



**Auditor of State
Betty Montgomery**

**FINANCIAL CONDITION
PAULDING COUNTY**

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**Auditor of State
Betty Montgomery**

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 governmental fund, and the aggregate remaining fund information of Paulding County, Ohio (the County), as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We 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 modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

The financial statements do not include financial data for the Paulding County Hospital, the County's 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, 2005, and its changes in modified cash financial position for the year then ended.

Finally, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Paulding County, Ohio, as of December 31, 2005, and the respective changes in modified cash financial position and the respective budgetary comparison for the General, Motor Vehicle Gasoline Tax and Mental Retardation/Developmental Disabilities Board Funds and 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 23, 2006, 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 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.



Betty Montgomery
Auditor of State

October 23, 2006

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
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, 2005. 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 District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2005 are as follows:

- In total, net assets increased \$862,433, which represents a 10% increase over fiscal year 2004.
- The 2005 general fund revenue exceeded expenditures by \$131,375, which represents a 12% increase over fiscal year 2004. The 2005 general fund beginning cash balance was \$1,070,292 whereas the ending cash balance was \$1,201,667.
- The County's major funds included the General, Motor Vehicle Gasoline Tax, Jail Construction Fund, and Mental Retardation Development Disabilities Fund.

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 modified 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- modified cash basis and the statement of activities- modified 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 and MRDD funds.

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 modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the County's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

As a result of using the modified 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 modified cash basis of accounting.

Reporting the County as Whole

Statement of Net Assets and Statement of Activities

The statement of net assets- modified cash basis and statement of activities- modified cash basis reflect how the County did financially during fiscal year 2005. These statements include only net assets using the modified 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 modified cash basis. This change in net cash assets is important because it tells the reader that, for the County as a whole, the modified 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 modified 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 modified 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 modified 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.

In the statement of net assets- modified cash basis and the statement of activities- modified 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 and human services.

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

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 and MRDD 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 modified 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 modified cash basis financial resources that can be readily spent to finance various County programs. Since the County is reporting on the modified 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 – Modified Cash Basis due to transfers between governmental funds being eliminated for reporting in the Statement of Activities – Modified Cash Basis.

The County's budgetary process accounts for certain transactions on a modified 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.

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.

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

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 2005 compared to the prior year. Certain balances in 2004 have been restated due to the reclassification of agency funds into the governmental funds as described in Note 3 of the notes to the financial statements.

Net Assets- Modified Cash Basis Governmental Activities		<u>2005</u>	<u>Restated 2004</u>
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$	<u>9,225,737</u>	\$ <u>8,363,304</u>
Total Assets		<u>9,225,737</u>	<u>8,363,304</u>
<u>Net Assets</u>			
Restricted		8,024,070	7,293,012
Unrestricted		<u>1,201,667</u>	<u>1,070,292</u>
Total Net Assets	\$	<u><u>9,225,737</u></u>	\$ <u><u>8,363,304</u></u>

Net cash assets of governmental activities increased \$862,433, which represents a 10.31% increase over fiscal year 2004. The increase is a result of decreased spending over fiscal year 2005.

A portion of the County's net cash assets, \$8,024,070, 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 \$1,201,667 may be used to meet the government's ongoing obligations to citizens and creditors.

Table 2 reflects the changes in net assets from the prior fiscal year. Certain balances in 2004 have been restated due to the reclassification of agency funds into the governmental funds as described in Note 3 of the notes to the financial statements.

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

	Change in Net Cash Assets	
	Governmental Activities 2005	Governmental Activities 2004
	<u>2005</u>	<u>2004</u>
Cash Receipts:		
Program Cash Receipts:		
Charges for Services and Sales	\$ 1,873,926	\$ 1,994,315
Operating Grants and Contributions	6,793,270	6,271,813
Capital Grants and Contributions	<u>1,195,321</u>	<u>3,698,671</u>
Total Program Cash Receipts	<u>9,862,517</u>	<u>11,964,799</u>
General Cash Receipts:		
Property Taxes	2,537,550	2,543,769
Sales Tax	1,687,374	1,582,158
Unrestricted Grants	394,550	394,553
Proceeds from Sale of Notes	4,424,409	4,668,440
Interest Receipts	314,422	134,472
Miscellaneous	<u>1,534,501</u>	<u>1,507,157</u>
Total General Cash Receipts	<u>10,892,806</u>	<u>10,830,549</u>
Total Cash Receipts	<u>20,755,323</u>	<u>22,795,348</u>
Cash Disbursements:		
General Government	2,699,982	2,319,965
Public Safety	2,111,883	1,891,747
Public Works	4,485,474	6,957,260
Health	1,481,230	1,596,543
Human Services	2,777,308	2,847,422
Conservation and Recreation	49,902	51,099
Miscellaneous	536,317	1,367,262
Capital Outlay	734,120	1,095,878
Debt Service:		
Principal Retirement	4,670,143	2,175,970
Interest and Fiscal Charges	203,146	141,104
Other Financing Uses	<u>143,385</u>	<u> </u>
Total Cash Disbursements	<u>19,892,890</u>	<u>20,444,250</u>
Change in Net Cash Assets	862,433	2,351,098
Net Cash Assets at Beginning of Year (Restated 2005)	<u>8,363,304</u>	<u>5,730,547</u>
Net Cash Assets at End of Year	<u>\$ 9,225,737</u>	<u>\$ 8,081,645</u>

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Governmental cash assets increased by \$862,433 in 2005. This increase is primarily due to a concentrated effort to hold down disbursements in 2005, which decreased by \$551,360.

The County program, Public Works, accounted for \$4,485,474 or 22.55% of total governmental cash disbursements. Public Works programs relate to betterment of county roads and related infrastructure. Public Works programs were supported by \$4,377,835 in direct charges to users, operating grants and contributions and capital grants and contributions.

Principal retirements accounted for \$4,670,143 or 23.48% 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.

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 2005. It identifies the cost of these services supported by tax receipts and unrestricted state grants and entitlements.

Table 3
Governmental Activities- Modified Cash Basis

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Cash Disbursements:				
General Government	2,699,982	2,319,965	1,322,753	1,332,292
Public Safety	2,111,883	1,891,747	1,791,155	1,795,077
Public Works	4,485,474	6,957,260	107,639	613,183
Health	1,481,230	1,596,543	670,156	1,051,128
Human Services	2,777,308	2,847,422	808,733	737,510
Conservation and Recreation	49,902	51,099	8,903	15,099
Miscellaneous	536,317	1,367,262	177,335	622,993
Capital Outlay	734,120	1,095,878	127,025	(4,905)
Debt Service:				
Principal Retirement	4,670,143	2,175,970	4,670,143	2,175,970
Interest and Fiscal Charges	203,146	141,104	203,146	141,104
Other Financing Uses	143,385		143,385	
Total Cash Disbursements	19,892,890	20,444,250	10,030,373	8,479,451

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

The dependence upon general cash receipts for governmental activities is apparent; with 50.42% of cash disbursements supported through taxes and other general cash receipts during 2005.

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 modified cash basis of accounting.

The County's governmental funds reported a combined fund cash balance of \$9,225,737, which is \$862,433 above last year's total of \$8,363,204. The schedule below indicates the fund cash balance and the total change in fund cash balance as of December 31, 2005, and December 31, 2004, for all major and nonmajor governmental funds.

	Fund Cash Balance at <u>12/31/05</u>	Restated Fund Cash Balance at <u>12/31/04</u>	Increase (Decrease)
Major Funds:			
General	\$ 1,201,667	\$ 1,070,292	\$ 131,375
Motor Vehicle Gasoline Tax	797,697	311,758	485,939
Jail Construction	2,757,747	2,817,204	(59,457)
MRDD	670,131	363,006	307,125
Other Nonmajor Governmental Funds	<u>3,798,495</u>	<u>3,801,044</u>	<u>(2,549)</u>
 Total	 <u>\$ 9,225,737</u>	 <u>\$ 8,363,304</u>	 <u>\$ 862,433</u>

The General fund is the main operating fund of the county. At the end of 2005, receipts of \$4,106,190 and disbursements of 3,974,815 resulted in an increase of \$131,375 to the unreserved fund balance of the general fund to the amount of \$1,201,667. The increase is a result in an increase in interest earnings and sales tax collections along with an effort to reverse the historical practice of recording reimbursements as revenues by implementing 'reduction of expenditure' procedures.

The motor vehicle gasoline tax fund reported \$3,840,346 of revenue from gasoline tax, motor vehicle registration fees and other revenues. \$3,354,407 was expended for road and bridge repairs, maintenance and debt principal payments. This resulted in an increase of \$485,939 primarily due to the receipt of more gasoline tax and motor vehicle registration fees.

The jail construction fund cash balance decreased by \$59,457 which was a result of a retirement and re-issuance of \$2,800,000 bond anticipation notes which are being used for the construction of the county jail facility.

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

The mental retardation developmental disabilities board fund reported \$1,746,877 in revenue and disbursements of \$1,439,752 resulted in an increase of \$307,125 to the fund balance. The increase is primarily due to increasing revenues still being greater than increased expenditures and to the wrap up of the Title XIX Medicaid program.

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 \$4,201,253. Actual cash receipts were \$96,595 less than budget estimates mainly due to less than anticipated revenues from other miscellaneous revenues. Final budget basis disbursement increased approximately 2% to \$4,212,862. Actual expenditures were \$3,974,815 resulting in a difference of \$238,047 or 4.5%. 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 \$734,120

Debt Administration

The County had the following long-term debt obligations outstanding at December 31, 2005:

	Governmental Activities
Hospital Improvement Bonds	\$1,730,000
Ohio Public Works Commission Loans	231,796
Ohio Department of Transportation SIB Loan	125,067
Total Long-term Obligations	<u><u>\$2,086,863</u></u>

In addition, the County has tax anticipation, general obligation and bond anticipation notes outstanding in the amounts of \$102,500, \$1,428,885 and \$2,870,000 respectively.

**FINANCIAL CONDITION
PAULDING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
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 Bill Bolenbaugh, Paulding County Auditor at 115 N. Williams Street, Paulding, Ohio 45879-1284.

**FINANCIAL CONDITION
PAULDING COUNTY**

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

	<u>Governmental Activities</u>
ASSETS	
Equity in pooled cash and investments	\$ 9,219,326
Equity in outside accounts	<u>6,411</u>
Total assets	<u><u>\$ 9,225,737</u></u>
NET ASSETS	
Restricted for:	
Debt service	\$ 110,290
Capital projects	3,693,976
Other purposes	4,219,804
Unrestricted	<u>1,201,667</u>
Total net assets	<u><u>\$ 9,225,737</u></u>

See accompanying notes to basic financial statements

**FINANCIAL CONDITION
PAULDING COUNTY**

**Modified Cash Basis Assets and Fund Balance
As of December 31, 2005**

	General Fund	Motor Vehicle Gasoline Tax Fund	Jail Construction Fund	Mental Retardation Developmental Disabilities Board Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Equity in pooled cash and investments	\$ 1,201,667	\$ 797,697	\$ 2,757,747	\$ 670,131	\$ 3,792,084	\$ 9,219,326
Equity in outside accounts					6,411	6,411
Total assets	<u>\$ 1,201,667</u>	<u>\$ 797,697</u>	<u>\$ 2,757,747</u>	<u>\$ 670,131</u>	<u>\$ 3,798,495</u>	<u>\$ 9,225,737</u>
FUND BALANCES						
Unreserved:						
Undesignated, Reported in:						
General Fund	\$ 1,201,667					\$ 1,201,667
Special Revenue Funds		\$ 797,697		\$ 670,131	\$ 2,751,976	4,219,804
Debt Service Fund					110,290	110,290
Capital Projects Funds			<u>\$2,757,747</u>		<u>936,229</u>	<u>3,693,976</u>
Total Fund Balances	<u>\$ 1,201,667</u>	<u>\$ 797,697</u>	<u>\$ 2,757,747</u>	<u>\$ 670,131</u>	<u>\$ 3,798,495</u>	<u>\$ 9,225,737</u>

See accompanying notes to basic financial statements

**FINANCIAL CONDITION
PAULDING COUNTY**

**Statement of Cash Receipts, Cash Disbursements and Changes
in Modified Cash Basis Fund Balances - Governmental Funds
For the year ended December 31, 2005**

	General Fund	Motor Vehicle Gasoline Tax	Jail Construction Fund	Mental Retardation Developmental Disabilities Board	Other Governmental Funds	Total Governmental Funds
Cash Receipts						
Property taxes	\$ 932,031			\$ 951,804	\$ 653,715	\$ 2,537,550
Sales taxes	1,687,374					1,687,374
Charges for service	546,255				545,970	1,092,225
Licenses and permits	1,475				73,330	74,805
Fines and forfeitures	198,756	\$ 29,844			176,121	404,721
Special Assessments					299,298	299,298
Intergovernmental	394,551	3,477,290		752,170	3,847,306	8,471,317
Interest	228,229		\$ 86,193			314,422
Other	115,987	333,212		42,903	957,100	1,449,202
Total cash receipts	<u>4,104,658</u>	<u>3,840,346</u>	<u>86,193</u>	<u>1,746,877</u>	<u>6,552,840</u>	<u>16,330,914</u>
Cash Disbursements						
General government						
Legislative and executive	1,363,270				472,682	1,835,952
Judicial	638,692				225,338	864,030
Public safety	1,398,741				713,142	2,111,883
Public works	16,541	3,345,701			1,123,232	4,485,474
Health	7,848			1,439,752	33,630	1,481,230
Human services	117,407				2,659,901	2,777,308
Conservation and recreation	500				49,402	49,902
Miscellaneous	121,429		4,297		410,591	536,317
Capital outlay	23,041		159,574		551,505	734,120
Debt service						
Principal		8,706	2,800,000		1,861,437	4,670,143
Interest			69,806		133,340	203,146
Total cash disbursements	<u>3,687,469</u>	<u>3,354,407</u>	<u>3,033,677</u>	<u>1,439,752</u>	<u>8,234,200</u>	<u>19,749,505</u>
Excess (deficiency) of cash receipts over (under) cash disbursements	<u>417,189</u>	<u>485,939</u>	<u>(2,947,484)</u>	<u>307,125</u>	<u>(1,681,360)</u>	<u>(3,418,591)</u>
Other Financing Sources (Uses)						
Advances in	1,532				635	2,167
Advances out	(635)				(1,532)	(2,167)
Transfers in					196,984	196,984
Transfers out	(143,326)				(53,658)	(196,984)
Proceeds from sale of notes			2,888,027		1,536,382	4,424,409
Other Uses	(143,385)					(143,385)
Total other financing sources (uses)	<u>(285,814)</u>		<u>2,888,027</u>		<u>1,678,811</u>	<u>4,281,024</u>
Net change in fund balance - cash basis	131,375	485,939	(59,457)	307,125	(2,549)	862,433
Fund balance - cash basis, January 1 (restated)	1,070,292	311,758	2,817,204	363,006	3,801,044	8,363,304
Fund balance - cash basis, December 31	<u>\$ 1,201,667</u>	<u>\$ 797,697</u>	<u>\$ 2,757,747</u>	<u>\$ 670,131</u>	<u>\$ 3,798,495</u>	<u>\$ 9,225,737</u>

See accompanying notes to basic financial statements

**FINANCIAL CONDITION
PAULDING COUNTY**

**Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
For the year ended December 31, 2005**

	General Fund			Variance with Final Budget
	Original Budget	Final Budget	Actual	
Cash Receipts				
Property Taxes	\$ 902,790	\$ 902,790	\$ 932,031	\$ 29,241
Sales Taxes	1,676,610	1,676,610	1,687,374	10,764
Charges for service	574,800	574,800	546,255	(28,545)
Licenses and permits	2,000	2,000	1,475	(525)
Fines and forfeitures	235,500	235,500	198,756	(36,744)
Intergovernmental	394,553	394,553	394,551	(2)
Interest	228,250	228,250	228,229	(21)
Other	186,750	186,750	115,987	(70,763)
Total cash receipts	<u>4,201,253</u>	<u>4,201,253</u>	<u>4,104,658</u>	<u>(96,595)</u>
Cash Disbursements				
General government				
Legislative and executive	1,388,562	1,432,555	1,363,270	69,285
Judicial	632,766	679,561	638,692	40,869
Public safety	1,473,777	1,475,314	1,398,741	76,573
Public works	14,838	16,643	16,541	102
Health	6,516	7,848	7,848	
Human services	122,666	132,746	117,407	15,339
Conservation and recreation	500	500	500	
Miscellaneous	149,573	157,308	121,429	35,879
Capital outlays	49,694	23,041	23,041	
Total cash disbursements	<u>3,838,892</u>	<u>3,925,516</u>	<u>3,687,469</u>	<u>238,047</u>
Excess of cash receipts over cash disbursements	<u>362,361</u>	<u>275,737</u>	<u>417,189</u>	<u>141,452</u>
Other Financing Sources (Uses)				
Advances in			1,532	1,532
Advances out	(635)	(635)	(635)	
Transfers out	(143,326)	(143,326)	(143,326)	
Other Uses	(143,385)	(143,385)	(143,385)	
Total other financing sources (uses)	<u>(287,346)</u>	<u>(287,346)</u>	<u>(285,814)</u>	<u>1,532</u>
Net change in fund balance - cash basis	75,015	(11,609)	131,375	142,984
Fund balance - cash basis, January 1	<u>1,070,292</u>	<u>1,070,292</u>	<u>1,070,292</u>	
Fund balance - cash basis, December 31	<u>\$ 1,145,307</u>	<u>\$ 1,058,683</u>	<u>\$ 1,201,667</u>	<u>\$ 142,984</u>

See accompanying notes to basic financial statements

**FINANCIAL CONDITION
PAULDING COUNTY**

**Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
For the year ended December 31, 2005**

	Motor Vehicle Gasoline Tax Fund			Variance with Final Budget
	Original Budget	Final Budget	Actual	
Cash Receipts				
Fines and forfeitures	\$ 30,000	\$ 30,000	\$ 29,844	\$ (156)
Intergovernmental	3,400,250	3,400,250	3,477,290	77,040
Other	268,271	268,271	333,212	64,941
Total cash receipts	<u>3,698,521</u>	<u>3,698,521</u>	<u>3,840,346</u>	<u>141,825</u>
Cash Disbursements				
Public works	3,622,229	3,857,881	3,345,701	512,180
Debt service				
Principal	17,412	17,412	8,706	8,706
Total cash disbursements	<u>3,639,641</u>	<u>3,875,293</u>	<u>3,354,407</u>	<u>520,886</u>
Net change in fund balance - cash basis	58,880	(176,772)	485,939	662,711
Fund balance - cash basis, January 1	<u>311,758</u>	<u>311,758</u>	<u>311,758</u>	
Fund balance - cash basis, December 31	<u><u>\$ 370,638</u></u>	<u><u>\$ 134,986</u></u>	<u><u>\$ 797,697</u></u>	<u><u>\$ 662,711</u></u>

See accompanying notes to basic financial statements

**FINANCIAL CONDITION
PAULDING COUNTY**

**Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
For the year ended December 31, 2005**

	Mental Retardation/Developmental Disabilities Board			Variance with Final Budget
	Original Budget	Final Budget	Actual	
Cash Receipts				
Property taxes	\$ 975,500	\$ 975,500	\$ 951,804	\$ (23,696)
Intergovernmental	632,100	1,074,261	752,170	(322,091)
Other	32,000	32,000	42,903	10,903
Total cash receipts	1,639,600	2,081,761	1,746,877	(334,884)
Cash Disbursements				
Health	1,624,240	1,696,948	1,439,752	257,196
Net change in fund balance - cash basis	15,360	384,813	307,125	(77,688)
Fund balance - cash basis, January 1	363,006	363,006	363,006	
Fund balance - cash basis, December 31	\$ 378,366	\$ 747,819	\$ 670,131	\$ (77,688)

See accompanying notes to basic financial statements

**FINANCIAL CONDITION
PAULDING COUNTY**

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

	<u>Agency Funds</u>
ASSETS	
Equity in pooled cash and investments	\$ 1,318,525
Equity in outside accounts	<u>125,625</u>
Total assets	<u>\$ 1,444,150</u>
Total net assets	<u>\$ 1,444,150</u>

See accompanying notes to basic financial statements

**FINANCIAL CONDITION
PAULDING COUNTY**

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

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 (GASB) Statement Number 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; the County is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the County is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the County in that 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 BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(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 9)
- 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 2005, the County paid administrative fees of \$28,807 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 2005, a tax levy produced \$189,402 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 \$70,125 from the District in 2005 to administer its local solid waste reduction program.

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(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 \$112,560 for 2005. 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, Wanda 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 Statement No. 34 for financial reporting on a cash basis, which is a basis of accounting other than generally accepted accounting principles, and GASB Statement No.38, for certain financial statement note disclosures. However, the implementation of this statement 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 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 BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(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. Fiduciary Funds are reported by fund type.

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.

Mental Retardation Developmental 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 classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the County under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the County's own programs. 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 BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(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 modified cash basis of receipts and disbursements. The modified 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 modified cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. 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 BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

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

All funds, other than agency funds, 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 level for the General Fund and the fund level for all other 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 BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(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 sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenues) respectively.

During fiscal year 2005, investments of the County Treasurer were limited to government securities, STAR Ohio and certificates of deposit. These investments, except for STAR Ohio, are reported at cost in the financial statements.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does 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, 2005.

Interest is distributed based upon the Ohio Revised Code. Interest receipts credited to the general fund during the fiscal year 2005 was \$228,229 including \$192,797 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. INTERFUND 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 BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(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 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care 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. The County's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

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– CHANGE IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENT

For 2005, the County has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosure".

GASB Statement No. 40 establishes and modifies the disclosure requirements related to deposit and investment risks. The implementation of this statement did not result in any changes to the County's financial statements.

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 3– CHANGE IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENT – (Continued)

Three County Court funds were reclassified from agency funds to special revenue funds to more accurately reflect legally restricted revenues benefiting the County. The effect of this prior period adjustment on fund balance of the other governmental funds and total governmental activities is as follows:

	Other Governmental Funds	Governmental Activities
Fund Balance December 31, 2004	\$3,519,385	\$8,081,645
Fund Reclassification	281,659	281,659
Adjusted Fund Balance	\$3,801,044	\$8,363,304

NOTE 4– COMPLIANCE

The County prepared its 2005 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 \$298,701, Children Services \$36,486, Extension Center \$4,623, Community Development Block Grant \$214,865, Enforcement and Education \$94, Victims Assistance Fund \$12,296, License Bureau \$28,375, FY02 Terror Support \$1,553, Juvenile Court Diversion \$370, Pre-Disaster \$4,449 and Defiance-Paulding Joint Sewer Fund \$54,512.

NOTE 5 - 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 difference between the budgetary basis and the modified cash basis is outstanding year end encumbrances are treated as expenditures (budgetary basis) rather than as a reservation of fund balance (modified cash basis)). There are no encumbrances outstanding at year end (budgetary basis).

NOTE 6 – 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.

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 6 – EQUITY IN CASH EQUIVALENTS AND INVESTMENTS – (Continued)

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.
- C. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days.
- D. 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.
- E. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts.
- F. 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.
- G. The State Treasurer's investment pool (STAR Ohio).
- H. 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.
- I. High-grade commercial paper in an amount not to exceed five percent of the County's total average portfolio.
- J. Bankers' acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the County's total average portfolio.

Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the 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.

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 6 – EQUITY IN CASH EQUIVALENTS AND INVESTMENTS – (Continued)

Cash On Hand

At December 31, 2005, the County had \$2,628 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, 2005, the carrying amount of all County deposits was \$4,820,166.

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. At year end, \$1,111,775 of the County's bank balance of \$5,309,007 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 risk beyond the requirements of State statute. Custodial credit risk is the risk that, in the event of bank failure, the County's deposits may not be returned. 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 collateral 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

As of December 31, 2005, the County had the following investments:

Investment Type	Cost Value	Investment Maturities			
		6 months or less	7 to 12 months	13 to 18 months	19 to 24 months
Federal Farm Credit Bank Notes	\$787,580	\$248,243	\$539,337		
Federal Farm Credit Bank Bonds	146,988		146,988		
Federal National Mortgage Association Notes	985,668	735,775			249,893
Federal Home Loan Mortgage Corporation Notes	1,943,275	988,582	705,493	249,200	
Federal Home Loan Bank Bonds	594,344		594,344		
STAR Ohio	1,389,238	1,389,238			
Total Investments	\$5,847,093	\$3,361,838	\$1,986,162	\$249,200	\$249,893

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 6 – 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 risk beyond the requirements of State statute limiting investments by type and maturity. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the County and that an investment must be purchased with the expectation 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 the 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.

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 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 the delivery of the securities representing the investments to the Treasurer or qualified trustee. If the securities transferred are not 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.

Concentration of Credit Risk- The County places no limit on the amount the County may invest in one issuer, however State statute 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 to the County's total portfolio:

	Cost Value	Percentage of Portfolio
Federal Farm Credit Bank	\$934,568	15.9
Federal National Mortgage Association	985,668	16.8
Federal Home Loan Mortgage Corporation	1,943,275	33.2
Federal Home Loan Bank	594,344	10.1

NOTE 7 – 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 2005 for real and public utility property taxes represents collections of 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

2005 real property taxes are levied after October 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35% of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 7 – PROPERTY TAX – (Continued)

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. 2005 public utility property taxes became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25% of true value for capital assets and 23% of true value for inventory.

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, 2005, was \$12.26 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$10.23 per \$1,000 of assessed valuation of real property classified as residential/agricultural and \$9.97 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.

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 7 – PROPERTY TAX – (Continued)

The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property:	
Residential/Agricultural	\$212,330,690
Commercial/Industrial	33,684,480
Public utilities	<u>201,570</u>
Total real property	<u>246,216,740</u>
Tangible Personal Property-2004 Valuation	
General	24,618,068
Public utility	<u>25,544,860</u>
Total tangible personal property	<u>50,162,928</u>
Total Valuation	<u>\$296,379,668</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.

NOTE 8 – 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 2005 was \$1,687,374.

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 9 - 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 2004, 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	

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. Automobile Liability, General Liability, Law Enforcement Liability, and Errors and Omissions Liability coverage decreased from \$6,000,000 each occurrence in 2002 to \$1,000,000 each occurrence in 2003. Settled claims have not exceeded this commercial coverage in the past three years.

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 9 - RISK MANAGEMENT – (Continued)

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>2005</u>	<u>2004</u>
Cash and Investments	\$ 60,912,381	\$ 56,770,447
Actuarial liabilities	\$ 19,486,462	\$ 15,329,762

B. WORKERS COMPENSATION GROUP RATING PROGRAM

For 2005, 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.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. PUBLIC EMPLOYEES RETIREMENT SYSTEM

All County full-time employees, other than teachers, participate in the Ohio Public Employees Retirement System (OPERS), a cost sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. OPERS administers three separate pension plans as described below:

1. The Traditional Pension Plan – a cost sharing, multiple-employer defined benefit pension plan.

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 10 - DEFINED BENEFIT PENSION PLANS – (Continued)

2. The Member-Direct Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Direct Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan – a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested in OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, 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 Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a stand alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-6701 or 800-222-7377.

Ohio Revised Code provides statutory authority for member and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Pension Plan. Plan members, other than those engaged in law enforcement, are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the County is required to contribute 13.55 percent; 9.55 percent was the portion used to fund pension obligations for 2005. For law enforcement employees, the employee contribution is 10.1 percent of their annual covered salary for sheriffs and deputy sheriffs and 9 percent for all other members of the law enforcement program. (In January 2001, HB416 split the sheriffs, and township police, and (2) the public safety division made up of all other members of the law enforcement program.) The employer contribution is 16.70 percent of which 12.7 percent was the portion used to fund pension obligations. Contributions are authorized by state statute.

The contribution rates are determined actuarially. The County's contributions which were used to fund pension obligations for the years ending December 31, 2005, 2004, and 2003, were \$588,549, \$598,600 and \$585,836, respectively, which were equal to the required contributions for each year.

B. STATE TEACHERS RETIREMENT SYSTEM

The County contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a stand alone financial report that may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

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.

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 10 - DEFINED BENEFIT PENSION PLANS – (Continued)

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, 2005, plan members are 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 recommendation 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 contributions used to fund pension obligations for the years ending December 31, 2005, 2004, and 2003, were \$7,176, \$6,654 and \$4,524, respectively, which were equal to the required contributions for each year.

NOTE 11 - POST EMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Ohio Public Employee Retirement System (OPERS) provides post retirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post employment health care coverage. In order to qualify for post retirement health care coverage, age-of-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio Service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Post Employment Benefit (OBEB) as described in GASB Statement No. 12, "Disclosure of Information on Post Employment Benefits Other Than Pension Benefits by State and Local Governmental Employees." A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions.

The employer contribution rate for 2005 was 13.55 percent of covered payroll for employees not engaged in law enforcement and 4 percent was the portion that was used to fund health care. The employer contribution rate for law enforcement employees for 2005 was 16.70 percent and 4 percent was used to fund health care.

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 11 - POST EMPLOYMENT BENEFITS – (Continued)

Benefits are advance funded using the entry age normal cost method. Significant actuarial assumptions include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually, and an additional increase in total payroll of .50 percent to 6.3 percent based on additional pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next 8 years and 4 percent annually after 8 years.

OPEB are financed through employer contributions and investment earnings. 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.

As of December 31, 2005, the total number of benefit recipients eligible for OPEB through the system was \$355,287. As of December 31, 2004 (the latest information available), the actuarial value of net assets available for future OPEB payments was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial liability were \$29.5 billion and \$18.7 billion, respectively. The County's actual contributions for 2005 which were used to fund OPEB were \$237,921.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCCP) with an effective date of January 1, 2007. The HCCP restructures OPERS' healthcare coverage to improve financial solvency of the fund in response to increasing healthcare costs. Member and employee contribution rates increased as of January 1, 2006, which allow additional funds to be allocated to the healthcare plan.

B. STATE TEACHERS RETIREMENT SYSTEM

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the County, this amount equaled \$513 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 12 – 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 are 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 \$233,320 under these two plans during 2005.

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 13 – DEBT

A. SHORT-TERM DEBT

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

Governmental Activities

State Bank and Trust Company

		January 1, 2005			December 31, 2005
		Balance	Additions	Reductions	Balance
Tax Anticipation Notes:					
CSEA Annex Building	2.470%	\$ 125,871	\$ 102,500	\$ (125,871)	\$ 102,500
General Obligation Notes:					
Auglaize Sewer	3.780%		423,125		423,125
CIC Industrial Development	2.230%	130,000		(130,000)	
Pharoah Ltd. Tax Increment Financing	2.500%	12,940		(12,940)	
Holser Tax Increment Financing	3.800%	9,330	6,545	(9,330)	6,545
Stoller Tax Increment Financing	3.800%	11,278	10,463	(11,278)	10,463
SWCD Morton Building	2.400%	12,395		(12,395)	
CIC Gasser Industrial Park	2.320%	67,549		(67,549)	
December Consolidated Ditch Financing	2.320%	110,000		(110,000)	
Cooper Farms Tax Increment Financing	2.320%	46,495		(46,495)	
Schilderink Tax Increment Financing	2.320%	106,292		(106,292)	
Jail Building	2.570%	289,000		(289,000)	
		<u>921,150</u>	<u>542,633</u>	<u>(921,150)</u>	<u>542,633</u>

Community First Bank and Trust

General Obligation Notes:					
SWCD-FSA	2.783%	10,742	4,998	(15,740)	
ACE Facility	3.420%	47,595	32,652	(47,595)	32,652
Zylstra Tax Increment Financing	3.420%	95,079	89,100	(95,079)	89,100
Auglaize Sewer	2.100%	414,374		(414,374)	
Cooper Farms Tax Increment Financing	4.240%		33,000		33,000
Schilderink Tax Increment Financing	4.240%		100,000		100,000
Jail Building	4.400%		296,000		296,000
CIC Industrial Development	3.420%		35,000		35,000
CIC Gasser Industrial Park	4.240%		64,000		64,000
Martin-Snyder Ditch	4.240%		53,000		53,000
Consolidated Ditch Financing	4.240%	110,000	86,000	(110,000)	86,000
		<u>677,790</u>	<u>793,750</u>	<u>(682,788)</u>	<u>788,752</u>

Antwerp Exchange Bank

General Obligation Notes:					
Consolidated Ditch Financing	3.750%	102,500	100,000	(102,500)	100,000
Consolidated Ditch Financing	4.100%	110,000	100,000	(110,000)	100,000
		<u>212,500</u>	<u>200,000</u>	<u>(212,500)</u>	<u>200,000</u>

Bond Anticipation Note

Jail Construction	4.000%	2,800,000	2,870,000	(2,800,000)	2,870,000
Total Short-Term Debt		<u>\$ 4,611,440</u>	<u>\$ 4,406,383</u>	<u>\$ (4,616,438)</u>	<u>\$ 4,401,385</u>

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 13 – 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 note is due June 8, 2006 with interest at a fixed rate of 4.0%. 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, 2005 for the County's long-term debt issues are as follows:

	Original Issue Date	Interest Rate	Original Issue Amount
Hospital Improvement Bonds:			
Paulding County Hospital Improvements	2001	2.1 - 5.65%	\$ 1,900,000
Ohio Department of Transportation			
SIB Loan County Road Paving	2004	3%	\$ 125,067
Ohio Public Works Commission			
Loans:			
County Road Resurfacing	1997	0.00%	159,623
County Road Paving	1999	0.00%	188,617
			\$ 2,373,307

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 13 – DEBT – (Continued)

The County's long-term debt activity for the year ended December 31, 2005, was as follows:

	<u>Balance 12/31/04</u>	<u>Reductions</u>	<u>Balance 12/31/05</u>	<u>Due Within One Year</u>
Governmental Activities:				
Hospital Improvement Bonds:				
Paulding County Hospital Improvements	\$ 1,775,000	\$ (45,000)	\$ 1,730,000	\$ 50,000
 Ohio Department of Transportation SIB Loan County Road Paving	 \$ 125,067		 \$ 125,067	
 Ohio Public Works Commission Loans:				
County Road Resurfacing	103,753	(3,989)	99,764	7,981
County Road Paving	136,748	(4,716)	132,032	9,431
Total OPWC Loans	<u>240,503</u>	<u>(8,705)</u>	<u>231,796</u>	<u>17,412</u>
Total Governmental Activities	<u>\$ 2,140,568</u>	<u>\$ (53,705)</u>	<u>\$ 2,086,863</u>	<u>\$ 67,412</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>
2006	\$ 50,000	3.50%
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%

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:

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 13 – DEBT – (Continued)

<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

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.

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 13 – DEBT – (Continued)

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.

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 County had available \$131,875 of credit to draw on the Auglaize Five Span Sewer loan at December 31, 2005, at an interest rate of 3.78%.

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
2006	50,000	89,955	17,412			1,821	67,412	91,776
2007	50,000	88,205	17,412		6,974	3,724	74,386	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>1,730,000</u>	<u>1,178,765</u>	<u>231,796</u>		<u>125,067</u>	<u>20,208</u>	<u>2,086,863</u>	<u>1,198,973</u>

NOTE 14 – 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:

2006	\$16,394
2007	16,394
2008	16,394
2009	16,394
2010	16,395
	<u>\$81,971</u>

Rental expense paid in 2005 was \$14,481.

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: \$34,230

**FINANCIAL CONDITION
PAULDING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 15 – INTERFUND TRANSFERS

The interfund transfers for the year ended December 31, 2005 were as follows:

	Transfers In	Transfers Out
MAJOR FUNDS		
General Fund		\$ 143,326
 NONMAJOR FUNDS		
Special Revenue Funds		
Dog Kennel	\$ 7,500	
Public Assistance	13,180	
Child Services	100,000	
Terrorism Support Grant 2002	3,105	
Extension Center	6,431	
Delinquent Real-estate Tax and Assessment Collection/Prosecutor	43,606	
Ohio Department of Natural Resources Fund	8,500	
Fire Marshall	1,286	
Emergency Management Agency	9,476	1,552
Waste Management Enforcement Agency		8,500
Delinquent Real-estate Tax and Assessment Collection		43,606
Capital Projects Funds		
Ditch Maintenance	3,900	
	196,984	53,658
 TOTAL	\$ 196,984	\$ 196,984

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 16 – 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 BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005
(CONTINUED)**

NOTE 17 – CONTINGENCIES

A. GRANTS

The County received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the County at December 31, 2005.

B. LITIGATION

There are currently no matters in litigation with the County as defendant.

**PAULDING COUNTY
FINANCIAL CONDITION**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2005**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education</i>				
<u>Child Nutrition Cluster:</u>				
Food Distribution Program	N/A	10.550		\$1,739
National School Lunch Program	145706-05NP-2005	10.555	\$2,800	
Total Child Nutrition Cluster			<u>2,800</u>	<u>1,739</u>
Total U.S. Department of Agriculture			<u>2,800</u>	<u>1,739</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
<u>Special Education Cluster:</u>				
Special Education Grants to States (Title VI-B)	066183-6BSF-2006	84.027	11,603	
Total Special Education Cluster			<u>11,603</u>	
State Grants for Innovative Programs	066183-C2S1-2005	84.298	38	
Total U.S. Department of Education			<u>11,641</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	16,015	
State Health Insurance Program		93.767	310	
Medical Assistance Program (Title XIX- CAFS)		93.778	130,969	
Medical Assistance Program (Title XIX- TCM)		93.778	17,572	
Medical Assistance Program (Title XIX- WA)		93.778	2,256	
Total Medical Assistance Program			<u>150,797</u>	
Total Passed Through Ohio Department of MRDD			<u>167,122</u>	
<i>Passed Through Ohio Job and Family Services</i>				
Child Welfare Subsidy (Title IV-B)	63.6010.05	93.645	35,256	
ESSA Family Preservation	63.6035.05	93.645	2,174	
ESSA Family Reunification	63.6036.05	93.645	3,826	
Total			<u>41,256</u>	
Child Abuse and Neglect State Grants	63.6020.05	93.669	1,741	
Total Passed Through Ohio Job and Family Services			<u>42,997</u>	
Total U.S. Department of Health and Human Services			<u>210,119</u>	
U.S. DEPARTMENT OF LABOR				
<i>Passed Through Montgomery County- WIA Area 7</i>				
<u>Workforce Investment Act Cluster:</u>				
Workforce Investment Act-Adult	63.1221.05	17.258	18,938	
Workforce Investment Act- Youth	63.1202.05	17.259	42,132	
Workforce Investment Act- Dislocated Worker	63.1222.05	17.260	37,885	
Total U.S. Department of Labor			<u>98,955</u>	

The accompanying notes are an integral part of this schedule.

(Continued)

**PAULDING COUNTY
FINANCIAL CONDITION**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2005**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF TRANSPORTATION				
<i>Passed Through Ohio Department of Transportation</i>				
Highway Planning and Construction	18594	20.205	60,187	
Highway Planning and Construction	23090	20.205	485,041	
Highway Planning and Construction	75035	20.205	337,361	
Total U.S. Department of Transportation			882,589	
U.S. GENERAL SERVICES ADMINISTRATION				
<i>Passed Through the Office of the Ohio Secretary of State</i>				
Election Reform Payments		39.011	8,682	
Total U.S. General Services Administration			8,682	
U.S. ELECTION COMMISSION ASSISTANCE				
<i>Passed Through the Office of the Ohio Secretary of State</i>				
Help America Vote Act	E05-0077-63	90.401	197,408	
Total U.S. Election Commission Assistance			197,408	
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	885	
Disaster Grants- Public Assistance	DR-1580-OH	97.036	40,874	
Pre-Disaster Mitigation Grant	EMC-2003-GR-7043	83.557	9,275	
State Homeland Security Program	2004-GE-T4-0025	97.004	98,866	
Domestic preparedness Equipment Support Program	2002-TE-CX-0106	16.007	532	
State Homeland Security Program Exercise Part 2	2003-MUP-30015	16.007	200	
State Homeland Security Program, Planning/Administration	2003-TE-TX-0199	16.007	7,509	
			8,241	
Total U.S. Department of Homeland Security			158,141	
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	49,272	
Community Development Block Grant (Formula)	B-F-03-058-1	14.228	37,000	
Community Development Block Grant (Chip)	B-C-04-058-1	14.228	47,260	
Total			133,532	
Home Investment Partnership Program (CHIP)	B-C-04-058-1	14.239	28,210	
Total U.S. Department of Housing and Urban Development			161,742	
U.S. DEPARTMENT OF JUSTICE				
<i>Passed Through the Ohio Office of Criminal Justice Services</i>				
Victims of Crimes Act Grant		16.575	33,095	
Total U.S. Department of Justice			33,095	
Total			\$1,765,172	\$1,739

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, 2005**

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 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. 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, 2005, the gross amount of loans outstanding under this program was \$625,882.

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.

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**Auditor of State
Betty Montgomery**

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

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 (the County) as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements and have issued our report thereon dated October 23, 2006, 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 to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the County's management dated October 23, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 2005-001 and 2005-002. In a separate letter to the County's management dated October 23, 2006, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

October 23, 2006



**Auditor of State
Betty Montgomery**

**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 (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, 2005. 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, 2005. In a separate letter to the County's management dated October 23, 2006, we reported other matters related to federal non-compliance not requiring inclusion in the report.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Betty Montgomery
Auditor of State

October 23, 2006

**FINANCIAL CONDITION
PAULDING COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005**

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 weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<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 weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions 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 Medical Assistance Program CFDA 93.778
<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 2005-001

Noncompliance Citation

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

**FINDING NUMBER 2005-001
 (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 2005-002

Noncompliance Citation

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:

	<u>Actual Resources</u>	<u>Estimated Resources</u>	<u>Total Appropriations</u>
Public Assistance Fund	\$ 1,648,003	\$ 1,946,704	\$ 1,946,704
Children Services Fund	540,894	770,970	577,380
Extension Center Fund	17,967	22,591	22,590
Community Development Block Grant Fund	283,749	498,614	498,614
Enforcement & Education Fund	1,406	1,657	1,500
Victims Assistance Fund	9,504	56,655	21,800
License Bureau Fund	63,815	137,094	92,190
FY 02 Terror Support Fund	16,065	17,618	17,618
Juvenile Court Diversion Fund	630	1,000	1,000
Pre-Disaster Fund	11,566	16,015	16,015
Defiance-Paulding Joint Sewer Fund	423,162	477,674	477,674

**FINDING NUMBER 2005-002
(Continued)**

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:

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**FINANCIAL CONDITION
PAULDING COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
Finding 2004-001	Revised Code § 117.38- filing of reports on a GAAP basis	No	Not Corrected. Reissued as finding 2005-001
Finding 2004-002	Section 103(b)(2) and 148 of the Internal Revenue Code of 1986, Subsection E – failure to begin construction within the required time frame after issuing financing BANS	Yes	Construction relating to the BANS has been started in the audit period.
Finding 2004-003	Revised Code Chapter 5705- failure to budget the Engineer's Construction Capital Projects Fund	No	Not considered material and reissued as management letter citation



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FINANCIAL CONDITION

PAULDING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 21, 2006**