

Twenty percent of the transactions tested were not certified at the time the commitment was incurred. These commitments were not subsequently approved by the Commissioners as a “then and now” certificate.

We recommend the County Auditor certify the amount required to meet a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the appropriate fund free from any previous encumbrance prior to placing an order. In instances where prior certification is not practical, we recommend issuance of a “then and now” certificate. “Then and now” certificates should be issued and approved through the Auditor’s office.

FINDING NUMBER 2001-60623-004

Noncompliance Citation

Ohio Revised Code § 133.22 requires that when a subdivision issues bonds, the financial officer of the subdivision must notify the County Auditor that such notes have been sold.

In order to facilitate repayment of debt, at the time the notes or bonds are issued, the subdivision requests from the county budget commission an amended certificate of estimated resources pursuant to Ohio Revised Code § 5705.36. The new certificate should contain an increase in the estimate of bond retirement fund receipts equal to the amount which will be allocated to this fund for the repayment of the notes or bonds, including interest. In addition, the amount of the general fund (or other appropriate fund) estimate should be reduced by the amount of interest generated by the issuance of the notes or bonds.

The County received Hospital Improvement bond proceeds in December 2001; however, the proceeds were not certified to the County Auditor. In addition, the bond proceeds were not posted to the financial ledgers. In order to ensure compliance with the above requirement, we recommend that all proceeds of debt be certified to the County Auditor prior to the proceeds being received. We also recommend that appropriations be certified to the County Auditor.

FINDING NUMBER 2001-60623-005

Noncompliance Citation

Ohio Revised Code § 135.18 states that the treasurer of a political subdivision must require the depository to provide an amount equal to the funds in deposit at all times. Such security may consist of federal deposit insurance, surety company bonds, or pledged securities.

The County did not have enough collateral at its banking institution to cover its certificate of deposit balances as of December 31, 2001. As a result, \$250,672 worth of cash assets were not protected from any potential financial complications that the bank may have encountered.

We recommend that the County Treasurer periodically monitor the collateral statements to ensure that all depository balances are adequately covered by some form of collateral provided by the bank.

FINDING NUMBER 2001-60623-006

Reportable Condition - Amended Certificates of Estimated Resources

Sound accounting practices provide that budgeted revenues posted to the County ledgers be based on amounts formally reviewed and approved by the Commissioners. All but one fund did not have estimated revenues properly posted to the County's ledgers to reflect the amounts on the Amended Certificates formally approved by the Budget Commission. This may have caused appropriations to exceed estimated resources in several funds. We recommend that estimated revenue amounts posted to the County's ledgers be reconciled with the amounts officially approved on the Amended Certificates of Estimated Resources

3. FINDINGS FOR FEDERAL AWARDS

| | |
|------------------------------------|--|
| Finding Number | 2001-60623-007 |
| CFDA Title and Number | 17.255 |
| Federal Award Number / Year | January 1 to December 31, 2001 |
| Federal Agency | U.S. Department of Labor |
| Pass-Through Agency | Ohio Department of Job and Family Services |

Noncompliance Finding

Section 667.300 (C)(3) of the Federal Regulations states reported expenditures and program income earned must be on the accrual basis of accounting and cumulative by fiscal year of appropriation. If the recipient's accounting records are not normally kept on the accrual basis of accounting, the recipient must develop accrual information through an analysis of the documentation on hand.

The County Job and Family Services Department did not report WIA financial information on the accrual basis of accounting. In addition, no accrual information was developed through an analysis of documentation on hand. We recommend the fiscal agent or the County Job and Family Service Department report WIA expenditures and program income on the accrual basis of accounting as required by the Federal Regulations.

| | |
|------------------------------------|--|
| Finding Number | 2001-60623-008 |
| CFDA Title and Number | 17.255 |
| Federal Award Number / Year | January 1 to December 31, 2001 |
| Federal Agency | U.S. Department of Labor |
| Pass-Through Agency | Ohio Department of Job and Family Services |

Noncompliance Finding

29 CFR 97.20(b)(7) provides that procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. When advances are made the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as to advances to the grantees.

The County Job and Family Services Department does not have a system that indicates either accrual or cash balances of WIA programs. Consequently, there is no way to monitor the cash requirements of WIA programs. This weakness significantly increases the risk that program expenditures could be over or under-expended. This has resulted in the July 1, 2001 cash balance of total WIA programs being approximately seven times higher than average monthly expenditures in calendar year 2001.

To ensure cash advances are limited to the minimum amounts needed, we recommend the County Job and Family Services Department create reports that indicate running cash balances of individual WIA programs. These cash balance reports should be provided to the Director of Job and Family Services and the joint board of County Commissioners on a regular basis to monitor the expenditure of WIA funds. In addition, a system should be developed that would indicate reserves of future contractual commitments against available funds. This procedure would also help ensure that WIA funds are not over-expended.

| | |
|------------------------------------|--|
| Finding Number | 2001-60623-009 |
| CFDA Title and Number | 17.255 |
| Federal Award Number / Year | January 1 to December 31, 2001 |
| Federal Agency | U.S. Department of Labor |
| Pass-Through Agency | Ohio Department of Job and Family Services |

Noncompliance Finding

Section 667.410 of the Federal Regulations states each recipient and Subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors in order to:

1. Determine that expenditures have been made against the cost categories and within the cost limitations specified in the Act and these regulations;
2. Determine whether or not there is compliance with other provisions of the Act and these regulations and other applicable laws and regulations; and
3. Provide technical assistance as necessary and appropriate.

The County Job and Family Services Department (the Department) did not conduct an oversight of or monitor the activities of its subrecipient agency, Defiance County. We recommend a subrecipient agreement be created to ensure compliance with the requirements applicable to the Federal program. We further recommend that the Department monitor expenditures in accordance with the agreement to ensure that the subrecipient is in compliance with the provisions of the Workplace Investment Act and with Federal Regulations.

PAULDING COUNTY

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|----------------|--|------------------|---|
| 2000-60623-001 | Citation of Ohio Administrative Code § 117-1-11 - The County did not prepare its financial statements in accordance with generally accepted accounting principles. | No | Not Corrected. County officials believe that the cost of preparing financial statements in accordance with generally accepted accounting principles outweighs the benefits. Reissued as finding 2001-60623-001. |
| 2000-60623-002 | Ohio Revised Code § 5705.39 - Appropriations exceeding estimated resources | No | Not Corrected. County officials will monitor the budgetary process more closely in the future. Reissued as finding 2001-60623-002. |
| 2000-60623-003 | Ohio Revised Code § 5705.41(B) - Expenditures exceeding appropriations | Yes | |
| 2000-60623-004 | Ohio Revised Code § 5705.41(D) - Improper certification of expenditures | No | Partially Corrected - The percentage of improper certification tested decreased from 23% to 20%. Reissued as finding 2001-60623-003. |
| 2000-60623-005 | Reportable Condition on Estimated Resources not being updated to the County's revenue ledgers | No | Not Corrected. County officials will monitor the budgetary process more closely in the future. Reissued as finding 2001-60623-006. |



STATE OF OHIO
OFFICE OF THE AUDITOR

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FINANCIAL CONDITION

PAULDING COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 13, 2002