

FAIRFIELD COUNTY, OHIO

Comprehensive Annual Financial Report

For the Year Ended December 31, 2005



Issued by Barbara Curtiss
Fairfield County Auditor

Additional copies of this report may be obtained from:
Fairfield County Auditor's Office
210 E. Main Street
Lancaster, Ohio 43130

Phone requests can be made at (740) 681-7160 or (740) 681-7225 (fax).

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<http://www.co.fairfield.oh.us/AUDITOR/index.htm>

FAIRFIELD COUNTY, OHIO

Comprehensive Annual Financial Report

For the Year Ended December 31, 2005



Prepared and Issued by the Fairfield County Auditor's Office

BARBARA CURTISS

County Auditor

<http://www.co.fairfield.oh.us/AUDITOR/index.htm>

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Introductory Section



Fairfield County, Ohio

210 East Main Street
Lancaster, Ohio 43130-3882

Voice (740) 687-7021
Fax (740) 687-6781

CITIZENS OF FAIRFIELD COUNTY, OHIO

We are pleased to issue the Comprehensive Annual Financial Report (CAFR) of Fairfield County, Ohio (the County) for the year ended December 31, 2005. This report is prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The County Auditor's Office prepared this report, pursuant to Section 117-1-11, Ohio Administrative Code, which requires that an official report prepared on the GAAP basis be prepared annually within 150 days after the close of the year. The report includes the basic financial statements which provide an overview of the County's financial position and the results of financial operations.

County management assumes full responsibility for the completeness and reliability of the information contained in this report. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

Internal Controls

County managers have established a comprehensive internal control framework designed to compile sufficient reliable information for preparation of the Fairfield County financial statements in conformity with generally accepted accounting principles. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

Furthermore, as a recipient of federal and state financial assistance, the County must ensure that adequate internal controls are in place to ensure compliance with applicable laws and regulations that relate to these programs. These internal controls are subject to periodic evaluation by management.

Independent Audit

In compliance with State statute, the basic financial statements have been audited by the Ohio Auditor of State's Office. The independent auditor concluded that Fairfield County's financial statements for the year ended December 31, 2005, are fairly presented in conformity with Generally Accepted Accounting Principles. The independent accountants' report is presented as the first component of the financial section of this report. In addition, the County coordinates the requirement for the "Single Audit" of all its federal funds received through the Auditor of State.

Management's Discussion and Analysis

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the management's discussion and analysis (MD&A). This letter of transmittal should be read in conjunction with the MD&A as they are designed to complement each other. Fairfield County's MD&A can be found immediately following the independent accountants' report.

PROFILE OF THE GOVERNMENT

Fairfield County was organized into a separate political entity in December of 1800. The County encompasses thirteen townships, twelve villages, and two cities. According to population estimates, 138,423 people reside within the County's 505 square miles. The City of Lancaster, the County seat, has an estimated 35,914 residents.

A three-member Board of Commissioners, twelve other elected officials, and various department heads govern the County. As part of the "checks and balances" system, the elected officials and department heads manage the internal operations of their respective divisions with the Board of Commissioners authorizing expenditures and serving as the budget authority, the taxing authority, and the contracting body. Each Commissioner serves a term of four years.

In addition to the County Auditor, who serves as the Chief Fiscal Officer and the Tax Assessor, there are seven elected administrative officials, each of whom operates independently as set forth by Ohio law. These officials are: Clerk of Courts, Coroner, Engineer, Prosecutor, Recorder, Sheriff, and Treasurer. All of these officials serve four-year terms. The following judges are elected on a countywide basis to oversee the County's judicial system: two Common Pleas Court Judges, a Probate/Juvenile Court Judge, and a Domestic Relations Court Judge. An organization chart of County government can be found on page 13.

Fairfield County employs 782 persons who provide citizens with a wide range of services including the following: human and social services; health and community assistance services; civil and criminal justice system services; road, bridge, and building maintenance; water and sewer utility services; and general and administrative support services.

The County is required to have a balanced budget. The Board of County Commissioners adopts the Fairfield County budget annually, on or about the first day of January each year. The fiscal year begins on January 1 and ends on December 31. Budgets are controlled at the fund, program, department, and object level.

This report's basic financial statements include the County's component unit, Fairfield Industries, Inc. See Note 1 of the Notes to the Basic Financial Statements for further detail.

ASSESSING ECONOMIC CONDITION

Local Economy

Located in the south-central portion of Ohio, Fairfield County is adjacent to Licking, Perry, Hocking, Pickaway, and Franklin counties. The urban expansion of the Columbus metropolitan area has made significant contributions to the growth of Fairfield County.

The anticipation of and official opening of the \$141 million US-33 bypass on October 26, 2005 led to a year that showed strong growth in existing companies and the promise of new development and growth in the future. Company Wrench, a company which sells, services, rents, and modifies demolition equipment nationwide opened a new \$1.6 million facility along the bypass in April. The company more than doubled its workforce from 24 to over 50. JD Equipment, an agricultural and home equipment sales and service operation, completed construction of a new \$1.5 million, 22,000 square foot facility along the bypass in August. The new facility is triple the size of its former location, and the company increased their workforce from 12 to 20 employees.

The second, 185-acre phase of Lancaster's Rockmill Industrial Park, one of two major industrial parks in Lancaster, is located at the State Route 188 bypass interchange. The park is competitively priced at \$42,000 per acre, and most of it is also located in a Community Reinvestment Area which provides automatic tax exemption on real property improvements. In June, Kissick International purchased a 14,000 square foot vacant building in the park, moving the headquarters for its eight U.S. offices there and making a \$720,000 investment. Kissick is a manufacturing representative and service company for the utility and other industries. The Ohio Department of Transportation also constructed a new \$3.5 million facility in the park to allow for faster response times and greater equipment storage.

Fairfield County, Ohio

The County's larger manufacturers continued to do well, and Anchor Hocking Consumer Glass announced a \$16.8 million investment in May creating 50 new full-time permanent jobs and retaining over 1,000 jobs. On the commercial side, Texas Roadhouse announced construction of a new \$3 million restaurant in December 2005 in Greenfield Township along US-33. It is scheduled to open summer 2006 and expected to create 100 new jobs. Menards, the third largest home-improvement store chain in the US, also announced construction of a \$3 million store in Lancaster which will result in 150 new jobs.

In Baltimore, Fairfield County's largest village, Dollar General broke ground on a new 3,600 square foot store, a \$700,000 investment. Dedicated Mortgage also expanded, investing \$500,000 in an expansion of their existing facility, planning to hire 6 to 10 new employees. Captivating Images Photography and Willow Tree Gift Shop renovated sites in Baltimore's downtown as well. Additionally, the Village of Baltimore received a permit for doubling the capacity of their wastewater treatment plant to over one million gallons per day.

Other positive economic signs included the groundbreaking for the 89,000 square foot, \$15.3 million Parkside at Wesley Ridge retirement center in Reynoldsburg in northwest Fairfield County. A \$1 million investment was made in the Fairfield County Airport, adding 16 new hangers to keep up with the growing demand for flights, storage, and training. Green Apple, a local Internet service provider and computer sales and service business, invested \$200,000 into three wireless hi-fi towers, offering the first wireless broadband Internet to Lancaster and surrounding villages. Up to 4,500 users can join the system.

Population growth is also a major indicator of economic activity. With 138,423 residents and a growth rate of 1.6% over last year, the U.S. Census Bureau shows Fairfield County as the fifth fastest growing county in Ohio. Over the last three years, Fairfield County is the third fastest growing county, having grown over 7% in population. Only Delaware and Warren Counties have stronger three-year growth rates, and they rank in the top 100 of the country, also according to the U.S. Census Bureau.

Fairfield County's population growth has resulted in an increased personal income base and an increasing demand for services. The 2005 average per capita income for County residents is estimated at \$35,142, a 20.8 percent increase since 2000 and 48.2 percent increase since 1996 using data from the U.S. Census Bureau.

At 4.7 percent, the 2005 unemployment rate of the county was significantly lower than the State of Ohio at (5.5 percent), and similar to the national rate of (4.6 percent). Table 12 in the Statistical Section of this report compares the employment rates of Fairfield County, the State of Ohio, and the United States over the past ten years.

Although the economic activity in our County continues to expand, there is a need to exercise fiscal restraint in County spending patterns due to factors external to the County. The Ohio Legislature continues to limit funding to local governments, including the County. Therefore, the County cannot assume that future local government funding by the State will continue at present levels.

On June 1, 2005 the Commissioners approved a permissive real property transfer tax of \$3 per thousand, providing additional revenue for part of 2005. This modest revenue enhancement, along with sales tax collections increasing at an annual rate of 4%, as well as improvements in investment earnings which are recovering from historically low rates, are positive indications of a near-term upward trend. The trend in increased sales tax collections began in the latter half of 2004 as the economy improved. The investment earnings trended upward during the latter part of 2005 due to the Federal Reserve Board steadily raising interest rates. Fairfield County will carefully monitor trends in revenues, and continue its vigilance on expenditures.

The partnership with Franklin and Pickaway County on employee health insurance, which began in March 2005, has now completed its first full year. By pooling our resources, the partnership has gained efficiencies and economies of scale to help offset inflationary cost increases in the healthcare industry. All three counties are achieving their mutual goal of promoting the long-term stability of employee healthcare costs.

In 2002, Fairfield County was upgraded to an Aa3 bond rating by Moody's Investors' Service, one of the two major bond-rating services. The County continues to enjoy this favorable debt rating today.

Fairfield County, Ohio

Major Initiatives

Created in 2003, the Fairfield County Economic Development Department has also worked to administer, design, and implement plans and programs designed to stimulate the economy. Two incentive programs managed by the department include the Enterprise Zone tax exemption and Revolving Loan Fund programs. In addition to providing a new Enterprise Zone agreement for the \$16.8 million Anchor Hocking project mentioned earlier, an agreement with Princeton Delivery Systems, the leading U.S. manufacturer of truck-mounted forklifts, was finalized. The company, located into Fairfield County, invested over \$1 million, and brought 75 jobs to the county.

The Economic Development Department assumed administration of the \$1 million Fairfield County Revolving Loan Fund in June 2005. Three deals were completed in 2005 with Company Wrench, Clearcreek Valley Utilities and Excavation, and Craig Gentile, DDS. Clearcreek Valley Utilities and Excavation is a new company founded in rural southwest Clearcreek Township. The loan fund provided \$60,000 of the over \$170,000 in new equipment needed for the project. Gentile is an orthodontist who wanted to expand the practice with a \$90,000 investment, and the loan fund helped keep four jobs and create three more in the county.

The Economic Development Director and the Job Development Director also co-chair the Fairfield County Business Resource Council, and in the course of 2005, the Council developed, refined and launched (in September), the Fairfield Fortune 1,000 initiative. The effort aims to (1) talk to 1,000 existing and start-up businesses at the end of 2005 and throughout 2006, (2) determine if there are any public resources to help them grow at less cost, in faster time, or more effectively, and (3) help them obtain those resources. The program was designed to touch base with 1,000 of the over 4,000 businesses in Fairfield County. The Council also sponsors an annual business seminar--the Strategies to Enhance Profits (S.T.E.P. Ahead) seminar--to bring in expert speakers who provide local businesses with valuable information to increase their business. Almost 100 businesspeople attended the 2005 event, which was held in September. The Economic Development Department also marketed the county internationally in April 2005 at the world's largest general industrial trade fair in Hanover, Germany. The trip was in partnership with, and funded by, the Columbus Chamber of Commerce.

During 2006, the County Auditor will lead the cooperative county-wide initiative for the implementation phase of replacing the financial and payroll accounting software that the County currently uses, with a comprehensive, state-of-the-art system. MUNIS Inc., a division of Tyler Technologies, is the system software provider, with an established national presence in the small and medium sized governmental market. The system is expected to be operational and completely deployed by the end of 2007.

County priorities continue to include major water and sewer projects to serve the County's continuing growth.

Cash Management

The Fairfield County Treasurer serves as the investing authority, according to State law. County cash is pooled for investment purposes. During the year ended December 31, 2005, the County's cash resources were divided among the following types of deposits and investments: nonparticipating certificates of deposit, STAR Ohio, federal agency securities, and demand deposit accounts. Interest income as reported on the governmental fund financial statements totaled \$1,788,639 and was credited to various accounts. Fairfield Industries, Inc., the County's component unit, earned \$16,055 in interest income for the current year.

Protection of the County's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution. Although the majority of the County's deposits are defined as uninsured and uncollateralized, it is important to note that all statutory requirements for the investment of money have been followed. More information about investments is available in Note 6 of the Notes to the Basic Financial Statements.

Risk Financing

The County insures its risk through the County Risk Sharing Authority (CORSA) and with private insurance carriers, maintaining a variety of coverages for property, liability, and vehicle insurance. It also participates in the County Commissioners Association of Ohio Workers' Compensation Group Rating Plan, an insurance purchasing pool. See Note 11 of the Notes to the Basic Financial Statements for a more detailed description of the County's risk financing programs.

AWARDS AND ACKNOWLEDGMENTS

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Fairfield County for its comprehensive annual financial report for the fiscal year ended December 31, 2004. This was the sixteenth consecutive year the County received this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

In addition, the County received the Award for Outstanding Achievement in Popular Annual Financial Reporting from GFOA for the County's 2004 Citizens' Report, a condensed, more user-friendly financial report intended to provide highlights of the County's financial condition. This was the fourth consecutive year the County has received this prestigious award.

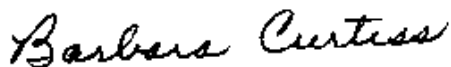
Acknowledgments

The publication of this report demonstrates the professionalism of the Fairfield County government. Preparation of this report was achieved through the cooperation of each elected official, each department head, and a large number of County employees. We are grateful for their assistance.

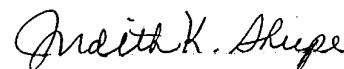
A special note of appreciation to the Local Government Services section of State Auditor Betty Montgomery's Office, for its guidance in preparing this financial report. Finally, the preparation of this report would not have been possible without the efficient and dedicated efforts of the entire staff of the Auditor's Finance Office.

Most importantly, we are grateful to the citizens of Fairfield County for the opportunity to serve them and provide valuable information on the financial operations of the County.

Respectfully submitted,



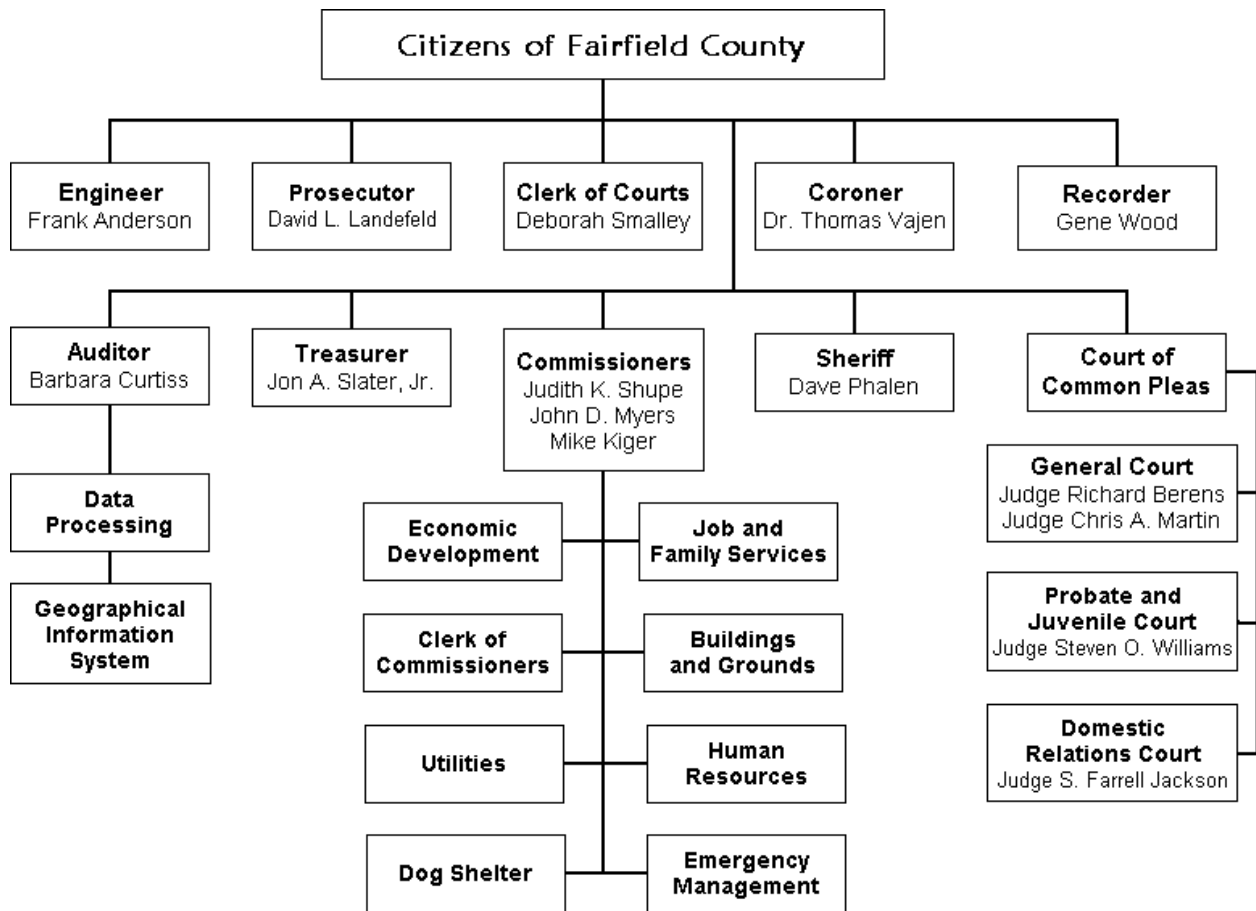
Barbara Curtiss
Fairfield County Auditor



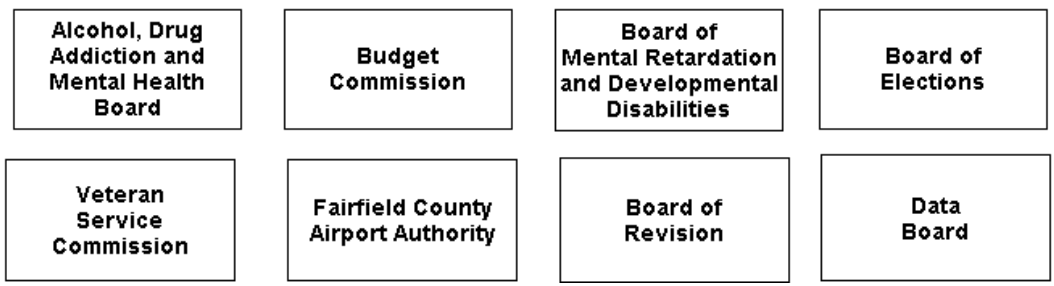
Judith K. Shupe
President, Board of Commissioners

June 21, 2006

COUNTY ORGANIZATION AND ELECTED OFFICIALS
December 31, 2005



Ex Officio and Appointed Boards



PRINCIPAL APPOINTED OFFICIALS AND DEPARTMENT HEADS

December 31, 2005

Clerk of Commissioners.....	Jacqueline Long
Human Resources, Director	Aundrea Cordle
Department of Job and Family Services, Director	Michael Orlando
Buildings and Grounds, Superintendent.....	Joseph Spybey
Dog Shelter, Warden	Michael Miller
Emergency Management, Director	Tom Moe
Board of Elections, Director	Alice Nicolia
Utilities, Sanitary Engineer.....	Donald Rector
Alcohol, Drug Addiction, and Mental Health Board, Director	Orman Hall
Mental Retardation and Developmental Disabilities Board, Superintendent.....	John Pekar
Health Commissioner	Franklin Hirsch
Veteran Service Commission, Director.....	Eddie Mohler
Fairfield County Airport Authority, President.....	David Scheffler

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Fairfield County,
Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry

President

Jeffrey R. Emer

Executive Director

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Financial Section

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Fairfield County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

Introduction

This section of Fairfield County's (the County) annual financial report presents management's discussion and analysis of the County's financial performance during the year ended December 31, 2005. The management's discussion and analysis section should be read in conjunction with the preceding letter of transmittal and the County's financial statements, which follow.

Financial Highlights

Key financial highlights for 2005 are as follows:

- The assets of Fairfield County exceeded its liabilities at the close of the year ended December 31, 2005, by \$225,318,860 (net assets). Of this amount, \$22,020,260 was the unrestricted net assets portion which represents the amount that can be used at the discretion of the County Commissioners.
- The County's total net assets increased by 3.9 percent, or \$8,461,751 from the total net assets at the beginning of the year 2005.
- At the end of the current year, the County's governmental activities reported total net assets of \$186,723,244 an increase of \$6,762,980 from the prior year. Of this amount, \$14,522,335 is unrestricted.
- At the end of the current year, unreserved fund balance for the General Fund was \$11,787,007, which represents a 45.3 percent increase from the prior year, and represents 51.2 percent of total General Fund expenditures.
- Fairfield County's total long-term debt decreased by \$1,648,670 or 3.1 percent, during the current year.

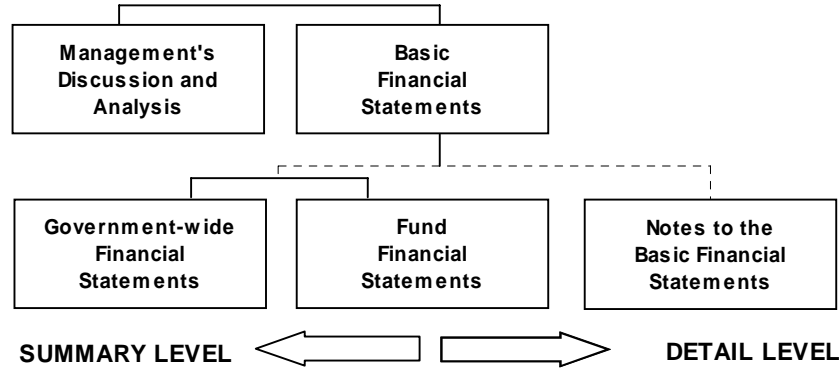
Overview of the Financial Statements

This annual report consists of management's discussion and analysis, basic financial statements, including the accompanying notes to the basic financial statements, and combining statements for the nonmajor governmental funds, and the fiduciary funds. The basic financial statements are composed of the government-wide financial statements and the fund financial statements.

Figure 1 illustrates how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, as explained later, this report includes an optional section that contains combining statements that provide details about the County's nonmajor governmental funds.

Fairfield County, Ohio
 Management's Discussion and Analysis
 For the Year Ended December 31, 2005
 (Unaudited)

Figure 1
Required Components of
Fairfield County's Annual Financial Report



The *government-wide financial statements* provide financial information about the County as a whole, including its component units.

The *fund financial statements* focus on the County's operations in more detail than the government-wide financial statements. The financial statements presented for governmental funds report on the County's general government services. Proprietary fund statements report on the activities that the County operates like private-sector businesses. Fiduciary funds statements provide information about the financial relationships in which the County acts solely as a trustee or agent, for the benefit of others outside the government to whom the resources belong.

The basic financial statements section also includes *Notes to the Basic Financial Statements* that more fully explain the information in the government-wide and fund financial statements.

Figure 2 below summarizes the major features of the County's statements.

Figure 2				
Major Features of Fairfield County's Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire County government (except fiduciary funds) and the County's component units	The activities of the County that are not proprietary or fiduciary, such as public safety, public works, health, human services, and general government	Activities the County operates similar to private businesses, such as the sewer and water operations and the Self-Funded Health Insurance Fund	Instances in which the County is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Fund Net Assets • Statement of Revenues, Expenses, and Changes in Fund Net Assets • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Assets and Liabilities

Fairfield County, Ohio
 Management's Discussion and Analysis
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Figure 2 (continued)
Major Features of the Fairfield County's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	Not applicable because the County only has agency funds

Government-wide Financial Statements

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

Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. The *Statement of Activities* presents information showing how the County's net assets changed during the current year. Both statements use the accrual basis of accounting, similar to the accounting used by private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the County's net assets and the change in those assets. This change in net assets is important because it tells the reader whether, for the County as a whole, the economic condition of the County has improved or diminished. However, in evaluating the overall position of the County, nonfinancial information such as changes in the County's tax base and the condition of the County's capital assets will also need to be evaluated.

The Statement of Net Assets and the Statement of Activities, which can be found on pages 34 through 37 of this report, are divided into three categories as follows.

Governmental Activities — Most of the County's basic services are reported under this category, such as general government, public safety, public works, health, human services, and all departments - with the exception of the sewer and water funds.

Business-type Activities — The County provides services and then charges a fee to customers, based upon the amount of usage, to recover the costs of the services provided, and to cover the capital expenses associated with the related facilities. The County's sewer and water operations are considered business-type activities.

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Component Unit — The County includes financial data of Fairfield Industries, Inc. This component unit is described in Note 1 of the Notes to the Basic Financial Statements. A component unit is separate and may buy, sell, lease, and mortgage property in its own name. It can also sue or be sued in its own name.

Fund Financial Statements

The fund financial statements provide more detailed information about the County's most significant funds — not the County as a whole. 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 three categories: governmental funds, proprietary funds, and fiduciary funds. Fund financial statements provide detailed information about the County's major funds. Based on the restriction on the use of monies, the County has established many funds that account for the multitude of services provided to its residents. However, these fund financial statements focus on the County's most significant funds. The County's major governmental funds are:

- General Fund
- Community Services Fund
- Motor Vehicle Fund
- Mental Retardation Fund
- Alcohol, Drug Addiction, and Mental Health Board Fund
- General Obligation Bond Retirement Fund

Governmental Funds — Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as balances of spendable resources available at the end of the year. Such information may be useful in evaluating the County's near-term financing requirements.

Because the focus of governmental funds is narrower than the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the County's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains a number of individual governmental funds. Information for the major funds, identified earlier, is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The governmental fund financial statements can be found on pages 38 through 50 of this report.

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Proprietary Funds—The County maintains two different types of proprietary funds. It uses enterprise funds to account for its sewer and water operations. In these operations, the County charges a fee to customers, based upon the amount of usage, to recover the costs of the services provided, and to cover the capital expenses associated with the related facilities. The County uses an internal service fund to account for its Self-Funded Health Insurance Fund. Because the services of this fund predominately benefit governmental rather than business-type operations, it has been included with governmental activities in the government-wide financial statements. The proprietary fund financial statements can be found on pages 51 through 55 of this report.

Fiduciary Funds— The County accounts for resources held for the benefit of parties outside the government as fiduciary funds. These 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 uses accrual accounting for fiduciary funds, much like that of the proprietary funds. The fiduciary fund financial statement can be found on page 56 of this report.

Notes to the Basic Financial Statements— The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Basic Financial Statements can be found on pages 57 through 109 of this report.

Government-wide Financial Analysis

During 2005, as shown in the table below, the combined net assets of the County's primary government increased \$8.5 million or 3.9 percent. Net assets reported for governmental activities increased \$6.8 million or 3.8 percent and business-type activities increased \$1.7 million or 4.6 percent.

Condensed financial information derived from the Statement of Net Assets for the primary government follows:

Primary Government						
Statement of Net Assets						
As of December 31, 2005, with comparatives as of December 31, 2004						
	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Assets:						
Current and other noncurrent assets	\$ 78,310,037	\$ 69,277,463	\$ 9,283,674	\$ 8,889,003	\$ 87,593,711	\$ 78,166,466
Capital assets	163,755,602	161,401,854	58,317,202	57,341,250	222,072,804	218,743,104
Total assets	<u>242,065,639</u>	<u>230,679,317</u>	<u>67,600,876</u>	<u>66,230,253</u>	<u>309,666,515</u>	<u>296,909,570</u>
Liabilities:						
Current and other liabilities	27,485,406	21,693,921	787,903	920,605	28,273,309	22,614,526
Noncurrent liabilities	27,856,989	29,025,132	28,217,357	28,412,803	56,074,346	57,437,935
Total liabilities	<u>55,342,395</u>	<u>50,719,053</u>	<u>29,005,260</u>	<u>29,333,408</u>	<u>84,347,655</u>	<u>80,052,461</u>
Net Assets:						
Invested in capital assets, net of related debt	142,299,892	139,382,284	31,097,691	29,801,041	173,397,583	169,183,325
Restricted	29,901,017	30,372,547	-	-	29,901,017	30,372,547
Unrestricted	14,522,335	10,205,433	7,497,925	7,095,804	22,020,260	17,301,237
Total net assets	<u>\$ 186,723,244</u>	<u>\$ 179,960,264</u>	<u>\$ 38,595,616</u>	<u>\$36,896,845</u>	<u>\$225,318,860</u>	<u>\$216,857,109</u>

At December 31, 2005, the primary government's investment in capital assets, net of depreciation, (i.e. land, buildings, improvements other than buildings, machinery and equipment, furniture and fixtures, infrastructures, vehicles, and construction in progress), less related outstanding debt, was approximately \$173.4 million. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, the reader should be aware that the resources needed to repay this debt must be provided from other sources. The capital assets themselves cannot be used to liquidate these liabilities.

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Increases in liabilities for governmental funds are due primarily to increases in deferred revenue, accounts payable, intergovernmental payable, contracts payable, and notes payable. Decreases in liabilities for business type-funds are due primarily to the decrease in outstanding debt, retainage, and accrued interest payable.

Restricted net assets were approximately \$29.9 million, resulting in a \$22.0 million unrestricted net assets balance. Net assets are restricted when constraints on their use are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The County's net assets, when viewed over time, may provide the reader with a useful indicator of the County's economic condition.

The table on the following page shows the condensed financial information derived from the Statement of Activities for the year ended December 31, 2005, and a comparative analysis with the year ended December 31, 2004.

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**Primary Government
Statement of Activities**
For the year ended December 31, 2005, with comparatives for the year ended December 31, 2004

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 12,199,025	\$ 12,241,773	\$ 5,102,085	\$ 4,651,013	\$ 17,301,110	\$ 16,892,786
Operating grants, contributions, and interest	32,923,107	32,888,932	-	-	32,923,107	32,888,932
Capital grants, contributions, and interest	4,391,378	3,820,309	2,024,223	2,581,294	6,415,601	6,401,603
Total program revenue	<u>49,513,510</u>	<u>48,951,014</u>	<u>7,126,308</u>	<u>7,232,307</u>	<u>56,639,818</u>	<u>56,183,321</u>
General revenues:						
Property and other taxes	15,995,164	11,433,857	-	-	15,995,164	11,433,857
Sales taxes	10,863,623	10,339,538	-	-	10,863,623	10,339,538
Intergovernmental	3,476,193	3,342,887	-	-	3,476,193	3,342,887
Unrestricted interest earnings	1,699,686	774,154	141,679	128,949	1,841,365	903,103
Other	1,190,515	855,988	24,597	6,943	1,215,112	862,931
Total general revenues	<u>33,225,181</u>	<u>26,746,424</u>	<u>166,276</u>	<u>135,892</u>	<u>33,391,457</u>	<u>26,882,316</u>
Total Revenues	<u>82,738,691</u>	<u>75,697,438</u>	<u>7,292,584</u>	<u>7,368,199</u>	<u>90,031,275</u>	<u>83,065,637</u>
Expenses:						
General government:						
Legislative and executive	8,748,759	10,206,147	-	-	8,748,759	10,206,147
Judicial	4,466,402	4,444,334	-	-	4,466,402	4,444,334
Public safety	11,945,218	12,492,107	-	-	11,945,218	12,492,107
Public works	10,280,770	10,568,677	-	-	10,280,770	10,568,677
Health	19,041,502	17,762,238	-	-	19,041,502	17,762,238
Human services	17,785,448	15,358,784	-	-	17,785,448	15,358,784
Urban redevelopment and housing	263,569	480,921	-	-	263,569	480,921
Transportation	216,466	184,618	-	-	216,466	184,618
Intergovernmental	2,050,150	2,288,812	-	-	2,050,150	2,288,812
Interest and fiscal charges	1,177,427	1,118,473	-	-	1,177,427	1,118,473
Sewer system	-	-	3,082,582	2,788,141	3,082,582	2,788,141
Water system	-	-	2,511,231	2,230,436	2,511,231	2,230,436
Total Expenses	<u>75,975,711</u>	<u>74,905,111</u>	<u>5,593,813</u>	<u>5,018,577</u>	<u>81,569,524</u>	<u>79,923,688</u>
Increase before transfers.....	6,762,980	792,327	1,698,771	2,349,622	8,461,751	3,141,949
Transfer in (out).....	-	(1,481,771)	-	1,481,771	-	-
Increase (decrease) after transfers.....	6,762,980	(689,444)	1,698,771	3,831,393	8,461,751	3,141,949
Net assets - beginning of year.....	179,960,264	180,649,708	36,896,845	33,065,452	216,857,109	213,715,160
Net assets - end of year.....	<u>\$186,723,244</u>	<u>\$179,960,264</u>	<u>\$38,595,616</u>	<u>\$36,896,845</u>	<u>\$225,318,860</u>	<u>\$216,857,109</u>

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Governmental Activities

Grants, contributions, and restricted interest accounted for 45.1% of total governmental revenues, with taxes providing 32.5% of total governmental revenues. These revenue sources comprise the two largest components of County revenues. Grants, contributions, and restricted interest revenues in 2005 were \$37,314,485. Property and other taxes revenues were \$15,995,164 (19.3% of total governmental revenues) while sales taxes were \$10,863,623 (13.1% of total governmental revenues). Taxes, grants, contributions, and restricted interest combined together, provided 77.6% of the County's total governmental revenues.

The County received \$12,199,025 or 14.7%, of total governmental revenues, in charges for services. These direct charges to citizens include real estate transfer fees, property tax collection fees, judicial fines and forfeitures, and licenses and permits.

Health activities utilized \$19,041,502 or 25.1%, of total expenses. The County's human services activities accounted for \$17,785,448 or 23.4%, of total expenses.

The following table presents the total expenses and net cost of each of the County's governmental program activities. The net cost (total program activity expenses less revenues generated by the program) represents the financial burden that was placed on the County's taxpayers by each of these program activities. Costs not covered by program revenues are essentially funded with the County's general revenues, which are primarily composed of taxes, intergovernmental revenues, and unrestricted interest earnings. The net cost to the governmental activities was \$26,462,201.

Program Expenses and Net Costs of Governmental Activities, by Program
For the Year Ended December 31, 2005

<u>Program Activity</u>	<u>Program Activity Expenses</u>	<u>Net Cost (Gain) of Program Activity</u>	<u>Net Cost (Gain) as Percentage of Total Expenses</u>	
			<u>Program Activity</u>	<u>All Program Activities</u>
General government:				
Legislative and executive	\$ 8,748,759	\$ 1,957,790	22.4%	2.6%
Judicial	4,466,402	2,150,647	48.2%	2.8%
Public safety	11,945,218	8,635,732	72.3%	11.4%
Public works	10,280,770	1,218,859	11.9%	1.6%
Health	19,041,502	5,334,343	28.0%	7.0%
Human services	17,785,448	4,500,716	25.3%	5.9%
Urban redevelopment and housing	263,569	225,372	85.5%	0.3%
Transportation	216,466	(68,055)	(31.4%)	(0.1%)
Intergovernmental	2,050,150	1,329,370	64.8%	1.7%
Interest and fiscal charges	1,177,427	1,177,427	100.0%	1.5%
Total expenses	<u>\$ 75,975,711</u>	<u>\$ 26,462,201</u>		<u>34.7%</u>

Business-type Activities

Net assets for business-type activities increased by \$1,698,771 or 4.6%, in 2005. The major revenue source was charges for services in the amount of \$5,102,085.

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Financial Analysis of the County's Funds

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

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

General Fund

The General Fund is the primary operating fund of the County. At the end of 2005, unreserved fund balance was \$11,787,007 while total fund balance was \$12,696,284. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance, to total fund expenditures. Unreserved fund balance represents 51.2 percent to total General Fund expenditures, while total fund balance represents 55.1 percent of General Fund expenditures.

The fund balance of the County's General Fund increased by \$3.7 million during the current fiscal year compared to a \$2.0 million decrease in the prior year. Key factors in this increase are as follows:

- Total General Fund revenue increased by \$3.5 million.
- General Fund expenditures decreased approximately \$1.8 million, or 7.3 percent. The largest decreases were in general governmental legislative and executive \$1,115,798, general governmental judicial \$222,413, and public safety \$533,039.
- Other financing sources (uses) had a net increase over the prior year of \$349,351 due mainly to the decreases in transfers out.

Other Major Governmental Funds

The Community Services Fund has a deficit fund balance of (\$1.0) million, in comparison with a deficit fund balance in 2004 of (\$1.6) million. This reduction in the deficit was due primarily to the General Fund increasing their yearly allocation by \$407,153 and to the State advancing less cash to this fund during the year, and the resultant recording of approximately \$468,000 of deferred revenue which is approximately \$666,000 less than the \$1.1 million of deferred revenue at the end of 2004.

The fund balance of the Motor Vehicle Fund at December 31, 2005 is \$4.0 million, a decrease of approximately \$667,000 from the prior year. The decrease in fund balance is due mainly to the net decrease of \$1,262,030 in other financing sources (uses) from the prior year. This decrease was due primarily to the increase in transfers out for the County's local share of road and bridge projects accounted for in the capital projects funds.

The fund balance of the Mental Retardation Fund at year end is \$4.8 million, a decrease of approximately \$848,000, or 15.0 percent, from the previous year. Expenditures exceeded revenues by approximately \$736,000 in the current year due primarily to an increase of \$532,000 in contractual services.

The fund balance of the Alcohol, Drug Addiction, and Mental Health Board Fund at December 31, 2005, is approximately \$1.1 million, with only a minimal change of approximately \$1,700 from the prior year.

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The General Obligation Bond Retirement Fund has a fund balance of approximately \$425,000 at December 31, 2005. This fund received approximately \$1.1 million in transfers in, while making approximately \$2.0 million in debt service payments.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The County's major proprietary funds, the Sewer Fund and the Water Fund, both had increases in net assets; the Sewer Fund's net assets grew by approximately \$1.0 million and the Water Fund's net assets increased approximately \$700,000. These increases can be primarily attributed to the Utilities Department's growing customer base.

General Fund Budgetary Highlights

The County made numerous revisions to the original appropriations approved by the County Commissioners. Overall, these changes resulted in an increase from the original budget of 5.5 percent or \$1,324,712. Appropriations were increased for the following functions: general government legislative and executive by \$186,523 and judicial by \$48,325; public safety by \$673,352 and other expenses by \$428,551. Actual expenditures were less than the final budgeted expenditures by \$1.4 million.

The County's budgeted revenue increased 11.5 percent and was primarily the result of an increase in property and other taxes of \$673,810, an increase in sales taxes of \$1,883,660, and an increase of \$160,848 in charges for services. Actual revenues exceeded the final budget by \$3.1 million.

Because of these factors, the County's economic condition in the General Fund based on actual results (on the budgetary basis) at December 31, 2005, the fund balance is \$7.2 million better than initially projected in the original budget.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2005, and December 31, 2004, the County had invested \$222.0 million and \$218.7 million, net of accumulated depreciation of \$84.7 million and \$77.2 million, respectively, in a broad range of capital assets, as follows:

Capital Assets, Net of Depreciation
As of December 31, 2005, with comparatives as of December 31, 2004

	Governmental Activities		Business-type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Land	\$ 4,577,255	\$ 4,577,255	\$ 2,237,414	\$ 1,889,374	\$ 6,814,669	\$ 6,466,629
Buildings	25,104,568	25,677,470	15,171,080	15,740,140	40,275,648	41,417,610
Improvements other than buildings	2,708,522	2,437,820	-	-	2,708,522	2,437,820
Equipment	4,238,781	3,191,348	77,585	48,302	4,316,366	3,239,650
Furniture and fixtures	467,447	523,060	-	-	467,447	523,060
Infrastructure	122,719,538	121,399,428	31,868,097	31,787,357	154,587,635	153,186,785
Vehicles	1,647,203	1,987,275	216,700	263,766	1,863,903	2,251,041
Construction in progress	2,292,288	1,608,198	8,746,326	7,612,311	11,038,614	9,220,509
Total capital assets, net	<u>\$ 163,755,602</u>	<u>\$161,401,854</u>	<u>\$ 58,317,202</u>	<u>\$ 57,341,250</u>	<u>\$ 222,072,804</u>	<u>\$ 218,743,104</u>

For additional information on capital assets, see Note 10 to the basic financial statements.

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The total increase in the County's capital assets, net of accumulated depreciation, for the current year was \$3.3 million or 1.5 percent (a 1.5 percent increase for governmental activities and a 1.7 percent increase for business-type activities). As further detailed in Note 16 of the notes to the basic financial statements, the County had \$2.5 million in major construction commitments.

Debt – Bonds, Long-Term Notes, Loans, and Capital Leases Payable

As of December 31, 2005, and December 31, 2004, the County had total debt of approximately \$52.4 million and approximately \$54.0 million, respectively, as follows:

Bonds, Long-Term Notes, Loans, and Capital Leases Payable
As of December 31, 2005, with comparatives for December 31, 2004

	Governmental Activities		Business-type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Bond anticipation notes.....	\$ -	\$ -	\$ 700,000	\$ 10,300,000	\$ 700,000	\$ 10,300,000
General obligation bonds...	20,693,781	21,640,085	25,618,702	16,081,223	46,312,483	37,721,308
Special assessment bonds.....	2,908,182	3,181,433	-	-	2,908,182	3,181,433
Long-term loans.....	104,816	194,501	1,710,437	1,888,499	1,815,253	2,083,000
Capital leases.....	623,264	737,893	28,340	12,558	651,604	750,451
	<u>\$ 24,330,043</u>	<u>\$ 25,753,912</u>	<u>\$ 28,057,479</u>	<u>\$ 28,282,280</u>	<u>\$ 52,387,522</u>	<u>\$ 54,036,192</u>

For additional information on debt, see Note 17 to the basic financial statements.

During 2005, the County issued \$700,000 and paid off \$10.3 million in bond anticipation notes, issued \$11.1 million and paid down \$2.5 million in general obligation bonds, issued no new special assessment bonds and paid off \$273,251 and incurred no new long-term loans while reducing those balances by \$267,747. Capital lease balances decreased by \$98,847. The total decrease in the County's debt obligations for the current year was 3.1 percent (a 5.5 percent decrease for governmental activities and a 0.01 percent decrease for business-type activities).

Limitations on Debt

State statutes limit the amount of total debt according to this formula: 3.0 percent of the first \$100 million of total assessed valuation; plus 1.5 percent of such valuation in excess of \$100 million and not in excess of \$300 million; plus 2.5 percent of such valuation in excess of \$300 million. By this calculation, the current total legal debt margin of Fairfield County is approximately \$59.4 million.

The County's total unvoted legal debt margin at December 31, 2005, is approximately \$18.0 million.

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Requests for Information

This financial report is designed to provide the County's citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report, please contact the Fairfield County Auditor's Office by calling (740) 687-7020 or by writing the County Auditor at 210 E. Main Street, Lancaster, Ohio 43130. An electronic version of this report is available on the County's website at www.co.fairfield.oh.us/AUDITOR/index.htm