



**Auditor of State
Betty Montgomery**

MORGAN COUNTY
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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Morgan County
155 East Main Street
Room 217
McConnelsville, Ohio 43756-1297

To the Board of County Commissioners:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Morgan County, Ohio (the County), as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

The Mary Hammond Workshop, Inc., financial statements are presented as stand alone statements in accordance with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the discretely presented component units (except the Mary Hammond Workshop, Inc.), each major fund, and the aggregate remaining fund information of Morgan County, Ohio, as of December 31, 2004, and the respective changes in modified cash financial position and the respective budgetary comparison for the General, Job and Family Services and Motor Vehicle and Gasoline Tax Funds thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

Also, in our opinion, the financial statements of the Mary Hammond Workshop, Inc., present fairly, in all material respects, its financial position, as of December 31, 2004, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2005, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Betty Montgomery
Auditor of State

September 1, 2005

Morgan County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

The discussion and analysis of Morgan County's financial performance provides an overview of the County's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the County's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the County's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- Net cash assets of governmental activities decreased \$59,235.
- At the end of the current year, the County's governmental funds reported a combined ending fund balance of \$3,379,417, a decrease of \$59,235 from the prior year.

Using This Annual Financial Report

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets - Modified Cash Basis* presents information on Morgan County's modified cash assets.

The *Statement of Activities - Modified Cash Basis* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs.

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

Governmental Activities - Most of the County's programs and services are funded primarily by taxes and intergovernmental revenues, including federal and state grants and other shared revenues.

Component Units - The County's financial statements include financial data of the Morgan County Region Airport Authority and the Mary Hammond Adult Activity Center, Inc. These component units are described in the notes to the financial statements. Component units are separate legal entities which may buy, sell, lease, and mortgage property and sue or be sued in their own name.

Morgan County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds. Fund financial statements provide detailed information about the County's major funds. Based on the restriction on the use of moneys, the County has established many funds that account for the multitude of services provided to our residents. The County's major governmental funds are the General Fund and the Job and Family Services and Motor Vehicle and Gasoline Tax Special Revenue Funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities on the government-wide financial statements. Most of the County's basic services are reported in these funds that focus on how money flows into and out of the funds and the year end balances available for spending.

The County maintains a multitude of individual governmental funds. Information is presented separately on the governmental fund *Statement of Modified Cash Receipts, Disbursements and Changes in Fund Balances* for the major funds, which were identified earlier. Data from the other governmental funds are combined into a single, aggregated presentation.

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

Notes to the Basic Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided on the government-wide and fund financial statements.

Government-Wide Financial Analysis

This is the first year that Morgan County has chosen to report on an *Other Comprehensive Basis of Accounting* in a format similar to that required by Governmental Accounting Standards Board Statement No. 34. This statement requires a comparative analysis of government-wide data in the Management Discussion and Analysis (MD&A) section (Table 1). Since this is the first year of implementing the new standard, comparative data is not available. In future years comparative data will be presented.

Morgan County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

(Table 1)
Morgan County's Net Assets - Modified Cash Basis

	Governmental Activities
	2004
Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,261,089
Investments	118,328
<i>Totals Assets</i>	<i>3,379,417</i>
Net Assets	
Restricted for:	
Capital Projects	489,640
Other Purposes	2,485,014
Unclaimed Monies	10,140
Unrestricted	394,623
<i>Total Net Assets</i>	<i>\$3,379,417</i>

An additional portion of the County's net assets, \$2,984,794 or 88 percent, represents resources that are subject to restrictions on how they can be used. The remaining balance of unrestricted assets, \$394,623, or 12 percent are to be used to meet the County's ongoing obligations to citizens and creditors.

Table 2 shows the changes in net assets for 2004.

Morgan County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Table 2
Changes in Net Assets

	Governmental Activities
Receipts	2004
Program Receipts	
Charges for Services	\$1,158,764
Operating Grants, Contributions, and Interest	8,408,549
Capital Grants, Contributions, and Interest	298,739
<i>Total Program Receipts</i>	9,866,052
General Revenues and Transfers	
Property Taxes	1,896,758
Conveyance Fees	51,983
Permissive Sales Taxes	1,032,240
Intergovernmental	318,899
Interest	93,912
Payment in Lieu of Taxes	13,268
Loan Proceeds - Highway Garage	149,813
Miscellaneous	986,835
<i>Total General Receipts and Transfers</i>	4,543,708
<i>Total Receipts</i>	14,409,760
Program Disbursements	
General Government:	
Legislative and Executive	1,339,922
Judicial	548,261
Public Safety	1,733,961
Public Works	3,582,583
Health	1,287,227
Human Services	4,799,120
Conservation and Recreation	29,835
Capital Outlay	88,275
Miscellaneous	710,432
Debt Service	
Principal	247,878
Interest and Fiscal Charges	101,501
<i>Total Disbursements</i>	14,468,995
<i>Increase (Decrease) in Net Assets</i>	(\$59,235)

Operating grants were the largest program revenues, accounting for \$8,408,549 or 58 percent of total governmental activities receipts. The major recipients of intergovernmental program receipts were the Job and Family Services, Motor Vehicle and Gasoline Tax, and Mental Retardation and Developmental Disabilities program disbursements.

Morgan County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Property tax revenues account for \$1,896,758 or 13 percent of total governmental revenues. Another major component of general governmental receipts was permissive sales taxes, which accounted for \$1,032,240 or 7 percent of total receipts.

The County's direct charges to users of governmental services made up \$1,158,764 or 8 percent of total governmental receipts. These charges are for fees associated with the collection of property taxes, fines and forfeitures related to judicial activity, and licenses and permits.

Human services programs accounted for \$4,799,120, or 33 percent of total disbursements for governmental activities. Other major program disbursements for governmental activities include public works programs, which accounted for \$3,582,583, or 25 percent of total disbursements.

Table 3, for governmental activities, indicates the total cost of services and the net cost of services for 2004. The statement of activities reflects the cost of program services and the charges for services, and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues.

Table 3
 Governmental Activities

	Total Cost of Services	Net Cost of Services
	2004	2004
General Government:		
Legislative and Executive	\$1,339,922	\$878,802
Judicial	548,261	211,948
Public Safety	1,733,961	1,077,006
Public Works	3,582,583	(2,135)
Health	1,287,227	619,352
Human Services	4,799,120	640,049
Conservation and Recreation	29,835	29,835
Capital Outlay	88,275	88,275
Miscellaneous	710,432	710,432
Debt Service		
Principal	247,878	247,878
Interest and Fiscal Charges	101,501	101,501
Total Expenses	\$14,468,995	\$4,602,943

Charges for services, operating grants, and capital grants of \$9,866,052, or 68 percent of the total costs of services, are received and used to fund the general government disbursements of the County. The remaining \$4,602,943 in general government disbursements is funded by property taxes, permissive sales taxes, intergovernmental revenues, interest, and miscellaneous revenues.

The \$619,352 in net cost of services for Health demonstrates the costs of services that are not supported from state and federal resources. As such, the taxpayers have approved property tax levies for several programs including the Mental Retardation and Developmental Disabilities and County Home.

Financial Analysis of County Funds

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

Morgan County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Governmental Funds - The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the County's net resources available for spending at the end of the year.

As of December 31, 2004, the County's governmental funds reported a combined ending fund balance of \$3,379,417, a decrease of \$59,235 in comparison with the prior year. \$2,883,104, or 85 percent of this total, constitutes unreserved undesignated fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior year (\$486,173) or a variety of other restricted purposes (\$10,140). While the bulk of the governmental fund balances are not reserved in the governmental fund statements, they lead to restricted net assets on the Statement of Net Assets due to expenditure restrictions mandated by the source of the resource, such as the state or federal government.

The General Fund is the primary operating fund of the County. At the end of 2004, unreserved fund balance was \$413,910, while total fund balance was \$442,480. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 13 percent to total General Fund disbursements, while total fund balance represents 14 percent of that same amount.

The fund balance of the County's General Fund increased by \$221,972 during 2004. The primary cause of the increase was a court ordered transfer from the Capital Improvements Fund to the General Fund in November of 2004. This money in the Capital Improvements Fund was a result of a sale of real estate in 2003.

At the end of 2004 the Job and Family Services Special Revenue Fund had a fund balance of \$725,218, in comparison to a fund balance of \$798,189 at the end of 2003. This minimal change is primarily due to increased disbursements from the prior year.

At the end of 2004 the Motor Vehicle and Gasoline Tax Special Revenue Fund had a fund balance of \$360,314, in comparison to a fund balance of \$443,590 at the end of 2003. This decrease is primarily due to increased disbursements from the prior year.

Budgetary Highlights

The County's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Board of County Commissioners adopts a permanent annual operating budget for the County on or about January 1.

For the General Fund, changes from the original budget to the final budget have been minimal. Fluctuations in growth and diversity have typically not occurred in Morgan County, allowing department managers the ability to consistently predict revenues and expenditures.

Capital Assets and Debt Administration

Capital Assets - The County had an appraisal of their capital assets in 1995. No updates to the County's capital assets have been made since 1995 and no information relating to capital assets is being presented.

Morgan County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Long-Term Obligations - As of December 31, 2004, the County had total general obligation bonded debt outstanding of \$1,967,905. All of this debt is expected to be repaid through governmental activities. Other outstanding long-term debt included a Garage Facility Loan of \$96,172, an OWDA Loan of \$132,472, and a Tax Increment Financing Loan of \$83,939.

In March 2004, the County refinanced the 1999 County Highway Garage Facility Note through a local bank at a 3.25 interest rate for three years.

Additional information on the County's long-term obligations can be found in Note 13 of this report.

Economic Factors

The unemployment rate for the County is currently 9.6 percent, which is a decrease from .2 percent a year ago. This rate exceeds the State's current rate of 6.2 percent and the current national rate of 5.2 percent.

The County's \$227.294 million tax base has increased 2.6 percent over the last three years. This increase is attributed to an increase in the County's real estate tax values. Real property values within the County have risen over the past several years, and are now at an all time high.

The various economic factors were considered in the preparation of the County's 2004 budget, and will be considered in the preparation of future budgets. Appropriate measures will be taken to ensure spending is within available resources.

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Gary Woodward, Morgan County Auditor, 155 East Main Street, Room 217, McConnelsville, Ohio 43756.

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Morgan County, Ohio
Statement of Net Assets - Modified Cash Basis
December 31, 2004

	<u>Primary Government</u>	<u>Component Unit</u>
	Governmental	Morgan County
	Activities	Regional Airport
		Authority
Assets		
Equity in Pooled Cash and Cash Equivalents	\$3,261,089	\$0
Cash in Segregated Accounts	0	5,237
Investments	118,328	0
<i>Total Assets</i>	<u>3,379,417</u>	<u>5,237</u>
Net Assets		
Restricted for:		
Capital Projects	489,640	0
Other Purposes	2,485,014	0
Unclaimed Monies	10,140	0
Unrestricted	<u>394,623</u>	<u>5,237</u>
<i>Total Net Assets</i>	<u><u>\$3,379,417</u></u>	<u><u>\$5,237</u></u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2004

	Program Receipts			
	Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government:				
Legislative and Executive	\$1,339,922	\$426,466	\$34,654	\$0
Judicial	548,261	270,316	65,997	0
Public Safety	1,733,961	166,834	488,921	1,200
Public Works	3,582,583	149,135	3,138,044	297,539
Health	1,287,227	21,711	646,164	0
Human Services	4,799,120	124,302	4,034,769	0
Conservation and Recreation	29,835	0	0	0
Capital Outlay	88,275	0	0	0
Miscellaneous	710,432	0	0	0
Debt Service				
Principal Retirement	247,878	0	0	0
Interest and Fiscal Charges	101,501	0	0	0
<i>Total Governmental Activities</i>	\$14,468,995	\$1,158,764	\$8,408,549	\$298,739
<i>Component Unit:</i>				
Morgan County Regional Airport Authority	\$2,241	\$3,135	\$1,147	\$0

General Receipts

Property Taxes Levied for:

- General Purposes
- Mental Retardation and Developmental Disabilities
- Senior Services
- Ambulance
- Conveyance Fees
- Sales Taxes Levied for General Purposes
- Grants and Entitlements not Restricted to Specific Programs
- Interest
- Payment in Lieu of Taxes
- Loan Proceeds - Highway Garage
- Miscellaneous

Total General Receipts

Change in Net Assets

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

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts
and Charges in Net Assets

Primary Government	Component Unit
Governmental Activities	Morgan County Regional Airport Authority
(\$878,802)	\$0
(211,948)	0
(1,077,006)	0
2,135	0
(619,352)	0
(640,049)	0
(29,835)	0
(88,275)	0
(710,432)	0
(247,878)	0
(101,501)	0
<u>(4,602,943)</u>	<u>0</u>
<u>0</u>	<u>2,041</u>
830,592	0
580,014	0
65,316	0
420,836	0
51,983	0
1,032,240	0
318,899	0
93,912	118
13,268	0
149,813	0
986,835	78
<u>4,543,708</u>	<u>196</u>
(59,235)	2,237
<u>3,438,652</u>	<u>3,000</u>
<u>\$3,379,417</u>	<u>\$5,237</u>

Morgan County, Ohio
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2004

	General	Job and Family Services	Motor Vehicle and Gasoline Tax	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$286,435	\$725,218	\$360,314	\$1,889,122	\$3,261,089
Investments in Segregated Accounts	118,328	0	0	0	118,328
Interfund Receivable	37,717	0	0	0	37,717
<i>Total Assets</i>	<u>\$442,480</u>	<u>\$725,218</u>	<u>\$360,314</u>	<u>\$1,889,122</u>	<u>\$3,417,134</u>
Liabilities					
Interfund Payable	\$0	\$0	\$0	\$37,717	\$37,717
Fund Balances					
Reserved for Encumbrances	18,430	273,700	96,361	97,682	486,173
Reserved for Unclaimed Monies	10,140	0	0	0	10,140
Unreserved:					
Undesignated, Reported in:					
General Fund	413,910	0	0	0	413,910
Special Revenue Funds	0	451,518	263,953	1,265,908	1,981,379
Capital Projects Funds	0	0	0	487,815	487,815
<i>Total Fund Balances</i>	<u>442,480</u>	<u>725,218</u>	<u>360,314</u>	<u>1,851,405</u>	<u>3,379,417</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$442,480</u>	<u>\$725,218</u>	<u>\$360,314</u>	<u>\$1,889,122</u>	<u>\$3,417,134</u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
Statement of Modified Cash Receipts, Disbursements and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Job and Family Services	Motor Vehicle and Gasoline Tax	Other Governmental Funds	Total Governmental Funds
Receipts					
Property Taxes	\$830,592	\$0	\$0	\$1,066,166	\$1,896,758
Sales Taxes	1,032,240	0	0	0	1,032,240
Payment in Lieu of Taxes	7,775	0	0	5,493	13,268
Charges for Services	523,726	0	93,887	291,190	908,803
Licenses and Permits	1,661	0	0	82,140	83,801
Fines and Forfeitures	145,863	0	12,860	56,391	215,114
Intergovernmental	383,837	3,100,139	2,963,324	2,574,057	9,021,357
Interest	93,912	0	4,435	395	98,742
Miscellaneous	182,570	383,746	10,070	413,478	989,864
<i>Total Receipts</i>	<u>3,202,176</u>	<u>3,483,885</u>	<u>3,084,576</u>	<u>4,489,310</u>	<u>14,259,947</u>
Disbursements					
Current:					
General Government:					
Legislative and Executive	1,044,265	0	0	295,657	1,339,922
Judicial	431,701	0	0	116,560	548,261
Public Safety	692,600	0	0	1,041,361	1,733,961
Public Works	0	0	3,107,852	474,731	3,582,583
Health	21,024	0	0	1,266,203	1,287,227
Human Services	130,956	3,645,468	0	1,022,697	4,799,121
Conservation and Recreation	29,835	0	0	0	29,835
Capital Outlay	0	0	0	88,275	88,275
Other	710,431	0	0	0	710,431
Debt Service:					
Principal Retirement	8,385	0	150,648	35,204	194,237
Interest and Fiscal Charges	5,718	0	5,524	90,259	101,501
<i>Total Disbursements</i>	<u>3,074,915</u>	<u>3,645,468</u>	<u>3,264,024</u>	<u>4,430,947</u>	<u>14,415,354</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>127,261</u>	<u>(161,583)</u>	<u>(179,448)</u>	<u>58,363</u>	<u>(155,407)</u>
Other Financing Sources (Uses)					
Proceeds of Loans	0	0	149,813	0	149,813
Other Financing Uses	0	0	(53,641)	0	(53,641)
Transfers In	194,911	88,612	0	11,588	295,111
Transfers Out	(100,200)	0	0	(194,911)	(295,111)
<i>Total Other Financing Sources (Uses)</i>	<u>94,711</u>	<u>88,612</u>	<u>96,172</u>	<u>(183,323)</u>	<u>96,172</u>
<i>Net Change in Fund Balances</i>	221,972	(72,971)	(83,276)	(124,960)	(59,235)
<i>Fund Balances Beginning of Year</i>	<u>220,508</u>	<u>798,189</u>	<u>443,590</u>	<u>1,976,365</u>	<u>3,438,652</u>
<i>Fund Balances End of Year</i>	<u>\$442,480</u>	<u>\$725,218</u>	<u>\$360,314</u>	<u>\$1,851,405</u>	<u>\$3,379,417</u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
Statement of Receipts, Disbursements and Changes in
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Year Ended December 31, 2004

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive
				(Negative)
Receipts				
Property Taxes	\$723,000	\$731,620	\$830,592	\$98,972
Sales Taxes	954,000	975,494	1,032,240	56,746
Payment in Lieu of Taxes	4,000	4,048	7,775	3,727
Charges for Services	504,330	548,763	523,726	(25,037)
Licenses and Permits	1,200	1,214	1,661	447
Fines and Forfeitures	95,000	96,133	145,863	49,730
Intergovernmental	344,360	328,227	383,837	55,610
Interest	80,500	81,460	93,912	12,452
Miscellaneous	116,610	140,717	182,570	41,853
<i>Total Receipts</i>	<u>2,823,000</u>	<u>2,907,676</u>	<u>3,202,176</u>	<u>294,500</u>
Disbursements				
Current:				
General Government:				
Legislative and Executive	1,016,822	1,063,763	1,047,514	16,249
Judicial	439,109	456,335	434,112	22,223
Public Safety	683,497	703,751	703,751	0
Health	23,743	22,643	22,643	0
Human Services	164,746	130,956	130,956	0
Conservation and Recreation	29,835	29,835	29,835	0
Other	535,095	724,380	710,431	13,949
Debt Service:				
Principal	8,385	8,385	8,385	0
Interest and Fiscal Charges	5,718	5,718	5,718	0
<i>Total Disbursements</i>	<u>2,906,950</u>	<u>3,145,766</u>	<u>3,093,345</u>	<u>52,421</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(83,950)</u>	<u>(238,090)</u>	<u>108,831</u>	<u>346,921</u>
Other Financing Sources (Uses)				
Transfers In	0	197,235	194,911	(2,324)
Advances In	0	0	5,200	5,200
Advance Out	0	(27,460)	(27,460)	0
Transfers Out	(97,974)	(100,200)	(100,200)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(97,974)</u>	<u>69,575</u>	<u>72,451</u>	<u>2,876</u>
<i>Net Change in Fund Balance</i>	(181,924)	(168,515)	181,282	349,797
<i>Fund Balance Beginning of Year</i>	186,343	186,343	186,343	0
Prior Year Encumbrances Appropriated	<u>18,708</u>	<u>18,708</u>	<u>18,708</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$23,127</u>	<u>\$36,536</u>	<u>\$386,333</u>	<u>\$349,797</u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balance - Budget and Actual (Budget Basis)
Job and Family Services Fund
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Intergovernmental	\$4,425,000	\$5,067,457	\$3,100,139	(\$1,967,318)
Miscellaneous	477,750	477,750	383,746	(94,004)
<i>Total Receipts</i>	<u>4,902,750</u>	<u>5,545,207</u>	<u>3,483,885</u>	<u>(2,061,322)</u>
Disbursements				
Current:				
Human Services	5,256,750	5,630,207	3,919,168	1,711,039
<i>Excess of Receipts Under Disbursements</i>	(354,000)	(85,000)	(435,283)	(3,772,361)
Other Financing Sources				
Transfers In	85,000	85,000	88,612	3,612
<i>Net Change in Fund Balance</i>	(269,000)	0	(346,671)	(346,671)
<i>Fund Balance Beginning of Year</i>	529,189	529,189	529,189	0
Prior Year Encumbrances Appropriated	269,000	269,000	269,000	0
<i>Fund Balance End of Year</i>	<u>\$529,189</u>	<u>\$798,189</u>	<u>\$451,518</u>	<u>(\$346,671)</u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balance - Budget and Actual (Budget Basis)
Motor Vehicle and Gasoline Tax Fund
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Charges for Services	\$134,000	\$134,000	\$93,537	(\$40,463)
Fines and Forfeitures	15,000	15,000	12,860	(2,140)
Intergovernmental	2,680,000	2,910,000	2,963,324	53,324
Interest	12,000	12,000	4,435	(7,565)
Miscellaneous	9,000	9,000	10,420	1,420
<i>Total Receipts</i>	<u>2,850,000</u>	<u>3,080,000</u>	<u>3,084,576</u>	<u>4,576</u>
Disbursements				
Current:				
Public Works	2,820,172	3,330,204	3,204,213	125,991
Debt Service:				
Principal Retirement	193,616	60,000	204,289	(144,289)
Interest	18,692	18,692	5,524	13,168
<i>Total Disbursements</i>	<u>3,032,480</u>	<u>3,408,896</u>	<u>3,414,026</u>	<u>(5,130)</u>
<i>Excess of Receipts Under Disbursements</i>	(182,480)	(328,896)	(329,450)	(554)
Other Financing Source				
Proceeds of Loans	0	0	149,813	149,813
<i>Net Change in Fund Balance</i>	(182,480)	(328,896)	(179,637)	149,259
<i>Fund Balance Beginning of Year</i>	382,153	382,153	382,153	0
Prior Year Encumbrances Appropriated	61,437	61,437	61,437	0
<i>Fund Balance End of Year</i>	<u>\$261,110</u>	<u>\$114,694</u>	<u>\$263,953</u>	<u>\$149,259</u>

See accompanying notes to the basic financial statements

Morgan County, Ohio
Statement of Fiduciary Net Assets - Modified Cash Basis
Agency Funds
December 31, 2004

Assets

Equity in Pooled Cash and Cash Equivalents	\$939,500
Cash and Cash Equivalents in Segregated Accounts	<u>108,535</u>

<i>Total Assets</i>	<u><u>\$1,048,035</u></u>
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Net Assets:

Total Net Assets	<u><u>\$1,048,035</u></u>
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See accompanying notes to the basic financial statements

Mary Hammond Adult Activity Center, Inc.
Balance Sheet
December 31, 2004

	<u>Mary Hammond Adult Activity Center, Inc.</u>
Assets	
Cash and Cash Equivalents	\$3,901
Accounts Receivable	8,684
Fixed Assets	<u>21,040</u>
<i>Total Assets</i>	<u><u>\$33,625</u></u>
Liabilities	
Accounts Payable	\$18,531
Intergovernmental Payable	1,076
Loan Payable	<u>5,000</u>
<i>Total Liabilities</i>	<u>24,607</u>
Retained Earnings	<u>9,018</u>
<i>Total Liabilities and Retained Earnings</i>	<u><u>\$33,625</u></u>

See accompanying notes to the basic financial statements

Mary Hammond Adult Activity Center, Inc.
Statement of Revenues, Expenditures and
Changes in Retained Earnings
For the Year Ended December 31, 2004

	<u>Mary Hammond Adult Activity Center, Inc.</u>
Revenues	
Charges for Services	\$77,809
Support Services	30,311
Reimbursements	21,340
Miscellaneous	<u>1,108</u>
<i>Total Revenues</i>	<u>130,568</u>
Expenditures	
Personal Services	95,743
Contract Services	21,309
Materials and Supplies	10,638
Support Services	30,311
Depreciation	8,442
Debt Service:	
Interest and Fiscal Charges	<u>223</u>
<i>Total Expenditures</i>	<u>166,666</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(36,098)</u>
Other Financing Sources	
Loan Proceeds	<u>5,000</u>
<i>Net Change in Retained Earnings</i>	(31,098)
<i>Retained Earnings Beginning of Year</i>	<u>40,116</u>
<i>Retained Earnings End of Year</i>	<u><u>\$9,018</u></u>

See accompanying notes to the basic financial statements

Mary Hammond Adult Activity Center, Inc.
Statement of Cash Flows
For the Year Ended December 2004

Operating Activities

Net Change in Retained Earnings (31,098)

**Adjustments to Reconcile Net Loss
to Net Cash Provided by Operations:**

Receivables	4,273
Payables	8,528
Line of Credit	5,000
Payroll Liabilities	(328)
Sales Tax Payable	23
	23

Net cash used by Operating Activities (13,602)

Cash Flows from Capital Activities

Purchase of Capital Assets	1,964
Depreciation	8,442
	8,442

Net cash provided by Capital Activities 10,406

Net Cash Decrease for Period (3,196)

Cash at Beginning of Period 7,097

Cash at End of Period \$3,901

See accompanying notes to the basic financial statements

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2004

NOTE 1 - REPORTING ENTITY

Morgan County, Ohio (the County), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The County is governed by a board of three County Commissioners elected by the voters of the County. An elected County Auditor serves as chief fiscal officer. In addition, there are nine other elected administrative officials. These officials are: County Treasurer, Recorder, Clerk of Courts, Coroner, Engineer, Prosecuting Attorney, Sheriff, and the Common Pleas Court/ Probate and Juvenile Court Judge. The County Commissioners serve as the budget and taxing authority, contracting body, and the chief administrators of public services for the County.

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

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the County. For Morgan County, this includes the Board of Mental Retardation and Developmental Disabilities Board, and all departments and activities that are directly operated by the elected County Officials.

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

The Mary Hammond Adult Activity Center, Inc. (the Workshop) is a legally separate, not-for-profit corporation, served by a self-appointing Board of Trustees. The Workshop is under a contractual agreement with the Morgan County Board of Mental Retardation and Developmental Disabilities (MRDD) to provide sheltered employment for mentally retarded or handicapped adults in the County. MRDD provides the Workshop with staff salaries, transportation, equipment (except that used directly in the production of goods or rendering of services), staff to administer and supervise training programs, and other funds as necessary for the operation of the Workshop. Based on the significant services and resources provided by the County to the Workshop and the sole purpose of the Workshop to provide assistance to the retarded and handicapped adults of the County, the Workshop is considered to be a component unit of Morgan County. The Workshop prepares its annual financial report in accordance with generally accepted accounting principles which does not conform to the modified cash basis of accounting that the County follows; consequently, the Workshop's financial information is presented as stand-alone financial statements. Additional disclosures can be found in Note 21..

The Morgan County Regional Airport Authority (the Authority) was created by resolution of the County Commissioners under Ohio Rev. Code Section 308.01. The purpose of the Authority is the acquisition, construction, operation and maintenance of airports and airport facilities in the County. The Authority operates under the direction of a three-member Board of Trustees, appointed by the County Commissioners. A Secretary-Treasurer is responsible for the fiscal accounting of the resources of the Authority. Services provided by the Authority include the means by which to aid the safe taking off and landing of aircraft, storage and maintenance of aircraft, and the safe and efficient operation and maintenance of the airport.

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2004

Since the Authority's Board is appointed by the County Commissioners, the Authority is considered to be a component unit of Morgan County and is discretely presented. Additional disclosures can be found in Note 21.

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

The Morgan County Health District The District is governed by the Board of Health which oversees the operation of the District and is elected by a regional advisory council comprised of township trustees, mayors of participating municipalities, and one County Commissioner. The council adopts its own budget and operates autonomously from the County. Funding is based on a rate per taxable valuation, along with State and federal grants applied for by the District.

Morgan County Soil and Water Conservation District The Soil and Water Conservation District is statutorily created as a separate and distinct political subdivision of the State. The five supervisors of the Soil and Water Conservation District are elected officials authorized to contract and sue on behalf of the District. The supervisors adopt their own budget, authorize District expenditures, hire and fire staff, and do not rely on the County to finance deficits.

The County is associated with certain organizations which are defined as jointly governed organizations and insurance purchasing pools. These organizations are presented in Notes 16 and 17 to the Basic Financial Statements. The organizations are:

- Buckeye Hills-Hocking Valley Regional Development District
- Joint Solid Waste District
- Morgan County Family and Children First Council
- Washington-Morgan Community Action Corporation
- Mental Health and Recovery Services Board of Muskingum County
- Buckeye Hills Resource Conservation and Development Project
- Mid Eastern Ohio Regional Council of Governments (MEORC)
- Buckeye Joint-County Self-Insurance Council
- County Commissioners Association of Ohio Workers' Compensation Group Rating Plan

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the County's accounting policies.

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2004

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets-modified cash basis and the statement of activities-modified cash basis display information about the County as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

The statement of net assets-modified cash basis presents the cash balance of the governmental activities of the County at year end. The statement of activities-modified cash basis compares disbursements and program receipts for each program or function of the County's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the County is responsible. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program.

Receipts which are not classified as program receipts are presented as general receipts of the County, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental program is self-financing on a modified cash basis or draws from the general receipts of the County.

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

B. Fund Accounting

The County uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The County classifies each fund as either governmental or fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. The following are the County's major governmental funds:

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

Job and Family Services Fund This fund accounts for various federal and State grants as well as transfers from the General Fund used to provide public assistance to general relief recipients and to pay their providers of medical assistance and certain public social services.

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2004

Motor Vehicle and Gasoline Tax Fund This fund accounts for revenue derived from motor vehicle licenses, gasoline taxes, grants, permissive sales taxes, and interest. Expenditures in this fund are restricted by State law to County road and bridge repair/improvements programs.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the County under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the County's own programs. The County's fiduciary funds are all classified as agency funds. The agency funds account for assets held by the County as agent for the Board of Health and other districts and entities and for various taxes, assessments, and state shared resources collected on behalf of and distributed to other local governments. Agency funds are custodial and are used to account for assets held by the County for political subdivisions for which the County acts as fiscal agent and for taxes, state-levied shared revenues, and fines and forfeitures collected and distributed to other political subdivisions.

C. Basis of Accounting

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

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

D. Budgetary Process

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

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

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

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2004

E. Cash and Cash Equivalents

To improve cash management, cash received by the County is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the County's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

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

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the County are considered to be cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

During 2004, the County had investments in non-negotiable certificates of deposit, which are reported at cost, and in an asset management account which includes a First American Treasury Money Market Fund and a Federal Home Loan Bank Discount Note. These investments have maturities greater than three months and are reported at cost.

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

Under existing Ohio statutes, all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the General Fund during 2004 amounted to \$93,912, which includes \$89,912 assigned from other County funds.

F. Inventory and Prepaid Items

The County reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

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

H. Interfund Receivables/Payables

The County reports advances-in and advances-out for interfund loans. These items are reflected as assets and liabilities in the accompanying financial statements.

I. Accumulated Leave

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

J. Employer Contributions to Cost-Sharing Pension Plans

The County recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2004

K. Long-term Obligations

The County's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither other financing source nor capital outlay are reported at inception. Lease payments are reported when paid.

L. Fund Balance Reserves

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

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities involving the upkeep of the County's road and bridges, welfare services, services for the handicapped and mentally retarded, and activities of the County's courts. The County's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide statement of net assets reports \$2,984,794 of restricted net assets, of which \$241,046 is restricted by enabling legislation.

N. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES

Changes in Accounting Principles For the year ended December 31, 2004, the County has implemented the modified basis of cash receipts and disbursements using the model under Governmental Accounting Standards Board Statement 34, which is a basis of accounting other than accounting principles generally accepted in the United States of America. .

As described in Note 2, the County made the following modifications to the cash basis of accounting in implementing the modified cash basis of accounting:

Morgan County, Ohio
Notes to the Basic Financial Statements
 December 31, 2004

	General	Job and Family Services	Motor Vehicle and Gasoline Tax	Other Governmental	Total Governmental Activities
Fund Balance December 31, 2003	\$205,051	\$798,189	\$443,590	\$1,976,365	\$3,423,195
Interfund Receivables	15,457	0	0	0	15,457
Adjusted Fund Balance December 31, 2003	<u>\$220,508</u>	<u>\$798,189</u>	<u>\$443,590</u>	<u>\$1,976,365</u>	<u>3,438,652</u>
Governmental Activities Net Assets December 31, 2003					<u><u>\$3,438,652</u></u>

NOTE 4 – COMPLIANCE

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

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

1. United States Treasury Bills, Notes, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States, or any book entry, zero-coupon United States treasury security that is a direct obligation of the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality;
3. Written repurchase agreements in the securities listed above;

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2004

4. Bond and other obligations of the State of Ohio or its political subdivisions;
5. Time certificates of deposits or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds;
7. The State Treasurer's investment pool (STAROhio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to simultaneously exchange similar securities or cash, equal value for equal value;
9. Commercial paper notes, corporate notes and bankers acceptances;
10. Debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government.

Reverse repurchase agreements, investments in derivatives, and investments in stripped principal or interest obligations that are not issued or guaranteed by the United States, are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Bankers acceptances must mature within 180 days. Commercial paper and corporate notes must mature within 270 days. All other investments must mature within five years from the date of settlement unless matched to a specific obligation or debt of the County. Investments must be purchased with the expectation that they will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand At year-end, the County had \$53,911 in undeposited cash on hand which is included on the financial statements of the County as part of "Equity in Pooled Cash and Cash Equivalents."

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

Deposits At year end, the carrying amount of the County's deposits was \$4,255,213 and the bank balance was \$3,423,706. Of the bank balance:

1. \$318,184 was covered by federal depository insurance; and
2. \$3,105,522 was collateralized with securities held by the pledging financial institution's trust department in the County's name.

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

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	Interest Rates	Category 3
Federal National Mortgage Association Discount Notes	2.34%	\$117,691
Money Market Fund	1.41%	637

The Discount Notes have a maturity date of February 7, 2005.

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$4,309,124	\$118,328
Cash on Hand	(53,911)	0
GASB Statement 3	\$4,255,213	\$118,328

NOTE 6 – BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual (Budget Basis) for the General Fund and each major special revenue fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is (are) outstanding year end encumbrances are treated as expenditures (budgetary basis) rather than as a reservation of fund balance (modified cash basis) (and outstanding year end advances are treated as an other financing source or use (budgetary basis) rather than as an interfund receivable or payable (modified cash basis)). The encumbrances outstanding at year end (budgetary basis) amounted to:

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Net Change in Fund Balances
 General and Major Special Revenue Funds

	General	Job and Family Services	Motor Vehicle and Gasoline Tax
Modified Cash Basis	\$221,972	(\$72,971)	(\$83,276)
Advances In	5,200	0	0
Advances Out	(27,460)	0	0
Encumbrances	(18,430)	(273,700)	(96,361)
Budget Basis	\$181,282	(\$346,671)	(\$179,637)

NOTE 7 – PROPERTY TAXES

A. Property Taxes

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

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

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

2004 tangible personal property taxes are levied after October 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for all property except inventory, which is 23 percent.

The full tax rate for all County operations for the year ended December 31, 2004, was \$9.07 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property	\$165,845,460
Public Utility Tangible Personal Property	49,783,970
Tangible Personal Property	11,664,150
Total Assessed Value	\$227,293,580

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Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

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

The County treasurer collects property taxes on behalf of all taxing districts in the County. The 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 8 - PERMISSIVE SALES AND USE TAX

For the purposes of providing additional receipts, the County has levied a sales tax at the rate of one and one-half percent upon certain retail sales made in the County, except sales of motor vehicles, and on the storage, use, or consumption of tangible personal property in the County, including motor vehicles not subject to the sales tax. Vendor collections of the tax are paid to the State Treasurer by the twenty-third day of the month following collection. The State Tax Commissioner certifies to the State Auditor the amount of the tax to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of the 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.

NOTE 9 - RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; employee injuries; and natural disasters. During 2004, the County contracted with the Buckeye Joint-County Self Insurance Council, an insurance purchasing pool (see Note 17), for liability, auto, and crime insurance. Each member pays a premium for their coverage. The agreement provides that the Council will be self-sustaining through member premiums. In the event of losses, the first \$250 to \$2,500 of any valid claim, depending on type of loss, will be paid by the member. The next payment, with a maximum pay out ranging from \$100,000 to \$1,000,000 per occurrence, will come from the insurance purchasing pool based on the member's percentage of contribution. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments. Morgan County does not have any ongoing financial interest or responsibility. The agreement between the counties and the Council indicates that a voluntary withdrawal or termination by any county shall constitute a forfeiture of any pro rate share of the Council reserve fund. Current calculation of this potential residual interest is, therefore, not possible. During 2004, Morgan County paid \$118,595 to the Council for insurance coverage. Coverage provided to the County by the program is as follows:

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	Coverage	Deductible
General Liability	\$1,000,000/3,000,000	\$0
Medical Expense Limit	10,000/50,000	0
Employer's Liability (Ohio Stop Gap)	1,000,000	0
Employee Benefits Liability	1,000,000/3,000,000	0
Property Damage Liability	12,036,729	1,000
Public Official Liability	1,000,000/3,000,000	5,000
Law Enforcement	1,000,000/3,000,000	5,000
Crime Coverage:		
Theft, Disappearance and Destruction	50,000	0
Public Dishonesty	250,000	0
Forgery or Alteration	5,000	0
Computer Fraud	50,000	100
Inland Marine	1,431,765	1,000
Electronic Equipment/Media Coverage:		
Electronic Equipment	500,000	1,000
Electronic Media	5,000	1,000
Extra Expense	5,000	1,000
Automobile	1,000,000 Per Occurrence	500

Settled claims have not exceeded coverage in any of the last three years. There has been no significant reduction in coverage from the prior year.

For 2004, the County participated in the County Commissioners Association of Ohio Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool (see Note 17). The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The worker's compensation experience of the participating Counties is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. In order to allocate the savings derived by formation of the Plan, and to maximize the number of participants in the Plan, the Plan's executive committee annually calculates the total savings which accrued to the Plan through its formation. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants. Participation in the Plan is limited to Counties that can meet the Plan's selection criteria. The firm of Gates McDonald, Inc. provides administrative, cost control and actuarial services to the Plan. Each year, the County pays an enrollment fee to the Plan to cover the costs of administering the program.

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

The County pays all elected official bonds by State statute.

NOTE 10 - DEFINED BENEFIT PENSION PLAN

Ohio Public Employees Retirement System

The County participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

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

The County's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$466,443, \$641,337, and \$636,893. 100 percent has been contributed for 2004, 2003 and 2002. There were no contributions to the member-directed plan for 2004.

Morgan County, Ohio
Notes to the Basic Financial Statements
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NOTE 11 - POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. 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 Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent was the portion that was used to fund health care for 2004.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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

The number of active contributing participants was 369,885. The County's actual contributions for 2004 which were used to fund postemployment benefits were \$208,018. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

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

NOTE 12 - CONTRACTUAL COMMITMENTS

As of December 31, 2004, the County had contractual purchase commitments as follows:

<u>Projects</u>	<u>Fund</u>	<u>Purchase Commitments</u>	<u>Amounts Paid as of 12/31/2004</u>	<u>Amounts Remaining on Contracts</u>
Grader Lease	MVGT Fund	\$76,500	\$43,688	\$32,812
Union Theatre Renovations	CDBG Fund	28,975	0	28,975
Road Repairs	MVGT Fund	61,109	0	61,109

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NOTE 13 - LONG-TERM OBLIGATIONS

A. Debt Activity

Changes in the County's long-term obligations during the year consisted of the following:

	Issue Amount	Outstanding 12/31/03	Additions	Deductions	Outstanding 12/31/04	Due within One Year
Governmental Activities						
<u>General Obligation Debt:</u>						
2003 Sales Tax Supported Building Improvement Limited Tax General Obligation Bonds - 4.625%	\$2,000,000	\$2,000,000	\$0	\$32,095	\$1,967,905	\$33,579
2004 General Obligation County Garage Facility Note - 3.25-5.37%	149,813	150,648	149,813	204,289	96,172	50,140
1997 Ohio Water Development Authority Loan - 4.12%	190,884	140,857	0	8,385	132,472	4,323
Total General Obligation Debt		2,291,505	149,813	244,769	2,196,549	88,042
2001 Tax Increment Financing Loan - 4.98%	93,266	87,048	0	3,109	83,939	3,109
Total Governmental Activities		<u>\$2,378,553</u>	<u>\$149,813</u>	<u>\$247,878</u>	<u>\$2,280,488</u>	<u>\$91,151</u>

The County issued a general obligation construction note to finance the building of a new County Garage in 1999. The full faith and credit of the County has been pledged to repay this debt. Gasoline and Motor Vehicle License Tax monies are being used to repay this debt. In March 2004, the note was refinanced through a local bank at a 3.25 percent interest rate for three years.

Proceeds from the Ohio Water Development Authority loan were used to pay for a study to determine the cap, leachate management, explosive gas monitoring, ground water monitoring and other technical services to close the County's landfill. General Fund monies are being used to repay the debt.

The County issued a general obligation bond anticipation note in 2001 to finance the renovation of a county building to provide county offices. The County refinanced the note with the U.S. Department of Agriculture on February 27, 2003 by issuing \$2,000,000 in Sales Tax Supported Building Improvement Limited Tax General Obligation Bonds.

The County obtained a tax increment financing loan in 2001. Proceeds from this loan will be used to pay for water line chlorination systems and a bulk station to provide potable water for industry. Tax Increment Financing service payments are being used to repay this debt.

The following is a summary of the County's future annual principal and interest requirements to retire general obligation bonds and notes:

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Year Ended December 31,	Building Improvement General Obligation Bonds			General Obligation County Garage Facility Note		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$33,579	\$91,016	\$124,595	\$50,140	\$2,720	\$52,860
2006	35,133	89,463	124,596	46,032	1,077	47,109
2007	36,757	87,838	124,595	0	0	0
2008	38,457	86,138	124,595	0	0	0
2009	40,236	84,359	124,595	0	0	0
2010-2014	230,875	392,099	622,974	0	0	0
2015-2019	289,438	333,537	622,975	0	0	0
2020-2024	362,854	260,121	622,975	0	0	0
2025-2029	454,893	168,082	622,975	0	0	0
2030-2033	445,683	52,697	498,380	0	0	0
Total	<u>\$1,967,905</u>	<u>\$1,645,350</u>	<u>\$3,613,255</u>	<u>\$96,172</u>	<u>\$3,797</u>	<u>\$99,969</u>

The following is a summary of the County's future annual principal and interest requirements to retire the OWDA and Tax Increment Financing Loans:

Year Ended December 31,	Ohio Water Development Authority Loan			Tax Increment Financing Loan		
	Principal	Interest	Total	Principal	Interest	Total
2005	4,323	2,729	\$7,052	\$3,109	\$4,180	\$7,289
2006	8,914	5,189	14,103	3,109	4,025	7,134
2007	9,285	4,818	14,103	3,109	3,871	6,980
2008	9,672	4,431	14,103	3,109	3,716	6,825
2009	10,075	4,029	14,104	3,109	3,561	6,670
2010-2014	57,023	13,494	70,517	15,545	15,482	31,027
2015-2019	33,180	2,078	35,258	15,545	11,612	27,157
2020-2024	0	0	0	15,545	7,741	23,286
2025-2029	0	0	0	15,543	3,870	19,413
2030-2033	0	0	0	6,216	465	6,681
Total	<u>\$132,472</u>	<u>\$36,768</u>	<u>\$169,240</u>	<u>\$83,939</u>	<u>\$58,523</u>	<u>\$142,462</u>

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B. Debt Margin

The Ohio Revised Code provides that the net general obligation debt of the County, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed one percent of the total valuation of the County. The Code further provides that the total shall never exceed a sum equal to three percent of the first \$100,000,000 of the assessed valuation, plus one and one-half percent of such valuation in excess of \$100,000,000 and not in excess of \$300,000,000, plus two and one-half percent of such valuation in excess of \$300,000,000. The County's unvoted debt margin was \$2,845,327 at December 31, 2004.

C. Conduit Debt

Pursuant to State statute, various industrial revenue bonds have been issued for private industry within the County. The proceeds of the industrial revenue bonds are used by the various private industries for new construction or improvements. The bonds are to be repaid by the recipients of the proceeds and do not represent an obligation of the County. As of December 31, 2004, \$3,000,000 of industrial revenue bonds had been issued, and \$2,678,543 of those remained outstanding.

NOTE 15 – INTERFUND BALANCES AND TRANSFERS

Interfund balances, as of December 31, 2004, consist of the following individual interfund receivables and payables:

Interfund Receivable	Major Funds
Interfund Payable	General
Other Nonmajor Governmental	\$37,717
Total All Funds	\$37,717

The Advances From/To are due to lags between the dates interfund goods and services are provided, transactions recorded in the accounting system, and payments between funds were made.

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Interfund transfers for the year ended December 31, 2004, consisted of the following:

	Transfer from		
Transfer to	General	Other Nonmajor Governmental	Total
Major Funds:			
General Fund	\$0	\$194,911	\$194,911
Job and Family Services	88,612	0	88,612
Other Nonmajor			
Governmental	11,588	0	11,588
Total All Funds	\$100,200	\$194,911	\$295,111

The above mentioned Transfers From/To were used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The Transfer from the Other Nonmajor Governmental Funds to the General Fund was a court ordered transfer from the Capital Improvements Fund to the General Fund as a result of a sale of real estate in 2003.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. Buckeye Hills-Hocking Valley Regional Development District

The Buckeye Hills-Hocking Valley Regional Developmental District serves as the Area Agency on Aging for Washington, Athens, Hocking, Meigs, Monroe, Morgan, Noble, and Perry Counties. The District was created to foster a cooperative effort in regional planning, programming, and implementing plans and programs. The District is governed by a fifteen member board of directors. The board is composed of one County Commissioner from each county, one member from the City of Athens, one member from the City of Marietta, four at-large members appointed from the ten government members, and one member from the minority sector. The board has total control over budgeting, personnel, and all other financial matters. The District administers County Community Development Block Grant and Issue II monies. During 2004, the District received \$9,910 in administrative fees from Morgan County. The continued existence of the District is not dependent on the County's continued participation and no equity interest exists.

B. Joint Solid Waste District

The County is a member of the Joint Solid Waste District which consists of Washington, Guernsey, Monroe, Morgan, Muskingum, and Noble Counties. The purpose of the District is to make disposal of waste in the six-county area more comprehensive in terms of recycling, incinerating, and land filling. The District was created in 1989 as required by Ohio Revised Code.

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The Joint Solid Waste District is governed and operated through three groups. An eighteen-member board of directors, composed of the three Commissioners from each County, is responsible for the District's financial matters. Financial records were maintained by Muskingum County until May 1993 at which time Noble County assumed the responsibility. The District's sole revenue source is a waste disposal fee for in-district and out-of-district waste. Although the County contributed amounts to the District at the time of its creation, no contributions were received from the County in 2004. No future contributions by the County are anticipated. A thirty-one member policy committee composed of five members from each county and one at-large member appointed by the policy committee, is responsible for preparing the solid waste management plan of the District in conjunction with a Technical Advisory Council whose members are appointed by the Policy Committee. Continued existence of the District is not dependent on the County's continued participation, no equity interest exists, and no debt is outstanding.

C. Morgan County Family and Children First Council

The Morgan County Family and Children First Council provides services to multi-need youth in Morgan County. Members of the Cluster include the Morgan County Health Department, the Regional Office of Youth Services, the Morgan County Juvenile Court, the Morgan County Mental Health Board, Morgan County Children Services, the General Health District, a representative from the City of Marietta Health Department, and a representative of the Morgan County School Districts. The operation of the Council is controlled by an advisory committee which consists of a representative from each agency. The continued existence of the Council is not dependent on the County's continued participation and no equity interest exists.

D. Washington-Morgan Community Action Corporation

The Washington-Morgan Community Action Corporation is operated as a non-profit organization formed to provide various programs in Morgan and Washington Counties. Currently, the Corporation administers the Family Service and Outreach Program, the Community Action Bus Line (CABL), the Child Development Program, the Senior Nutrition Program, Women, Infants and Children's Supplemental Nutrition Program, the Home Weatherization Assistance and Energy Program, the Job Training and Partnership Act Program, Housing and Urban Development Section 8 Existing Housing Voucher/Certificate Program, and various other state and federal programs. The Corporation is the direct recipient of the federal and state monies. The Corporation is governed by a fifteen member council. The council is composed of the Mayor of the City of Marietta, the Mayor of the City of Belpre, two commissioners from Washington County, one Commissioner from Morgan County, five lower income representatives, and five private sector representatives from Morgan and Washington Counties selected by outreach workers. Currently, the Corporation, by contract with the City of Marietta and Morgan County, provides administrative services to these governments in specific programs. The continued existence of the Corporation is not dependent on the County's continued participation and no equity interest exists. In 2004, the County contributed \$614,921 to the Corporation.

E. Buckeye Hills Resource Conservation and Development Project

The Buckeye Hills Resource Conservation and Development Project was organized to lead local efforts directed toward improving social and economic conditions of the Buckeye Hills RC&D Area through development, conservation, and proper use of all the resources of the area. It serves Athens, Belmont, Hocking, Meigs, Monroe, Morgan, Noble, Perry, and Washington Counties. The Project is governed by an executive council.

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The Council is composed of one County Commissioner from each county, one member from the Soil and Water Conservation District of each county, a representative chosen jointly by the county commissioners and Soil and Water Conservation Districts of each county, a member from the Muskingum Watershed Conservancy District, and one member from the Rush Creek Conservancy District. The Council has total control over budgeting, personnel, and all other financial matters. During 2004, the Council received \$600 in administrative fees from Morgan County. The continued existence of the District is not dependent on the County's continued participation and no equity interest exists.

F. Mental Health and Recovery Services Board of Muskingum County

The Mental Health and Recovery Services Board of Muskingum County (the Board) provides alcohol, drug addiction and mental health services and programs, primarily through contracts with private and public agencies. The Board also provides forensic evaluation services to adult felony courts, and residential services to youth experiencing emotional problems which prevent them from living at home. The Board serves Coshocton, Guernsey, Morgan, Muskingum, Noble and Perry Counties and operates under the direction of an eighteen-member appointed Board. Each participating county has agreed to levy a tax within their county to assist in the operation of the Board. The Board also directly receives state and federal funding for its operations. Although the Muskingum County Auditor and County Treasurer are responsible for fiscal control of the resources of the Board, the Board is responsible for budgeting and accounting for the resources at its disposal. Membership on the Board is based upon Ohio law. The continued existence of the Board is not dependent upon the County's continued participation and no equity interest exists. In 2004, the County contributed \$157,458 to the Board.

G. Mid Eastern Ohio Regional Council of Governments (MEORC)

The Mid Eastern Ohio Regional Council of Governments is a regional council of governments created pursuant to Ohio Revised Code Chapter 167. Participating counties include Belmont, Carroll, Coshocton, Fairfield, Guernsey, Harrison, Hocking, Holmes, Jefferson, Knox, Monroe, Morgan, Muskingum, Noble, Perry, Tuscarawas, and Washington Counties. MEORC was created to provide the best possible services to persons with mental retardation and disability in their respective counties. Each county has representation on the MEORC board. Member counties have a contract between its county MR/DD board and the MEORC for MEORC to provide supported living services or housing to eligible persons in the member counties.

NOTE 17 - INSURANCE PURCHASING POOLS

A. Buckeye Joint-County Self-Insurance Council

The Buckeye Joint-County Self-Insurance Council is an insurance purchasing pool that serves Washington, Athens, Hocking, Jackson, Lawrence, Meigs, Monroe, Morgan, Noble, Perry, Pike, and Vinton Counties. It was formed as an Ohio not-for-profit corporation for the purpose of establishing an insurance pool to obtain general liability, law enforcement, professional, and fleet insurance. Member counties provide operating resources to the Council based on actuarially determined rates.

The degree of control exercised by any participating government is limited to its representation on the Council. The Governing Board is composed of at least one County Commissioner from each of the participating counties. The Governing Board annually elects officers which include a President, Vice President, Second Vice President, and two Governing Board members. The expenses and investment of funds by the officers must be approved by the Governing Board unless specific limits have been set by the Governing Board to permit otherwise.

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December 31, 2004

B. County Commissioners Association of Ohio Workers' Compensation Group Rating Plan

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

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

NOTE 18 – FEDERAL FOOD STAMP PROGRAM

The County's Department of Job and Family Services distributes federal food stamps to entitled recipients within Ohio County. The receipt and issuance of food stamps have the characteristics of federal "grants"; however, the Department of Job and Family Services merely acts in an intermediary capacity. The inventory value of these stamps is not reflected in the accompanying financial statements as the only economic interest related to the stamps rests with the ultimate recipient. The County's Department of Job and Family Services had on hand for distribution approximately \$1,733 of federal food stamps at December 31, 2004.

NOTE 19 - CONTINGENT LIABILITIES

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

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

NOTE 20 – LANDFILL

The Commissioners leased land from F. E. and Eileen Haines to operate the Morgan County Landfill (the Facility). William Miller was the operator and license holder for the Facility from 1974 to 1988, when the Facility was closed. The Ohio Administrative Code requires the operator to complete certain environmental remediation to the Facility within sixty days after closing and to maintain the site after closure. Subsequent to the closure on September 1, 1988, the Ohio Environmental Protection Agency (OEPA) conducted inspections and documented various violations of closure requirements. On February 13, 1995, the Director of the OEPA issued Final Findings and Orders to the Morgan County Commissioners, F. E. and Eileen Haines, and William R. Miller concerning violations of closure and post-closure requirements. Post-closure requirements extend 30 years beyond the closure date.

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2004

As a result of the Directors Final Findings and Orders, the Commissioners contracted for a study to determine the cap, leachate management, explosive gas monitoring, ground water monitoring, and for other technical services relating to closure procedures for the Facility. During 1997, the County paid for the construction phase of capping the Facility. In 2001, the Commissioners contracted with an engineering firm to prepare a corrective measure plan to address the remaining OEPA concerns, including post-closure care. Other alternative plans ranging from approximately \$1.5 million to \$15.9 million have been documented and presented by Advanced Geo Services, who are employees of Gould, Inc., to the OEPA. Advanced GeoServices continues to monitor gas and groundwater pollutant levels for Gould. The Commissioners are also responsible for providing \$33,000 of in-kind contributions for illegal dump cleanup. To date, approximately \$26,000 of these in-kind contributions have been provided.

As of the date of this report, the Commissioners cannot determine which plan will be accepted, if any, or what portion of the remaining costs may have to be paid by the County. However, plans are being made to install a leachate collection tank.

NOTE 21 – COMPONENT UNIT DISCLOSURES

A. Morgan County Regional Airport Authority

The following are the Morgan County Regional Airport Authority (the Authority) notes to the financial statements for the year ended December 31, 2004:

Summary of Significant Accounting Policies

Basis of Presentation: The Summary of Significant Accounting Policies is presented to assist in understanding the Authority's financial statements. The financial statements and notes are representations of the Authority's management, who are responsible for their integrity and objectivity. These accounting policies conform to the basis of accounting 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.

Liability for Income Taxes: The Authority is exempt from income tax under Section 501(c)(3) of Internal Revenue Code.

Cash and Cash Equivalents: The Authority considers deposits with maturities of twelve months or less to be cash equivalents.

Property, Plant and Equipment: Fixed assets acquired or constructed for the Authority are recorded as disbursements. Depreciation is not recorded for these fixed assets.

Cash and Cash Equivalents

At December 31, 2004, the carrying amount of the Authority's deposits was \$5,237 and the bank balance was \$5,237. The bank balance was covered by federal depository insurance.

Morgan County, Ohio
Notes to the Basic Financial Statements
December 31, 2004

B. Mary Hammond Adult Activity Center, Inc.

The following are the Mary Hammond Adult Activity Center, Inc. (the Workshop) notes to the financial statements for the year ended December 31, 2004:

Summary of Significant Accounting Policies

Basis of Presentation: The Summary of Significant Accounting Policies is presented to assist in understanding the Workshop's financial statements. The financial statements and notes are representations of the Workshop's management, who are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and are prepared on an accrual basis. Revenue is recognized when earned, and expenditures are recognized when a liability is incurred.

Cash and Cash Equivalents: The Workshop considers deposits with maturities of twelve months or less to be cash equivalents. At December 31, 2004, the carrying amount of the Workshop's deposits was \$3,901 and the bank balance was \$5,504. The bank balance was covered by federal depository insurance.

Accounts Receivable: Accounts receivable are carried at cost, which is the amount the Workshop expects to collect on balances outstanding at year-end. Management has not recorded an allowance for bad debt.

Fixed Assets: Fixed assets are carried at cost less accumulated depreciation for items that have a value greater than \$2,500 and intended for long-term use (more than one year). Depreciation is provided over the estimated useful lives of the related assets. Maintenance and repairs are charges to operations when incurred. Renewals and betterments of a nature considered to materially extend the useful life of the assets are capitalized. When assets are retired or otherwise disposed of, the assets and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income. Depreciation for financial reporting purposes is based on the following policies:

<u>Asset Category</u>	<u>Estimated Lives</u>
Machinery and Equipment	5 – 8 years
Vehicles	5 years

Income Taxes: The Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c)3 and has been recognized as nonprofit by the State of Ohio. Therefore, no provision has been made for federal or Ohio income taxes in the accompanying financial statements.

Debt: During 2004, the Workshop opened a line of credit with North Valley Bank for \$7,500 with an interest rate of 6.5%. Each year this line of credit is renewed. During 2004, no principal payments were made by the Workshop. A total of \$5,000 was drawn on this line of credit during 2004 and is due and payable in 2005.

Related Party Transactions: During 2004, Morgan County provided facilities, certain equipment, transportation, and salaries for administration, implementation, and supervision of programs to the Workshop. These in-kind contributions were valued at \$30,311. The in-kind contributions are reflected in the Statement of Revenues, Expenditures, Changes in Retained Earnings as "Support Services" revenue and correspondingly as "Personal Services" expenditures.

Retirement System: All employees of the Workshop are covered by Social Security. The Workshop's liability is 6.2% of wages paid. Employees contribute a matching amount.

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MORGAN COUNTY

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

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Entity Number	Expenditures
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed through the Ohio Department of Development:</i>			
Community Development Block Grants - State's Program	14.228	BF-02-053-1 BF-03-053-1	\$ 29,196 <u>18,924</u> 48,120
Total Community Development Block Grants - State's Program			48,120
HOME Investment Partnerships Program	14.239	BC-02-053-1 BC-02-053-2	41,133 <u>211,578</u> 252,711
Total HOME Investment Partnerships Program			252,711
Total United States Department of Housing and Urban Development			300,831
UNITED STATES DEPARTMENT OF JUSTICE			
<i>Passed through the Ohio Department of Youth Services:</i>			
Juvenile Accountability Incentive Block Grants	16.523	2001-JB-013-A250	20,927
<i>Passed through the Ohio Attorney General's Office:</i>			
Crime Victim Assistance	16.575	2004VAGENE336 2005VAGENE336	17,336 <u>5,969</u> 23,305
Total Crime Victim Assistance			23,305
<i>Passed through the Ohio Office of Criminal Justice Services and the Village of McConnelville:</i>			
Violence Against Women Formula Grants	16.588	2000-WF-VA2-8423A 2002-WF-VA2-8423 2003-WF-VA2-8423	9,667 <u>17,799</u> 27,466
Total Violence Against Women Formula Grants			27,466
<i>Passed through the Ohio Office of Criminal Justice Services:</i>			
Local Law Enforcement Block Grants Program	16.592	2003-LE-LEB-3109	<u>13,757</u>
Total United States Department of Justice			85,455
UNITED STATES DEPARTMENT OF LABOR			
<i>Passed through the Ohio Department of Job and Family Services:</i>			
Unemployment Insurance	17.225	N/A	2,872
<i>Workforce Investment Act Cluster:</i>			
WIA Adult	17.258	N/A	61,362
WIA Adult Administrative			<u>4,969</u>
WIA Adult Total			66,331
WIA Youth Activities	17.259	N/A	71,580
WIA Youth Administrative			<u>5,209</u>
WIA Youth Total			76,789
WIA Dislocated Worker	17.260	N/A	34,218
WIA Dislocated Worker (State Manufacturing Grant)		EM-11159-01-60	<u>184,341</u>
Total WIA Dislocated Worker			218,559
Total Workforce Investment Act Cluster			361,679
<i>Passed through the Ohio Valley Employment Resource:</i>			
Unemployment Insurance	17.225	N/A	10,541
<i>Workforce Investment Act Cluster:</i>			
WIA Adult	17.258	N/A	39,334
WIA Youth Activities	17.259	N/A	51,831
WIA Dislocated Worker	17.260	N/A	24,723
WIA Dislocated Worker (State Manufacturing Grant)	17.260	EM-11159-01-60	226,757
WIA Dislocated Worker (Central Ohio Coal/Windsor Project)	17.260	N/A	<u>25,603</u>
Total WIA Dislocated Worker			277,083
Total Workforce Investment Act Cluster			368,248
Total United States Department of Labor			743,340

MORGAN COUNTY

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

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass-Through Entity Number	Expenditures
UNITED STATES DEPARTMENT OF TRANSPORTATION			
<i>Passed through the Ohio Department of Transportation</i>			
Formula Grants for Other than Urbanized Areas	20.509	RPT-4058-023-041	\$ 29,612
Total United States Department of Transportation			29,612
APPALACHIAN REGIONAL COMMISSION			
<i>Direct from the Federal Government:</i>			
Appalachian Regional Development	23.001	OH-14120-02	406
Total Appalachian Regional Commission			406
GENERAL SERVICES ADMINISTRATION			
<i>Direct from the Federal Government:</i>			
Election Reform Payments	39.011	04-SOS-HAVA-58	6,000
Total General Services Administration			6,000
UNITED STATES DEPARTMENT OF EDUCATION			
<i>Direct from the Federal Government:</i>			
Fund for the Improvement of Postsecondary Education	84.116Z	P116Z040004	77,485
<i>Passed through the Ohio Department of Health:</i>			
Special Education - Grants for Infants and Families with Disabilities	84.181	58-1-002-1-EG-04	8,002
		58-1-002-1-EG-05	22,387
Total Special Education - Grants for Infants and Families with Disabilities			30,389
Total United States Department of Education			107,874
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed through Ohio Department on Aging and the Area Agency on Aging:</i>			
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	N/A	5,735
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	N/A	36,756
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>			
Social Services Block Grant	93.667	N/A	14,210
Medical Assistance Program - Community Alternative Funding System	93.778	N/A	147,595
Medical Assistance Program - Target Case Management	93.778	N/A	111,085
Total Medical Assistance Program			258,680
Total United States Department of Health and Human Services			315,381
UNITED STATES DEPARTMENT OF HOMELAND SECURITY			
<i>Passed through the Ohio Emergency Management Agency:</i>			
State Domestic Preparedness Equipment Support Program	97.004	2002-TE-CX-0106	31,250
		2003-MUP-30015	36,234
		2003-TE-TX-0199	38,945
		2004-GE-T4-0025	81,039
Total State Domestic Preparedness Equipment Support Program			187,468
Public Assistance Grants	97.036	FEMA-1453-DR-115-05BOA	190,110
		FEMA-1507-DR-115-UJ68G	99,657
Total Public Assistance Grants			289,767
Emergency Management Performance Grants	97.042	EMC-2004-GR-7007	18,538
Pre-Disaster Mitigation	97.047	EMC-2002-GR-7037	5,085
State and Local All Hazards Emergency Operations Planning	97.051	EMC-2003-GR-7026	592
Total United States Department of Homeland Security			501,450
Total Federal Awards Expenditures			\$ 2,090,349

The Notes to the Schedule of Federal Awards Expenditures are an integral part of this Schedule.

MORGAN COUNTY

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of Morgan County's (the County) federal awards 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 U.S. Department of Housing and Urban Development 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 OMB 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 – MATCHING REQUIREMENTS

Certain Federal programs require 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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**Auditor of State
Betty Montgomery**

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

Morgan County
155 East Main Street
Room 217
McConnelsville, Ohio 43756-1297

To the Board of County Commissioners:

We have audited the financial statements of the governmental activities, the discretely-presented component units, each major fund, and the aggregate remaining fund information of Morgan County, Ohio (the County), as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 1, 2005, wherein we noted that except for the Mary Hammond Workshop, Inc., the County uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting to determine our auditing procedures to express our opinion on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 misstatements caused by error or fraud in amounts material in relation to the financial statement we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. In a separate letter to the County's management dated September 1, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express 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 2004-001 and 2004-002. In a separate letter to the County's management dated September 1, 2005, we reported other matters related to compliance we deemed immaterial.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

September 1, 2005



**Auditor of State
Betty Montgomery**

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

Morgan County
155 East Main Street
Room 217
McConnelsville, Ohio 43756-1297

To the Board of County Commissioners:

Compliance

We have audited the compliance of Morgan County, Ohio (the County), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. The County's major federal program is 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 its major federal program 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 its major federal program for the year ended December 31, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying Schedule of Findings as item 2004-003. In a separate letter to the County's management dated September 1, 2005, we reported another matter related to federal noncompliance not requiring inclusion in this report.

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 programs 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. However, we noted other matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the County's management in a separate letter dated September 1, 2005.

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



Betty Montgomery
Auditor of State

September 1, 2005

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

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Workforce Investment Act Cluster - CFDA #17.258, 17.259 and 17.260
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

MORGAN COUNTY

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
DECEMBER 31, 2003
(Continued)**

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

FINDING NUMBER 2004-001

Finding for Recovery – Repaid Under Audit

Ohio Rev. Code Section 1907.16 (A) provides that Judges of a county court shall receive as compensation thirty-five thousand five hundred dollars each year in addition to the compensation payable under division (A)(6) of Section 141.04 of the Revised Code. Additionally, Ohio Rev. Code Section 1907.16(C) states that the presiding judge of a county court who is also the administrative judge of the court shall receive an additional one thousand five hundred dollars per annum.

Since Morgan County Court Judge Michael D. Lowe is also the Court's Administrative Judge, he is entitled to \$37,000 per year in compensation. For the purposes of this Finding for Recovery, compensation received from the State Treasury of Ohio under Ohio Rev. Code Section 141.04(A)(6) is not being considered. According to the 2004 W-2 forms and payroll records for Michael D. Lowe, he was paid by the County \$37,777. Due to an error in calculating the annual salary, this resulted in overcompensation in the amount of \$777.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Michael D. Lowe, County Court Judge, and the American States Insurance Company, his bonding company, jointly and severally, in the amount of \$777, in favor of the General Fund of Morgan County.

In an agreement between the Morgan County Commissioners and Judge Michael D. Lowe dated June 27, 2005, the County Commissioners agreed to deduct the overpayment of compensation from monies owed to Judge Lowe for other purposes. Accordingly, this finding for recovery is considered repaid in full as of June 27, 2005.

FINDING NUMBER 2004-002

Noncompliance Citation

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

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

We recommend the County take the necessary steps to ensure that the annual financial report is prepared on a generally accepted accounting principles basis.

MORGAN COUNTY

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
DECEMBER 31, 2003
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2004-003
CFDA Title and Number	Workforce Investment Act - CFDA#17.258, 17.59 and 17.260
Federal Award Number/Year	2004
Federal Agency	United States Department of Labor
Pass-Through Agency	Ohio Valley Employment Resource

Noncompliance Citation

31 C.F.R. Section 205.33(a) requires that cash advances be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the organization in carrying out the purpose of the program or project. The timing and amount of cash advances must be as close as is administratively feasible to an organization's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. Since the Ohio Department of Job and Family Services has a ten-day disbursement cycle, Workforce Investment Act (WIA) program cash balances should not significantly exceed the amounts needed in the next 10 days.

During 2004, WIA cash balances on hand exceeded the amounts needed in the next 10 days on the dates listed below:

Date	WIA Cash Balance	Amount Spent within 10 Days	Amount Not Spent within 10 Days
September 30, 2004	\$ 39,686	\$ 5,683	\$ 34,003
October 31, 2004	187,006	39,480	147,526
November 30, 2004	148,797	24,843	123,954
December 31, 2004	139,692	21,614	118,078

As a result, cash on hand exceeded the actual and immediate needs of the County.

We recommend WIA cash balances be monitored on a regular basis and that weekly cash draw requests be reduced or eliminated during times when the WIA program cash balance is adequate to cover immediate cash needs.

MORGAN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
DECEMBER 31, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	A material noncompliance citation was issued under Ohio Admin. Code Section 117-2-03(B) for failing to prepare and file financial statements pursuant to GAAP.	No	Not Corrected: The County does not believe the benefits associated with filing GAAP statements outweigh the costs associated with preparing them. This situation is repeated in the current audit as Finding 2004-002.

MORGAN COUNTY

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 §.315(c)
DECEMBER 31, 2004**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2004-003	<p>In 2004, we also had the State Manufacturing Grant funds available. Expenditures were made through this grant that would have otherwise been paid with WIA funding.</p> <p>Presently, the Agency is only requesting WIA funds periodically. This is being done to better assure accurate spending within the required time frames.</p> <p>The agency is attempting to have better communication between the Workforce Development Center and the Fiscal Unit. The account clerk in the Workforce Development Center is responsible for reporting financial obligations to the fiscal officer. The fiscal officer is responsible for drawing down the amount of funding projected to be needed, however, assuring that significant funds are available to meet the obligations in a timely manner.</p>	December 31, 2005	James P. Ridenour, Director



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

FINANCIAL CONDITION

MORGAN 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
FEBRUARY 9, 2006**