



Mary Taylor, CPA
Auditor of State

**FINANCIAL CONDITION
PAULDING COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Commissioners:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Paulding County, Ohio (the County), as of and for the year ended December 31, 2006, 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 § 117-2-03 (B) requires the County to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash 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 financial statements do not include financial data for the Paulding County Hospital, the County's legally separate blended component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported as a business type activity with the financial data of the County's primary government unless the County also issues financial statements for the reporting entity that includes the component unit's financial data. The County has not issued such reporting entity financial statements. As a result, the basic statements omit the assets, liabilities, net assets, revenues and expenditures of the business-type activities and major fund statements for the Paulding County Hospital.

In our opinion, because of the omission of the financial statements for the business-type activity, as discussed above, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 2, the financial position of the business-type activities or major enterprise funds of Paulding County, Ohio, as of December 31, 2006, and its changes in cash financial position and cash flows for the year then ended.

Finally, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Paulding County, Ohio, as of December 31, 2006, and the respective changes in cash financial position and the respective budgetary comparison for the General, Motor Vehicle Gasoline Tax and Mental Retardation and Developmental Disabilities Board Funds thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2007, 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.

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.

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



Mary Taylor, CPA
Auditor of State

October 24, 2007

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

The discussion and analysis of Paulding County's (the County) financial performance provides an overall review of the County's financial activities for the fiscal year ended December 31, 2006. 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 and notes to enhance their understanding of the County's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2006 are as follows:

- In total, net assets decreased \$161,368, which represents a 1.75% decrease over fiscal year 2005.
- The 2006 general fund expenditures exceeded revenue by \$174,687, which represents a 14.5% decrease over fiscal year 2005. The 2006 general fund beginning cash balance was \$1,201,667 whereas the ending cash balance was \$1,026,980.
- The County's major funds included the General, Motor Vehicle Gasoline Tax, Jail Construction, Jail Debt Service, and Mental Retardation and Development Disabilities (MRDD) Funds.

Using the Basic Financial Statements

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

The annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the County as a financial whole, or as an entire operating entity.

Report Components

The statement of net assets- cash basis and the statement of activities- cash basis provide information about the activities of the whole County, presenting both an aggregate view of the County's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the County's most significant funds, with all other non-major funds presented in total in a single column. For the County, the General Fund is the most significant fund. The County's major funds are the General, Motor Vehicle, Gasoline Tax, Jail Construction, Jail Debt Service and Mental Retardation Development Disabilities funds.

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The County has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the County's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the County as Whole

Statement of Net Assets and Statement of Activities

The statement of net assets- cash basis and statement of activities- cash basis reflect how the County did financially during fiscal year 2006. These statements include only net assets using the cash basis of accounting, which is a basis of accounting other than accounting principals generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

These two statements report the County's net assets and changes in those assets on a cash basis. This change in net cash assets is important because it tells the reader that, for the County as a whole, the cash basis financial position of the County has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the County's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated federal and state programs and other factors.

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

These statements report the County's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the County's financial health. Over time, increases or decreases in the County's cash position is one indicator of whether the County's financial health is improving or deteriorating. When evaluating the County's financial condition, you should also consider other non financial factors as well such as the County's property tax base, the condition of the County's capital assets and infrastructure, the extent of the County's debt obligations, the reliance on non-local financial resources for operations.

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

In the statement of net assets- cash basis and the statement of activities- cash basis, the County discloses a single type of activity, governmental activities. All of the County's programs and services are reported here, which include legislative, executive and judicial general government, health, public safety, public works, health, human services and conservation/recreation.

Reporting the County's Most Significant Funds

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 Governmental funds and Fiduciary funds.

Fund financial statements provide detailed information about the County's major funds. While the County uses many funds to account for its financial transactions, the fund financial statement focus is on the County's most significant funds. The County's major funds are the General, Motor Vehicle, Gasoline Tax, Jail Construction, Jail Debt Service, and Mental Retardation and Development Disabilities funds.

Governmental Funds

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

The County's budgetary process accounts for certain transactions on a cash basis. The budgetary statements for the General Fund and all annually budgeted major special revenue funds are presented to demonstrate the County's compliance with annually adopted budgets.

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

Fiduciary Funds

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

Notes to the Financial Statements

The notes provide additional information that is essential to understanding the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

Recall that the Statement of Net Assets provides the perspective of the County as a whole.

Table 1 provides a summary of the County's net assets for 2006 compared to the prior year.

**Net Assets- Modified Cash Basis
Governmental Activities**

	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Equity in Pooled Cash and Cash Equivalents	\$ 9,064,369	\$ 9,225,737
Total Assets	<u>9,064,369</u>	<u>9,225,737</u>
 <u>Net Assets</u>		
Restricted	8,037,389	8,024,070
Unrestricted	<u>1,026,980</u>	<u>1,201,667</u>
Total Net Assets	<u>\$ 9,064,369</u>	<u>\$ 9,225,737</u>

Net cash assets of governmental activities decreased \$161,368, which represents a 1.75% decrease over fiscal year 2005. The decrease is a result of increased spending over fiscal year 2005.

A portion of the County's net cash assets, \$8,037,389, represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net cash assets of \$1,206,980 may be used to meet the government's ongoing obligations to citizens and creditors.

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets from the prior fiscal year.

	Change in Net Cash Assets	
	Governmental Activities 2006	Governmental Activities 2005
Cash Receipts:		
Program Cash Receipts:		
Charges for Services and Sales	\$1,357,973	\$ 1,873,926
Operating Grants and Contributions	7,861,160	6,793,270
Capital Grants and Contributions	2,126,984	1,195,321
Total Program Cash Receipts	11,346,117	9,862,517
General Cash Receipts:		
Property Taxes	2,827,285	2,537,550
Sales Tax	1,554,405	1,687,374
Unrestricted Grants	394,554	394,550
Proceeds from Sale of Notes	5,154,286	4,424,409
Interest Receipts	511,813	314,422
Miscellaneous	1,158,499	1,534,501
Total General Cash Receipts	11,600,842	10,892,806
Total Cash Receipts	22,946,959	20,755,323
Cash Disbursements:		
General Government	2,587,228	2,699,982
Public Safety	2,279,208	2,111,883
Public Works	4,976,770	4,485,474
Health	2,109,553	1,481,230
Human Services	2,559,896	2,777,308
Conservation and Recreation	12,408	49,902
Miscellaneous	835,305	536,317
Capital Outlay	3,009,101	734,120
Debt Service:		
Principal Retirement	4,475,012	4,670,143
Interest and Fiscal Charges	263,846	203,146
Other Financing Uses		143,385
Total Cash Disbursements	23,108,327	19,892,890
Change in Net Cash Assets	(161,368)	862,433
Net Cash Assets at Beginning of Year	9,225,737	8,363,304
Net Cash Assets at End of Year	\$9,064,369	\$9,225,737

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

Governmental cash assets decreased by \$161,368 in 2006. This decrease is primarily due to disbursements related to the construction of the County's new jail facility.

The County program, Public Works, accounted for \$4,976,770 or 21.54% of total governmental cash disbursements. Public Works programs relate to betterment of county roads and related infrastructure. Public Works programs were supported by \$4,422,485 in direct charges to users, operating grants and contributions and capital grants and contributions.

Principal retirements accounted for \$4,475,012 or 19.37% of total governmental cash disbursements. Principal retirements primarily represent the rollover and re-issuance of bond anticipation notes (BANs) relating to the construction of the County Jail. Principal retirements are supported entirely by general revenues.

Capital Outlay accounted for \$3,009,101 or 13.02% of total governmental cash disbursements. The construction of the County's new jail facility consisted of the majority of the capital outlay disbursements. The jail facility was financed through state grants and from a county approved tax levy.

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for 2006. It identifies the cost of these services supported by tax receipts and unrestricted state grants and entitlements.

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	2006	2005	2006	2005
Cash Disbursements:				
General Government	2,587,228	2,699,982	1,426,880	1,322,753
Public Safety	2,279,208	2,111,883	2,072,627	1,791,155
Public Works	4,976,770	4,485,474	554,285	107,639
Health	2,109,553	1,481,230	1,038,223	670,156
Human Services	2,559,896	2,777,308	206,674	808,733
Conservation and Recreation	12,408	49,902	12,408	8,903
Miscellaneous	835,305	536,317	741,476	117,335
Capital Outlay	3,009,101	734,120	1,089,130	127,025
Debt Service:				
Principal Retirement	4,475,012	4,670,143	4,367,700	4,670,143
Interest and Fiscal Charges	263,846	203,146	252,807	203,146
Other Financing Uses		143,385		143,385
Total Cash Disbursements	23,108,327	19,892,890	11,762,210	9,970,373

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

The dependence upon general cash receipts for governmental activities is apparent; with 50.9% of cash disbursements supported through taxes and other general cash receipts during 2006.

Financial Analysis of the Government's Funds

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

Governmental Funds

The County's governmental funds are accounted for using the cash basis of accounting.

The County's governmental funds reported a combined fund cash balance of \$9,064,369, which is \$161,368 below last year's total of \$9,225,737. The schedule below indicates the fund cash balance and the total change in fund cash balance as of December 31, 2006 and December 31, 2005, for all major and nonmajor governmental funds.

	Fund Cash Balance at <u>12/31/06</u>	Fund Cash Balance at <u>12/31/05</u>	Increase (Decrease)
Major Funds:			
General	\$1,026,980	\$1,201,667	(\$174,687)
Motor Vehicle Gasoline Tax	492,799	797,697	(304,898)
MRDD	715,048	670,131	44,917
Jail Construction	2,686,806	2,757,747	(70,941)
Jail Debt Service	23,241		23,241
Other Nonmajor Governmental Funds	<u>4,119,495</u>	<u>3,798,495</u>	<u>321,000</u>
 Total	 <u>\$9,064,369</u>	 <u>\$9,225,737</u>	 <u>(\$161,368)</u>

The General Fund is the main operating fund of the County. At the end of 2006, receipts and other financing sources of \$4,053,785 and disbursements and other financing uses of \$4,228,472 resulted in a decrease of \$174,687 to General Fund unreserved fund balance. The decrease was the result of increased insurance premiums, and a change in the method the County made disbursements to County agencies.

The Motor Vehicle Gasoline Tax Fund reported \$3,666,353 revenues from gasoline tax, motor vehicle registration fees and other revenues. \$3,971,251 was expended for road and bridge repairs, maintenance and debt principal payments. This resulted in a decrease of \$304,898 in the Motor Vehicle Gasoline Tax unreserved fund balance. The decrease in fund balance was due to the County did not receive any grants in 2006 to offset road and bridge repairs and maintenance expenses.

The jail construction fund cash balance decreased by \$70,941. This fund was used to record the revenues and disbursements for the construction of the county jail facility.

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

The mental retardation developmental disabilities board fund reported \$2,084,902 in revenue and disbursements of \$2,039,985 resulted in an increase of \$44,917 to the fund balance. The increase is primarily due to increasing of state revenues in 2006 compared to 2005.

The Jail Debt Service Fund was created to remit payments due for the debt related to the construction of the new jail facility. The jail construction bond anticipation notes are due on February 17, 2007. The County receives proceeds from a tax levy to finance the payment of the bond anticipation notes.

General Fund Budgetary Highlights

The County's appropriations are prepared according to Ohio law and are based on accounting for transactions on the basis of cash receipts, disbursements and encumbrances. The general fund is the most significant budgeted fund.

During each fiscal year the general fund budget is revised as needs arise. Records of the revisions are found in the Commissioners' Journals.

For the general fund, final budget basis receipts were the same as the original budget estimate of \$4,199,157. Actual cash receipts were \$145,372 less than budget estimates mainly due to less than anticipated revenues from taxes revenues. Final budget basis disbursement increased approximately 3.36% to \$4,350,412. Actual expenditures were \$4,228,472 resulting in a difference of \$121,940 or 2.8%. The County kept spending close to budgeted amounts as demonstrated by the minor reported variances.

Capital Assets and Debt Administration

Capital Assets

The County does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The County had capital outlay disbursements of \$3,009,101.

Debt Administration

The County had the following long-term debt obligations outstanding at December 31, 2006:

	Governmental Activities
Hospital Improvement Bonds	<u>\$1,680,000</u>
Ohio Public Works Commission Loans	205,679
Ohio Department of Transportation SIB Loan	<u>125,067</u>
Total Long-term Obligations	<u><u>\$2,010,746</u></u>

In addition, the County has tax anticipation, general obligation and bond anticipation notes outstanding in the amounts of \$80,200, \$1,401,260 and \$3,670,000 respectively.

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

Economic Factors to be considered for the Future

Under the state of Ohio's Amended Substitute House Bill 66, personal property tax revenue will be phased out over a period of four years beginning with 2005. The loss of personal property tax revenue will have a negative impact on the general fund.

The voters of Paulding County have approved a bond issue in 2006 and, along with a Bureau of Adult Detention grant, allows for the financing of construction of a new county jail. When the new jail is open the county will be able to use previously approved operating mills for the new jail and thus reduce the pressure on the existing general fund.

The Paulding County Hospital is a county owned, tax-exempt not-for-profit corporation that operates a general hospital, emergency room, and physician's services. The hospital is governed by a board of directors appointed by the County Commissioners and the two Common Pleas judges. The hospital employs a Chief Financial Officer and prepares its own annual financial report, which is audited by a private accounting firm. Although the hospital is part of the Paulding County reporting unit, the Commissioners have opted to exclude its financial activity from the County's financial report.

Requests for Information

This financial report is designed to provide a general overview of Paulding County's finances for all those with an interest in county finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Susan K. Simpson, Paulding County Auditor at 115 N. Williams Street, Paulding, Ohio 45879-1284.

**FINANCIAL CONDITION
PAULDING COUNTY**

**Statement of Net Assets - Cash Basis
As of December 31, 2006**

	<u>Governmental Activities</u>
ASSETS	
Equity in pooled cash and investments	\$ 9,052,960
Equity in outside accounts	<u>11,409</u>
Total assets	<u><u>\$ 9,064,369</u></u>
NET ASSETS	
Restricted for:	
Debt service	138,062
Capital projects	3,838,326
Other purposes	4,061,001
Unrestricted	<u>1,026,980</u>
Total net assets	<u><u>\$ 9,064,369</u></u>

See accompanying notes to basic financial statements

**FINANCIAL CONDITION
PAULDING COUNTY**

**Statement of Activities - Cash Basis
For the year ended December 31, 2006**

	Cash Disbursements	Program Cash Receipts			Net (cash disbursements) and cash receipts and changes in net cash assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES					
EXPENDITURES					
General government					
Legislative and executive	\$ 1,767,673	\$ 729,764			\$ (1,037,909)
Judicial	819,555	347,885	\$ 82,699		(388,971)
Public safety	2,279,208	9,652	196,929		(2,072,627)
Public works	4,976,770	36,478	3,677,645	\$ 708,362	(554,285)
Health	2,109,553	53,211	1,018,119		(1,038,223)
Human services	2,559,896	119,035	2,234,187		(206,674)
Conservation and recreation	12,408				(12,408)
Miscellaneous	835,305	30,865	62,964		(741,476)
Capital outlay	3,009,101	31,083	470,266	1,418,622	(1,089,130)
Debt service					
Principal retirement	4,475,012		107,312		(4,367,700)
Interest charges	263,846		11,039		(252,807)
Total governmental activities	\$ 23,108,327	\$ 1,357,973	\$ 7,861,160	\$ 2,126,984	\$ (11,762,210)
General cash receipts and transfers					
Property taxes levied for:					
					944,672
					851,272
					345,056
					284,373
					216,970
					184,942
					1,554,405
Grants and entitlements not restricted					
					394,554
Proceeds from sale of notes					
					5,154,286
Interest receipts					
					511,813
Miscellaneous					
					1,158,499
					<u>11,600,842</u>
					(161,368)
					<u>9,225,737</u>
					<u>\$ 9,064,369</u>

See accompanying notes to basic financial statements

**FINANCIAL CONDITION
PAULDING COUNTY**

**Statement of Cash Basis Assets and Fund Balances - Governmental Funds
As of December 31, 2006**

	General Fund	Gas Tax Fund	Mental Retardation Developmental Disabilities Board	Jail Construction Fund	Jail Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Equity in pooled cash and investments	\$ 1,026,980	\$ 492,799	\$ 715,048	\$ 2,686,806	\$ 23,241	\$ 4,108,086	\$ 9,052,960
Equity in outside accounts						11,409	11,409
Total assets	<u>\$ 1,026,980</u>	<u>\$ 492,799</u>	<u>\$ 715,048</u>	<u>\$ 2,686,806</u>	<u>\$ 23,241</u>	<u>\$ 4,119,495</u>	<u>\$ 9,064,369</u>
NET ASSETS							
Unreserved:							
Undesignated, Reported in:							
General Fund	\$ 1,026,980						\$ 1,026,980
Special Revenue Funds		\$ 492,799	\$ 715,048			\$ 2,853,154	4,061,001
Debt Service Funds					\$ 23,241	114,821	138,062
Capital Project Funds				\$ 2,686,806		1,151,520	3,838,326
Total net assets	<u>\$ 1,026,980</u>	<u>\$ 492,799</u>	<u>\$ 715,048</u>	<u>\$ 2,686,806</u>	<u>\$ 23,241</u>	<u>\$ 4,119,495</u>	<u>\$ 9,064,369</u>

See accompanying notes to basic financial statements

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**FINANCIAL CONDITION
PAULDING COUNTY**

**Statement of Cash Receipts, Cash Disbursements and Changes
in Fund Cash Balances - Governmental Funds -Cash Basis
For the year ended December 31, 2006**

	General Fund	Motor Vehicle Gasoline Tax	Mental Retardation Developmental Disabilities Board	Jail Construction Fund
Cash Receipts				
Property taxes	\$ 944,672		\$ 851,272	
Sales taxes	1,554,405			
Charges for service	539,215			
Licenses and permits	1,500			
Fines and forfeitures	195,300	\$36,478		
Special Assessments				
Intergovernmental	394,553	3,406,215	1,126,551	\$1,418,622
Interest	355,690	45,166		110,957
Other	65,788	178,494	107,079	
Total cash receipts	4,051,123	3,666,353	2,084,902	1,529,579
Cash Disbursements				
General government				
Legislative and executive	1,347,024			
Judicial	641,273			
Public safety	1,480,459			
Public works	14,801	3,945,133		
Health	10,211		2,039,985	
Human services	117,075			
Conservation and recreation				
Miscellaneous	546,779			540
Capital outlay	20,850			2,399,980
Debt service				
Principal retirement		26,118		
Interest charges				
Total cash disbursements	4,178,472	3,971,251	2,039,985	2,400,520
Excess (deficiency) of cash receipts over (under) cash disbursements	(127,349)	(304,898)	44,917	(870,941)
Other Financing Sources (Uses)				
Transfers in	2,662			
Transfers out	(50,000)			
Proceeds from sale of notes				800,000
Total other financing sources (uses)	(47,338)			800,000
Net change in fund balance - cash basis	(174,687)	(304,898)	44,917	(70,941)
Fund balance - cash basis, January 1	1,201,667	797,697	670,131	2,757,747
Fund balance - cash basis, December 31	<u>\$ 1,026,980</u>	<u>\$ 492,799</u>	<u>\$ 715,048</u>	<u>\$ 2,686,806</u>

See accompanying notes to basic financial statements

Jail Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 139,888	\$ 891,453	\$ 2,827,285
		1,554,405
	330,772	869,987
	68,633	70,133
	185,804	417,582
	390,905	390,905
	3,645,851	9,991,792
1,445	805,965	1,158,771
<u>141,333</u>	<u>6,319,383</u>	<u>17,792,673</u>
	420,649	1,767,673
	178,282	819,555
	798,749	2,279,208
	1,016,836	4,976,770
	59,357	2,109,553
	2,442,821	2,559,896
	12,408	12,408
6,438	281,548	835,305
	588,271	3,009,101
2,870,000	1,578,894	4,475,012
114,481	149,365	263,846
<u>2,990,919</u>	<u>7,527,180</u>	<u>23,108,327</u>
<u>(2,849,586)</u>	<u>(1,207,797)</u>	<u>(5,315,654)</u>
	137,184	139,846
	(89,846)	(139,846)
<u>2,872,827</u>	<u>1,481,459</u>	<u>5,154,286</u>
<u>2,872,827</u>	<u>1,528,797</u>	<u>5,154,286</u>
23,241	321,000	(161,368)
	3,798,495	9,225,737
<u>\$ 23,241</u>	<u>\$ 4,119,495</u>	<u>\$ 9,064,369</u>

**FINANCIAL CONDITION
PAULDING COUNTY**

**Statement of Cash Receipts, Cash Disbursements and Changes
in Fund Cash Balances Governmental Funds -Cash Basis
(Budgetary Basis)
For the year ended December 31, 2006**

	General Fund			Variance with Final Budget
	Original Budget	Final Budget	Actual	
Cash Receipts				
Taxes	\$ 1,086,995	\$ 1,086,995	\$ 944,672	\$ (142,323)
Sales Taxes	1,554,405	1,554,405	1,554,405	
Charges for service	571,200	571,200	539,215	(31,985)
Licenses and permits	2,000	2,000	1,500	(500)
Fines and forfeitures	199,887	199,887	195,300	(4,587)
Intergovernmental	394,553	394,553	394,553	
Interest	355,690	355,690	355,690	
Other	34,427	34,427	65,788	31,361
Total cash receipts	4,199,157	4,199,157	4,051,123	(148,034)
Cash Disbursements				
General government				
Legislative and executive	1,450,872	1,490,774	1,347,024	143,750
Judicial	654,905	681,548	641,273	40,275
Public safety	1,460,195	1,498,398	1,480,459	17,939
Public works	14,835	14,835	14,801	34
Health	7,847	10,347	10,211	136
Human services	139,454	139,454	117,075	22,379
Miscellaneous	202,225	488,456	546,779	(58,323)
Capital outlays	48,652	26,600	20,850	5,750
Total cash disbursements	3,978,985	4,350,412	4,178,472	171,940
Excess (deficiency) of cash receipts over (under) cash disbursements	220,172	(151,255)	(127,349)	23,906
Other Financing Sources (Uses)				
Transfers in			2,662	2,662
Transfers out	(230,172)		(50,000)	(50,000)
Total other financing sources (uses)	(230,172)		(47,338)	(47,338)
Net change in fund balance - cash basis	(10,000)	(151,255)	(174,687)	(23,432)
Fund balance - cash basis, January 1	1,201,667	1,201,667	1,201,667	
Fund balance - cash basis, December 31	<u>\$ 1,191,667</u>	<u>\$ 1,050,412</u>	<u>\$ 1,026,980</u>	<u>\$ (23,432)</u>

See accompanying notes to basic financial statements

**FINANCIAL CONDITION
PAULDING COUNTY**

**Statement of Cash Receipts, Cash Disbursements and Changes
in Fund Cash Balances Governmental Funds - Cash Basis
(Budgetary Basis)
For the year ended December 31, 2006**

	Motor Vehicle Gasoline Tax Fund			Variance with Final Budget
	Original Budget	Final Budget	Actual	
Cash Receipts				
Fines and forfeitures	\$ 38,000	\$ 38,000	\$ 36,478	\$ (1,522)
Intergovernmental	3,368,000	3,368,000	3,406,215	38,215
Interest			45,166	45,166
Other	85,000	85,000	178,494	93,494
Total cash receipts	<u>3,491,000</u>	<u>3,491,000</u>	<u>3,666,353</u>	<u>175,353</u>
Cash Disbursements				
Public works	3,848,354	4,139,431	3,945,133	194,298
Debt service				
Principal	17,412	17,412	26,118	(8,706)
Total cash disbursements	<u>3,865,766</u>	<u>4,156,843</u>	<u>3,971,251</u>	<u>185,592</u>
Excess of cash disbursements over cash receipts	<u>(374,766)</u>	<u>(665,843)</u>	<u>(304,898)</u>	<u>360,945</u>
Fund balance - cash basis, January 1	<u>797,697</u>	<u>797,697</u>	<u>797,697</u>	
Fund balance - cash basis, December 31	<u><u>\$ 422,931</u></u>	<u><u>\$ 131,854</u></u>	<u><u>\$ 492,799</u></u>	<u><u>\$ 360,945</u></u>

See accompanying notes to basic financial statements

**FINANCIAL CONDITION
PAULDING COUNTY**

**Statement of Cash Receipts, Cash Disbursements and Changes
in Fund Cash Balances Governmental Funds - Cash Basis
(Budgetary Basis)**

For the year ended December 31, 2006

	Mental Retardation/Developmental Disabilities Board Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget
Cash Receipts				
Property taxes	\$ 975,500	\$ 975,500	\$ 851,272	\$ (124,228)
Intergovernmental	765,350	765,350	1,126,551	361,201
Other	39,500	39,500	107,079	67,579
Total cash receipts	<u>1,780,350</u>	<u>1,780,350</u>	<u>2,084,902</u>	<u>304,552</u>
Cash Disbursements				
Health	<u>1,925,366</u>	<u>2,190,180</u>	<u>2,039,985</u>	<u>150,195</u>
Net change in fund balance - cash basis	(145,016)	(409,830)	44,917	454,747
Fund balance - cash basis, January 1	<u>670,131</u>	<u>670,131</u>	<u>670,131</u>	
Fund balance - cash basis, December 31	<u><u>\$ 525,115</u></u>	<u><u>\$ 260,301</u></u>	<u><u>\$ 715,048</u></u>	<u><u>\$ 454,747</u></u>

See accompanying notes to basic financial statements

**FINANCIAL CONDITION
PAULDING COUNTY**

**Statement of Fiduciary Net Assets - Cash Basis
As of December 31, 2006**

	<u>Agency Funds</u>
ASSETS	
Equity in pooled cash and investments	\$ 1,442,317
Equity in outside accounts	<u>442,038</u>
Total assets	<u>\$ 1,884,355</u>
Total net assets	<u>\$ 1,884,355</u>

See accompanying notes to basic financial statements

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006**

NOTE 1 – DESCRIPTION OF THE COUNTY AND REPORTING ENTITY

Paulding County Ohio (the County) is a political body established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The County is governed by a board of three Commissioners elected by the voters of the County. Other officials elected by the voters of the County that manage various segments of the County's operations are the Auditor, Treasurer, Recorder, Clerk of Courts, Coroner, Engineer, Prosecuting Attorney, Sheriff, Common Pleas Court Judge, Probate/Juvenile Court Judge, and the County Court Judge. Although each of the elected officials manage the internal operations of their respective departments, the County Commissioners authorize expenditures as well as serve as the budget and taxing authority, contracting body and chief administrator of public services for the County.

Reporting Entity

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

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

Component units are legally separate organizations for which the County is financially accountable. The County is financially accountable for an organization if the County appoints a voting majority of the organization's governing board and (1) the County is able to significantly influence the programs or services performed or provided by the organization; or (2) the County is legally entitled to or can otherwise access the organization's resources; (3) the County is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the County is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the County if the County approves the budget, the issuance of debt, or the levying of taxes. The County has one component unit, the Paulding County Hospital.

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

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

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

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 1 – DESCRIPTION OF THE COUNTY AND REPORTING ENTITY – (CONTINUED)

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

- Maumee Valley Planning Organization
- Tri-County Mental Health Board
- West Central Partnership, Inc.
- Antwerp Community Improvement Corporation
- Community Improvement Corporation of Paulding
- Four County Solid Waste District
- P.C. Workshop, Inc.
- County Risk Sharing Authority (See note 8)
- Paulding County Carnegie Library

Maumee Valley Planning Organization is a jointly governed organization between Defiance, Fulton, Henry, Paulding and Williams counties and their respective townships. Its purpose is to act as a joint regional planning commission to write and administer state and federal grants and assist with housing rehabilitation. The 15 member governing board includes one County Commissioner from each member county. The main source of revenue is fees charged to administer grants and a per capita amount from each county. In 2006, the County paid administrative fees of \$95,332 to the organization.

Tri-County Alcohol, Drug Addiction and Mental Health Board of Mercer, Paulding and Van Wert counties is a jointly governed organization that provides leadership in planning for and supporting community based alcohol, drug addiction and mental health services in each member county. The governing board consists of 18 members of which 10 are appointed by the County Commissioners of Mercer, Paulding and Van Wert counties in the same proportion as the county's population bears to the total population of the three counties combined. During 2006, a tax levy produced \$179,558 for the operations of the organization.

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

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

Four County Solid Waste District is a joint venture between Defiance, Fulton, Paulding and Williams counties for the purpose of making waste disposal in the four county area more comprehensive in terms of recycling, incinerating and land filling. Its governing board consists of three commissioners from each member county. Financial records are maintained by the Williams County auditor. The district's sole revenue source is a waste disposal fee. The County received \$100,000 from the District in 2006 to administer its local solid waste reduction program.

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 1 – DESCRIPTION OF THE COUNTY AND REPORTING ENTITY – (CONTINUED)

P.C. Workshop, Inc. is a related not-for-profit organization, with a self-appointing board of directors, organized to provide sheltered employment opportunities for mentally retarded and developmentally disabled persons in Paulding County. The County provides building space and administrative staff to the organization that was valued at \$120,310 for 2006. The entity issues stand alone financial statements that may be obtained by writing to P.C. Workshop, Inc., 900 West Caroline Street, Paulding, Ohio 45879.

Paulding County Carnegie Library is a distinct political subdivision of the state of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of trustees appointed by the Paulding County Court of Common Pleas. The Board of Trustees possesses its own contracting and budgeting authority, hires, and fires personnel, and does not depend on the County for operational subsidies. Although the County does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Paulding County Carnegie Library, Wilma Mullins, Clerk/Treasurer, at 205 South Main Street, Paulding, Ohio 45879-1492

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

Since fiscal year 2004 the County has implemented the provisions of GASB 34 for financial reporting on a cash basis, which is a basis of accounting other than generally accepted accounting principles, and GASB 38, for certain financial statement note disclosures. However, the implementation of this standard did not result in any changes to the County's financial statements. The County's basic financial statements consist of government-wide statements, including a statement of net cash and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

Government-wide Financial Statements

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

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

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Fund Financial Statements

The County routinely segregates transactions related to certain County functions or activities into separate funds in order to aid financial management or to demonstrate legal compliance. Fund financial statements are designed to report detailed information about the County at the fund level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

B. FUND ACCOUNTING

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

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

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

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

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

Jail Debt Service Fund – This fund accounts for property tax monies to pay for debt incurred in the construction of the new County jail.

Mental Retardation Development Disabilities Fund – This fund accounts for the operation of a school and the costs of administering a workshop for the mentally retarded and developmentally disabled. Revenue sources include a countywide property tax levy and federal and state grants.

Fiduciary Funds – Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four categories: 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The County's only fiduciary funds are agency funds which account for monies held for other governments and undistributed assets.

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

C. BASIS OF ACCOUNTING

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP), the County chooses to prepare its financial statements and notes on a cash basis of receipts and disbursements. The cash receipts and disbursements basis of accounting is a comprehensive basis of accounting other than GAAP. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the 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 cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case the GASB pronouncement prevails. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary disbursements when a commitment is made (i.e. when an encumbrance is approved). These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in this paragraph.

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

D. CASH RECEIPTS – EXCHANGE AND NON-EXCHANGE TRANSACTIONS

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

E. CASH DISBURSEMENTS

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

F. BUDGETARY PROCESS

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

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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

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

Budget

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

Estimated Resources

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

Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. The appropriation measure is the County Commissioners' authorization to spend resources and set annual limits on expenditures plus encumbrances at the level of control selected by the County Commissioners. The legal level of control has been established by County Commissioners at the fund, function, object level for all funds. Appropriations may not exceed estimated resources.

The allocation of appropriations among departments and objects within a fund may be modified during the year only by a resolution of the County Commissioners. Several supplemental appropriation resolutions were legally enacted during the year. The budget figures appearing in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Encumbrances

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

G. POOLED CASH AND INVESTMENTS

Cash balances of the County's funds and cash in segregated accounts, are pooled and invested in order to provide improved cash management.

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sale 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.

During fiscal year 2006, investments of the County Treasurer were limited to government securities, STAR Ohio, and certificates of deposit. These investments are reported at cost in these financial statements, except for Star Ohio.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investments purposes. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does not operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2006.

Interest is distributed based upon the Ohio Revised Code. Interest receipts credited to the general fund during the fiscal year 2006 was \$355,690 including \$305,532 assigned from other County funds.

H. INVENTORY AND PREPAID ITEMS

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

I. CAPITAL ASSETS

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

J. INTERFUNDS RECEIVABLES/PAYABLES

The County reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

K. COMPENSATED ABSENCES

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

L. 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 9 and 10, the employer contributions include portions for pension benefits and for postretirement health benefits.

M. LONG-TERM OBLIGATIONS

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

N. NET ASSETS

Net assets are reported as restricted when enabling legislation or creditors or laws or regulations of other governments have imposed limits on their use. The County first applies restricted resources when a disbursement is incurred for purpose for which both restricted and unrestricted net assets are available. Net assets restricted for other purposes primarily include activities involving the upkeep of the County's roads and bridges, various mental health services, child support and welfare services, services for the handicapped and mentally retarded, and activities of the County's courts. There are no amounts restricted by enabling legislation.

O. INTERFUND ACTIVITY

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

NOTE 3 – COMPLIANCE

The County prepared its 2006 financial report on a basis of accounting formerly prescribed or permitted by the Auditor of State instead of in accordance with generally accepted accounting principles contrary to the Ohio Administrative Code.

Contrary to Ohio Law the actual amounts available for appropriations were less than the amounts estimated in the official certificate of estimated resources and the current level of legislatively approved appropriations in the following amounts for the following funds: Public Assistance \$544,496, Jail Construction \$1,600,703, Jail Debt

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 3 – COMPLIANCE – (CONTINUED)

Service Fund \$2,873,137, Child Support Enforcement Agency \$89,192, Area 7 WIA \$8,779, and Nancy Sunday Tile Fund \$2,503. Additionally the County failed to budget estimated receipts and appropriate for expenditures for on-behalf grant activity in the Engineers fund in the amount of \$708,362.

Also, contrary to Ohio Law, proceeds from the 2006 Jail Debt Note of \$2,872,827, issued for the retirement of the 2005 Jail Construction Notes and debt service payments in the amount of \$2,984,731 were posted to the Jail Debt Construction fund rather than the Jail Debt Service Fund. In addition unsubstantiated net adjustments from the Jail Construction fund to the Jail Debt Service Fund resulted in a \$11,386 overstatement of the Jail Debt Service fund balance.

NOTE 4 – 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-Budgetary Basis presented 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 differences between the budgetary basis of accounting and the cash basis of accounting is that outstanding year end encumbrances are treated as expenditures (budgetary basis) rather than as a reservation of fund balances (cash basis). There were no encumbrances outstanding at year end (budgetary basis).

NOTE 5 – EQUITY IN CASH EQUIVALENTS AND INVESTMENTS

Monies held by the County are classified by State statute into two categories. Active monies are public monies determined to be necessary to meet current demand upon the County treasury. Active monies must be maintained either as cash in the County treasury, in commercial accounts payable upon demand or in money market deposit accounts.

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

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

- A. United States Treasury Notes, Bills, Bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States.
- B. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 5 – EQUITY IN CASH EQUIVALENTS AND INVESTMENTS – (CONTINUED)

Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days.

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

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

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

Cash On Hand

At December 31, 2006, the County had \$12,699 of undeposited cash on hand, which is included on the statement of net assets of the County as part of cash equivalents.

Deposits

At December 31, 2006, the carrying amount of all County deposits was \$4,539,742.

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 5 – EQUITY IN CASH EQUIVALENTS AND INVESTMENTS – (CONTINUED)

Custodial credit risk for deposits is the risk that in the event of bank failure, the County will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of December 31, 2006, \$2,365,985 of the County's bank balances of \$5,057,177 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the County's name.

The County has no deposit policy for custodial credit risk beyond the requirements of State statute. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution pools at Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the County.

Investments

At December 31, 2006, the County had the following investments:

<u>Investment Type</u>	<u>Cost Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>
Federal Home Loan Mortgage Corporate notes	\$ 1,584,603	\$ 249,200		\$ 843,750	\$ 491,653
Federal National Mortgage Association Notes	1,966,059	686,486	\$ 499,893	276,934	502,746
Federal Home Loan Bank	1,236,030	199,126	293,553		743,351
STAR Ohio	<u>1,609,591</u>	<u>1,609,591</u>			
Total Investments	<u>\$ 6,396,283</u>	<u>\$ 2,744,403</u>	<u>\$ 793,446</u>	<u>\$ 1,120,684</u>	<u>\$ 1,737,750</u>

Risks

Custodial Credit Risk – for an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the federal agency securities that are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the County's name. The County has no investment policy dealing with custodial credit risk beyond the requirements of State statute which prohibit payment for investments prior to delivery of the securities represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee.

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 5 – EQUITY IN CASH EQUIVALENTS AND INVESTMENTS – (CONTINUED)

Interest Rate Risk – For an investment, interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The County has no investment policy dealing with interest rate risks beyond the requirements of State statutes limiting investments by type and maturity. State statutes requires that an investment mature within five years from the date of purchase, unless matched with a specific obligation or debt of the County and that an investment must be purchased with the exception that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of securities must exceed the principal value of the agreement by at least 2% and be marked to market daily.

Credit Risk – The federal agency securities carry a rating of AAA by Moody’s. STAR Ohio carries a rating of AAA by Standard and Poor’s. The County has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Concentration of Risk – The County has no investment policy dealing with concentration of credit risk beyond the requirements of State statutes. Ohio law limits investments in commercial paper and bankers’ acceptances to 25% of the interim monies available for investment at any one time. The following table indicates the percentage of investments in the County’s portfolio held with various issuers:

	<u>Cost Value</u>	<u>Percentage of Portfolio</u>
Federal Home Loan Mortgage Corporation	\$ 1,584,603	24.8%
Federal National Mortgage Association	1,966,059	30.7%
Federal Home Loan Bank	1,236,030	19.3%

NOTE 6 – PROPERTY TAX

Real property taxes are levied against all real, public utility and tangible personal property located in the County. Property tax revenue received during 2006 for real and public utility property taxes represents collections of 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35% of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

Public utility tangible personal property currently is assessed at varying percentages of true value. Public utility real property is assessed at 35% of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are 18.75% of true value of capital assets and inventory.

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 6 – PROPERTY TAX – (CONTINUED)

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

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

Ohio House Bill 66, which became effective July 1, 2005, made changes to the property taxation structure. The bill eliminated the 10% rollback on most real property used in business (the 10% rollback remains for residential and agricultural real property). In addition, the tangible personal property tax will begin a four year phase-out starting in the tax year 2006 and ending with no tax due in 2009. This phase-out applies to most businesses and includes furniture and fixtures, machinery and equipment and inventory. New manufacturing machinery and equipment first reportable in 2006 and subsequent years is not subject to tangible personal property taxation.

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

The full tax rate applied to real property for the fiscal year ended December 31, 2006, was \$12.76 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$10.89 per \$1,000 of assessed valuation of real property classified as residential/agricultural and \$10.79 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the County by the State of Ohio. The assessed values of real property, public utility property, and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real Property:	
Residential/Agricultural	\$216,057,740
Commercial/Industrial	33,685,140
Public utilities	<u>197,280</u>
Total real property	<u>249,940,160</u>
Tangible Personal Property-2005 Valuation	
General	23,646,759
Public utility	<u>25,131,780</u>
Total tangible personal property	<u>48,778,539</u>
Total Valuation	<u>\$298,718,699</u>

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

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 7 – PERMISSIVE SALES AND USE TAX

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

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

Permissive sales and use tax revenue for 2006 was \$1,554,405.

NOTE 8 - RISK MANAGEMENT

A. PROPERTY AND LIABILITY

The County is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2006, the County contracted with County Risk Sharing Authority (CORSA), a risk sharing pool, for liability, property and crime insurance. The CORSA program has a \$2,500 deductible. CORSA provided coverage as follows:

<u>Property</u>		
Building and Contents		Replacement Cost
Valuable Papers		\$1,000,000
Extra Expense		\$1,000,000
Electronic Data Processing		Replacement Cost
Contractors Equipment		Actual Cash Value
Inland Marine		Actual Cash Value
Motortruck Cargo		\$100,000
Flood and Earthquake	\$100,000,000	Aggregate Pool Limit
Auto Physical Damage		Actual Cash Value
Automatic Acquisition		\$5,000,000
Boiler and Machinery	\$100,000,000	Each Accident
<u>Liability</u>		
Automobile Liability	\$1,000,000	Each Occurrence
Uninsured/Underinsured Motorists	\$250,000	Each Occurrence
General Liability	\$1,000,000	Each Occurrence
Stop Gap Liability	\$1,000,000	Each Occurrence
Law Enforcement Liability	\$1,000,000	Any One Claim
Errors and Omissions Liability	\$1,000,000	Annual Aggregate
Medical Professional Liability	\$6,000,000	Each Occurrence
<u>Crime</u>		
Employee Dishonesty/Faithful Performance	\$1,000,000	Each Loss
Money and Securities (inside)	\$1,000,000	Each Loss

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 8 - RISK MANAGEMENT – (CONTINUED)

With the exceptions of health insurance, life insurance, and workers' compensation, all insurance is held in CORSA. The County pays all elected officials' bonds by statute.

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

	<u>2006</u>	<u>2005</u>
Cash and Investments	\$ 55,634,376	\$ 60,912,381
Actuarial Liabilities	\$ 29,168,757	\$ 21,262,870

B. WORKERS COMPENSATION GROUP RATING PROGRAM

For 2006, the County participated in the County Commissioners' Association Organization Workers' Compensation Group Rating Program (the Program), an insurance purchasing pool.

The Program is intended to achieve lower workers' compensation rates while establishing safe working conditions and environments for the participants. The workers' compensation experience of the participating counties is calculated as one experience and a common premium rate is applied to all participants in the Program.

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

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

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

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. 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 percent 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 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement participating in the traditional plan, were required to contribute 9 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. The County's contribution rate for pension benefits for 2006 was 13.7 percent, except for those plan members in law enforcement or public safety. For those classifications, the County's pension contributions were 16.93 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, 2006, 2005, and 2004, were \$589,163, \$588,549 and \$598,600 respectively; 100 percent has been contributed for 2006, 2005, and 2004.

B. STATE TEACHERS RETIREMENT SYSTEM

The County participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strs.org.

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 9 - DEFINED BENEFIT PENSION PLANS – (CONTINUED)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended December 31, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The County was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The County's required contributions for pension obligations to STRS Ohio for the fiscal years ended December 2006, 2005, and 2004, were \$6,584, \$7,176, and \$6,654 respectively; 100 percent has been contributed for fiscal years 2006, 2005, and 2004.

NOTE 10 - POST EMPLOYMENT BENEFITS

A. 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 with either the traditional or combined plans. Health care coverage for disability recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 10 - POST EMPLOYMENT BENEFITS – (CONTINUED)

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$246,508. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 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. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

B. STATE TEACHERS RETIREMENT SYSTEM

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended December 31, 2006, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the County, this amount equaled \$506 for fiscal year 2006.

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 10 - POST EMPLOYMENT BENEFITS – (CONTINUED)

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

NOTE 11 – OTHER EMPLOYEE BENEFITS

Insurance Benefits

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

Sick Leave and Vacation Leave

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

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

Deferred Compensation

Employees of the County may elect to participate in the Ohio Public Employees Deferred Compensation program or the County Commissioners Association of Ohio program. Under these programs, employees authorize a voluntary payroll deduction, which is invested in a plan of their choice. The accumulated value of the account is not distributed to the employee until a future date, usually after retirement. The deferred pay and any income on it is not subject to income taxation until the distribution is made to the employee. These assets are placed in trust by the respective programs to comply with Internal Revenue Code provisions. Accordingly, these assets are not reflected in the accompanying financial statements. Employees of the County deferred \$189,054 under these two plans during 2006.

NOTE 12 – DEBT

A. SHORT-TERM DEBT

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

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 12 – DEBT – (CONTINUED)

	Interest Rate	Principal Outstanding 12/31/05	Additions	Reductions	Principal Outstanding 12/31/06
Governmental Activities					
<u>State Bank and Trust Company</u>					
Tax Anticipation Notes:					
CSEA Annex Building	4.48%	\$ 100,000	\$ 80,200	\$ (100,000)	\$ 80,200
General Obligation Notes:					
Holser Tax Incremental Financing	3.80%	6,554		(6,554)	
Stoller Tax Incremental Financing	3.80%	10,463		(10,463)	
Auglaize Sewer	4.61%	423,125	439,341	(423,125)	439,341
		<u>540,142</u>	<u>519,541</u>	<u>(540,142)</u>	<u>519,541</u>
<u>First Financial Bank</u>					
General Obligation Notes:					
Annex Renovation	4.61%	32,652	17,793	(32,652)	17,793
Zylstra Tax Incremental Financing	4.77%	89,100	84,219	(89,100)	84,219
Holser Tax Incremental Financing	4.77%		3,682		3,682
Stoller Tax Incremental Financing	4.77%		9,756		9,756
Cooper Farms Tax Incremental Financing	4.24%	33,000		(33,000)	
Schilderink Tax Incremental Financing	4.24%	100,000		(100,000)	
Jail Building	4.40%	296,000		(296,000)	
CIC Industrial Development	3.42%	35,000		(35,000)	
CIC Gasser Industrial Park	4.24%	64,000		(64,000)	
Martin-Snyder Ditch	4.24%	53,000		(53,000)	
Consolidated Ditch Financing	4.24%	86,000		(86,000)	
		<u>788,752</u>	<u>115,450</u>	<u>(788,752)</u>	<u>115,450</u>
<u>Antwerp Exchange Bank</u>					
General Obligation Notes:					
Consolidated Note	4.30%		190,454		190,454
CIC Industrial Development	3.90%		32,667		32,667
Consolidated Note	4.57%		214,200		214,200
Ditch Financing	3.75%	100,000		(100,000)	
Ditch Financing	4.10%	100,000		(100,000)	
		<u>200,000</u>	<u>437,321</u>	<u>(200,000)</u>	<u>437,321</u>
<u>First Federal Bank</u>					
General Obligation Notes:					
Eagle Creek-Wilson	4.39%		100,000		100,000
Jail Building (AEP Bldg.)	4.39%		309,148		309,148
			<u>409,148</u>		<u>409,148</u>
<u>Bond Anticipation Note</u>					
Jail Construction	4.00%		800,000		800,000
Jail Construction	4.50%	2,870,000	2,870,000	(2,870,000)	2,870,000
		<u>2,870,000</u>	<u>3,670,000</u>	<u>(2,870,000)</u>	<u>3,670,000</u>
Total		<u>\$ 4,398,894</u>	<u>\$ 5,151,460</u>	<u>\$ (4,398,894)</u>	<u>\$ 5,151,460</u>

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 12 – DEBT – (CONTINUED)

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

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

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

The Jail Construction bond anticipation notes are due February 14, 2007. The proceeds are to be used for the renovation/construction of a new county adult detention facility. Construction on the facility commenced in early 2006.

B. LONG-TERM DEBT

The original issue date, interest rate, original issue amount, and balance at December 31, 2006, for the County's long-term debt issues are as follows:

	<u>Original Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>
Hospital Improvement Bonds:			
Paulding County Hospital Improvements	2001	2.1 - 5.65%	\$ 1,900,000
Ohio Department of Transportation SIB Loan County Road Project	2004	3.00%	125,067
Ohio Public Works Commission Loans:			
County Road Resurfacing	1997	0.00%	159,623
County Road Paving	1999	0.00%	188,617
			<u>\$ 2,373,307</u>

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 12 – DEBT – (CONTINUED)

The County's long-term debt activity for the year ended December 31, 2006, was as follows:

	Balance 12/31/05	Additions	Reductions	Balance 12/31/06	Due Within One Year
Governmental Activities:					
Hospital Improvement Bonds:					
Paulding County Hospital Improvements	\$ 1,730,000		\$ (50,000)	\$ 1,680,000	\$ 50,000
Ohio Department of Transportation SIB Loan County Road Paving	125,067			125,067	6,974
Ohio Public Works Commission Loans:					
County Road Resurfacing	99,765		(11,970)	87,795	3,991
County Road Paving	132,032		(14,148)	117,884	4,715
Total OPWC Loans	<u>231,797</u>		<u>(26,118)</u>	<u>205,679</u>	<u>8,706</u>
Total Governmental Activities	<u>\$ 2,086,864</u>		<u>\$ (76,118)</u>	<u>\$ 2,010,746</u>	<u>\$ 65,680</u>

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

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

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

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2007	50,000	3.75%
2008	55,000	4.00%
2009	55,000	4.15%
2010	60,000	4.25%
2011	60,000	4.35%

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 12 – DEBT (CONTINUED)

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

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2012	\$ 65,000
2013	70,000
2014	75,000
2015	80,000
2016	85,000

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

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

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

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

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 12 – DEBT – (CONTINUED)

In 2004, the County obtained a SIB Loan for the local matching share of the County Road 144 project. The loans will be repaid from the Gas Tax special revenue fund beginning in July of 2007.

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

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

The County had available \$60,659 of credit to draw on the Auglaize Five Span Sewer loan at December 31, 2006, at an interest rate of 4.61%.

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

Years Ended December 31	Hospital Improvement Bonds		Ohio Public Works Commission Loans		Ohio Department of Transportation		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 50,000	\$ 88,205	\$ 8,706		6,974	3,724	\$ 65,680	\$ 91,929
2008	55,000	86,330	17,412		14,264	3,437	86,676	89,767
2009	55,000	84,130	17,412		14,695	3,005	87,107	87,135
2010-2014	330,000	380,708	87,060		80,414	8,090	497,474	388,798
2015-2019	450,000	282,656	75,088		8,720	131	533,808	282,787
2020-2024	505,000	147,256					505,000	147,256
2025-2026	235,000	19,525					235,000	19,525
	<u>\$ 1,680,000</u>	<u>\$ 1,088,810</u>	<u>\$ 205,678</u>		<u>\$ 125,067</u>	<u>\$ 18,387</u>	<u>\$ 2,010,745</u>	<u>\$ 1,107,197</u>

NOTE 13 – LEASE ARRANGEMENTS

The County leases construction equipment used by the Paulding County Engineer. Minimum payments due under non-cancelable leases during the next five years are:

2007	\$42,015
2008	42,015
2009	42,015
2010	42,015

Rental expense paid in 2006 was \$26,333.

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 13 – LEASE ARRANGEMENTS – (CONTINUED)

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

2007	\$34,230
2008	63,606
2009	63,606
2010	63,606

NOTE 14 – INTERFUND TRANSFERS

The interfund transfers for the year ended December 31, 2006, were as follows:

	Transfers In	Transfers Out
MAJOR FUNDS		
General Fund	\$ 2,662	\$ 50,000
NONMAJOR FUNDS		
Special Revenue Funds		
Child Services	50,000	
Victims Assistance	4,000	
Homeland Security 203	19,140	
County Court Probate Services		4,000
Homeland Security 208		19,140
Capital Project Funds		
Ditch Fund	57,696	6,348
Sunday Tile Project	6,348	
Out of County Ditch Maintenance		57,696
Gasser Road TIF		2,662
	137,184	89,846
TOTAL	\$ 139,846	\$ 139,846

Transfers are used to move receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and use unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 15 – PROVISION FOR COMPENSATED ABSENCES

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

**FINANCIAL CONDITION
PAULDING COUNTY**

**Notes to the Financial Statements
December 31, 2006
(Continued)**

NOTE 16 – CONTINGENT LIABILITIES

Grants

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

Legal Matters

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

**FINANCIAL CONDITION
PAULDING COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2006**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
<i>Child Nutrition Cluster:</i>			
School Breakfast Program	145706-05NP-2006	10.553	\$2,598
	145706-05NP-2007	10.553	176
			<u>2,774</u>
National School Lunch Program	145706-LLN4-2006	10.555	3,952
	145706-LLN4-2007	10.555	220
			<u>4,172</u>
Total U.S. Department of Agriculture			<u>6,946</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Special Education Grants to States	066183-6BSF-2006	84.027	10,636
State Grants for Innovative Programs	066183-C2S1-2005	84.298	33
	066183-C2S1-2006	84.298	5
			<u>38</u>
Total U.S. Department of Education			<u>10,674</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>			
Social Services Block Grant (Title XX)		93.667	16,007
Medical Assistance Program (Title XIX- CAFS)		93.778	54,585
Medical Assistance Program (Title XIX- TCM)		93.778	88,042
Medical Assistance Program (Title XIX- I/O Waiver)		93.778	154,067
Total Medical Assistance Program			<u>296,694</u>
Total Passed Through Ohio Department of MRDD			<u>312,701</u>
<i>Passed Through Ohio Department of Job and Family Services</i>			
Child Welfare Subsidy (Title IV-B)	63.6010.06	93.645	54,871
Child Welfare ESSA Family Preservation	63.6035.06	93.645	2,870
Child Welfare ESSA Family Reunification	63.6036.06	93.645	17,911
Total			<u>75,652</u>
Child Abuse and Neglect State Grants	63.6020.06	93.669	2,000
Total Passed Through Ohio Job and Family Services			<u>77,652</u>
<i>Passed Through Ohio Secretary of State</i>			
Voting Access for Individuals with Disabilities	06-SOS-HHHS-63	93.617	12,774
Total U.S. Department of Health and Human Services			<u>403,127</u>

The accompanying notes are an integral part of this schedule.

**FINANCIAL CONDITION
PAULDING COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2006**

FEDERAL GRANTOR <i>Pass Through Grantor</i>	Pass Through Entity Number	Federal CFDA Number	Disbursements
Program Title			
U.S. DEPARTMENT OF LABOR			
<i>Passed Through Montgomery County- WIA Area 7</i>			
<u>Workforce Investment Act Cluster:</u>			
Workforce Investment Act-Adult	63.1221.06	17.258	26,382
Workforce Investment Act- Youth	63.1202.06	17.259	17,462
Workforce Investment Act- Dislocated Worker	63.1222.06	17.260	28,932
Total U.S. Department of Labor			<u>72,776</u>
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Department of Transportation</i>			
Highway Planning and Construction	23087	20.205	425,421
Highway Planning and Construction	75195	20.205	168,311
Highway Planning and Construction	75196	20.205	114,630
Total U.S. Department of Transportation			<u>708,362</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>Passed Through the Ohio Emergency Management Agency</i>			
<u>State Homeland Security Cluster</u>			
State Homeland Security Program	2005-GE-T5-0001	97.073	20,111
State Homeland Security Program Equipment Funds Part 2	2003-MUP-30015	16.007	19,135
State Homeland Security Program Exercise Funds Part 2	2003-MUP-30015	16.007	725
			<u>19,860</u>
Total U.S. Department of Homeland Security			<u>39,971</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through the Ohio Department of Development</i>			
Community Development Block Grant (Formula)	B-F-04-058-1	14.228	39,729
Community Development Block Grant (Formula)	B-F-05-058-1	14.228	84,000
Community Development Block Grant (Chip)	B-C-04-058-1	14.228	100,675
Total			<u>224,404</u>
Home Investment Partnership Program (CHIP)	B-C-04-058-1	14.239	323,790
Total U.S. Department of Housing and Urban Development			<u>548,194</u>
U.S. DEPARTMENT OF JUSTICE			
<i>Passed Through the Ohio Office of Criminal Justice Services</i>			
Victims of Crimes Act Grant		16.575	44,347
Total			<u>\$1,834,397</u>

The accompanying notes are an integral part of this schedule.

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2006**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - SUBRECIPIENTS

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

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

NOTE C - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS

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

These loans are collateralized by mortgages on the property. At December 31, 2006, the gross amount of loans outstanding under this program was \$610,327.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require that the County 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.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Commissioners:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Paulding County, Ohio, (the County) as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon dated October 24, 2007, wherein, we noted the County uses a comprehensive basis of accounting other than generally accepted accounting principles and the County did not include financial data for the Paulding County Hospital. 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the County's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the County's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: findings 2006-001 through 2006-005.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the County's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding numbers 2006-001 through 2006-004 are also material weaknesses.

We also noted certain internal control matters that we reported to the County's management in a separate letter dated October 24, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the County's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 through 2006-004.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the County management in a separate letter dated October 24, 2007.

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the County's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the audit committee, management, Board of Commissioners, federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

October 24, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Commissioners:

Compliance

We have audited the compliance of Paulding 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 apply to each of its major federal programs for the year ended December 31, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the County's major federal programs. The County's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Paulding County complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2006. In a separate letter to the County's management dated October 24, 2007, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that the entity's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the County's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Mary Taylor, CPA
Auditor of State

October 24, 2007

**FINANCIAL CONDITION
PAULDING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Qualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Highway Planning and Construction CFDA 20.205 Home Investment Partnership Program CFDA 14.239.
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2006-001

Noncompliance Citation

Material Weakness

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

**FINDING NUMBER 2006-001
(Continued)**

Ohio Administrative Code §117-2-03 (B) requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. However, the County prepares 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. The County can be fined and various other administrative remedies may be taken against the County.

Officials Response: Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient.

FINDING NUMBER 2006-002

Noncompliance Citation

Material Weakness

Ohio Revised Code § 5705.10 (E) requires that all proceeds from the sale of public obligations shall be paid into a special fund for the purpose of such issue.

Ohio Revised Code § 5705.10 (H) requires that money paid into any fund shall be used only for the purposes for which the fund is established.

The proceeds from the 2006 Jail Debt Note issued for the retirement of the 2005 Jail Construction Notes in the amount of \$2,872,827 and the principal, interest and miscellaneous costs in the amount of \$2,984,731 associated with the retirement of the 2005 Jail Construction notes were incorrectly adjusted into the Jail Construction Fund from the Jail Debt Service Fund on the face of the financial statements.

Additionally there were unsubstantiated revenue and expenditure adjustments from the Jail Construction fund into the Jail Debt Service fund on the County's cash accounting records that amounted to an overstatement of fund balance in the Jail Debt Service fund and an understatement of fund balance in the Jail Debt Construction fund in the amount of \$11,386.

Improper reporting of revenue and expenditures could cause management to draw inaccurate conclusions regarding its fiscal position. Management has included audit adjustments in the accompanying financial statements and to their cash accounting records to correctly post these revenues and expenditures in the Jail Debt Service and Jail Construction Funds.

Financial activity should be properly reported in the accounting ledgers so that management can better assess whether or not financial goals are being met on an ongoing basis. As part of the monitoring process, management should review its records to make sure that all amounts are properly reflected in the appropriate funds.

Officials Response: Management understands and agrees with the citation and will make the necessary corrections.

FINDING NUMBER 2006-003

Noncompliance Citation

Material Weakness

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

Ohio Revised Code § 5705.41(B) states in part that no subdivision is to expend money unless it has been appropriated as provided in this chapter. As of December 31, 2005, the County had not appropriated for expenditures from the Engineer's Construction Capital Projects Fund. As a result expenditures exceeded appropriations by \$708,362 in that fund.

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

Officials Response: Management understands the citation and will make the necessary budgetary approvals.

FINDING NUMBER 2006-004

Noncompliance Citation

Material Weakness

Ohio Revised Code § 5705.36 (A) (2) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be greater or less than the amount included in an official certificate, the fiscal officer may certify the amount of the deficiency or excess to the Commission, and if the Commission determines that the fiscal officer's certification is reasonable, the Commission shall certify an amended official certificate reflecting the deficiency or excess.

Ohio Revised Code § 5705.36 (A) (4) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the Commission, and the Commission shall certify an amended certificate reflecting the deficiency.

Additionally, Ohio Revised Code § 5705.39, states in part that the total appropriations from each fund shall not exceed the total of the estimated resources available for expenditures as certified by the budget commission or in case of appeal, by the board of tax appeals.

The actual amounts available for appropriations were less than the amounts estimated in the official certificate and the current level of appropriations in the following funds:

**FINDING NUMBER 2006-004
 (Continued)**

	<u>Actual Resources</u>	<u>Estimated Resources</u>	<u>Total Appropriations</u>
Jail Construction	\$ 5,087,326	\$ 8,169,747	\$ 6,688,029
Jail Construction Debt Service	3,013,910	5,900,000	5,887,047
Public Assistance	1,514,942	2,059,438	2,059,438
Child Support Enforcement Agency	385,008	490,460	474,200
Area 7 WIA	126,221	143,997	135,000
Nancy Sunday Tile	13,647	16,300	16,150

When estimated resources are allowed to remain higher than actual available resources it increases the possibility that appropriations may be unrealistically inflated which could result in deficit spending.

The County Auditor should have requested an amended certificate of estimated resources from the commission which would have reduced the estimated resources to the level of the actual resources available for appropriations. Appropriations in these funds should have also been reduced to the level of the actual resources available for appropriations. Actual expenditures were less than actual resources for all the funds listed above.

We recommend that County Auditor compare actual revenues with estimated revenues during the year and make changes when necessary.

Officials Response: Management understands the citation and will implement budgetary review procedures in an attempt to strengthen the budgetary process.

FINDING NUMBER 2006-005

Significant Deficiency

Financial Reporting

The County has elected to present its financial statements according to the American Institute of Certified Public Accountant’s interpretation; it must adjust its financial statements to substantially conform to the display and now applicable disclosure requirements of Generally Accepted Accounting Principles (GAAP). According to the interpretation, the cash basis financial statement presentation must “look like” a GAAP presentation (i.e., GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, once it became effective).

The presentation requires that a statement of activities is presented in a format that reports the net (disbursements) receipts of the County’s individual functions (General Government, Public safety, etc) with the objective to report the relative financial burden of the County’s functions to its taxpayers.

In order to achieve this, certain revenues that derive directly from the function itself or from parties outside the County's taxpayers or citizenry and help to reduce the net cost of the function are presented as program revenues.

**FINDING NUMBER 2006-005
(Continued)**

The following presentation errors were noted on the statement of activities:

1. Homestead and rollback, public utility, and personal property tax received from the State in the amount of \$127,558 applicable to in the Mental Retardation/Developmental Disabilities Fund and solid waste grant revenue and Jobs and Family Services revenue from Williams and Montgomery Counties respectively, in the amount of \$212,224 were presented as general revenues instead of program revenues.
2. Special assessments in the amount of \$390,905 were reclassified as charges for services instead of operating grants and contributions.
3. Real estate assessment charges in the amount of \$184,942 were presented as program revenue instead of general revenues.

The following errors were noted in the Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balance:

1. Homestead and rollback, public utility, and personal property tax received from the State in the amount of \$127,558 applicable to in the Mental Retardation/Developmental Disabilities Fund was posted as property tax revenue rather than intergovernmental.
2. Special assessments in the amount of \$390,905 were recorded as charges for services.

The final budgeted appropriations of \$426,231 were posted to the transfers out line item rather than the miscellaneous expenditure line item on the Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balance – Budget Basis for the General Fund.

Sound financial reporting is the responsibility of the fiscal officer and governing board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

To ensure the County's financial statements and notes to the statements are complete and accurate, the County should adopt policies and procedures, including a final review of the statements and notes by the County Auditor, to identify and correct errors and omissions.

Officials' Response: Management will implement a final review process to check for material errors and omissions to the financial statements and notes.

3. FINDINGS FOR FEDERAL AWARDS

None.

**FINANCIAL CONDITION
PAULDING COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
Finding 2005-001	Revised Code § 117.38- filing of reports on a GAAP basis	No	Not corrected. Reissued as finding 2006-001.
Finding 2005-002	Revised Code § 5705.36(A)(2), (A)(4) and 5705.39- actual amounts available for appropriations were less than the amounts estimated in the official certificate and the current level of appropriations	No	Not corrected. Revised and reissued as finding 2006-004.



Mary Taylor, CPA
Auditor of State

FINANCIAL CONDITION

PAULDING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 27, 2007**