



Mary Taylor, CPA
Auditor of State

BROWN COUNTY
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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Brown County
800 Mount Orab Pike
Georgetown, Ohio 45121

To the Board of County Commissioners:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Brown County, Ohio (the County), as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements of Brown County's primary government, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Brown County General Hospital for the years ended December 31, 2007 and 2006. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the accompanying financial statements, insofar as it relates to the amounts included for the Brown County General Hospital, is based on the report of the other auditors.

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

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

The Brown County General Hospital financial statements are presented as stand alone statements. In our opinion, based on the report of the other auditors, the Brown County General Hospital's stand alone financial statements present fairly, in all material respects, its financial position as of December 31, 2007 and December 31, 2006, and its changes in financial position and its cash flows for the years ended in conformity with accounting principles generally accepted in the United States of America.

The County omitted Business-Type Activities from the entity-wide statements and the proprietary fund statements for the Brown County General Hospital in its modified cash basis statements. Therefore in our opinion, the County's financial statements do not present fairly the financial position of the Business-Type Activities and proprietary funds of the County as of December 31, 2007 or the changes in its modified cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 2.

Further, in our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major governmental fund, and the discretely presented component unit and the aggregate remaining fund information of Brown County, Ohio, as of December 31, 2007, and the respective changes in modified cash financial position and the respective budgetary comparison for the General, Job and Family Services, and Auto and Gas Tax Funds, thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2008, 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 presents additional information and is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It is not a required part of the financial statements. We subjected this schedule to the auditing procedures applied in our audit of the County's financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Mary Taylor, CPA
Auditor of State

September 29, 2008

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2007
(Unaudited)

As Management of Brown County, we offer readers of Brown County's financial statements this narrative overview and analysis of the financial activities of Brown County for the fiscal year ended December 31, 2007. The intent of this discussion and analysis is to look at the County's financial performance as a whole; readers should also review notes to the financial statements to enhance their understanding of the County's performance.

- Net cash assets of governmental activities increase of \$1,616,013.

- At the close of the current fiscal year, Brown County's governmental funds reported a combined ending fund balance of \$16,897,431. Approximately \$2,552,536 or 15% is available for spending at the County's discretion.

Using the Basic Financial Statements

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

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the County as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the County as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

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.

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.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2007
(Unaudited)
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Reporting the Government as a Whole

The statement of net assets and the statement of activities reflect how the County did financially during 2007, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the County at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the County's general receipts.

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 nonfinancial 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 and the need for continued growth in the major local revenue sources such as property taxes.

In the statement of net assets and the statement of activities, we divide the County into two types of activities:

Governmental Activities – Most of the County's basic services are reported here, including general government, judicial, public safety, public works, health, human services, economic development and assistance, capital outlay, and debt service. State and federal grants and sales and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Component Unit – Grow Inc. is a legally separate, not-for-profit corporation, served by a self-appointed board of trustees. The workshop, under contractual agreement with the Brown County Board of Mental Retardation and Developmental Disabilities (MR/DD), provides sheltered employment for mentally and/or physically handicapped adults in Brown County. The Brown County Board of MR/DD provides Grow, Inc. with staff salaries, transportation, equipment, staff of administer and subversive ranging programs, and other funds necessary for the operation of Grow, Inc. and Grow's sole purpose of proving assistance to the mentally and/or physically handicapped adults of Brown County.

Reporting the County's Most Significant Funds

Fund financial statements provide detailed information about the County's major funds – not the County as a whole. The County establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the County are split into two categories: governmental and fiduciary.

Governmental Funds - Most of the County's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the County's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the County's programs. The County's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2007
(Unaudited)
(Continued)

The County's major governmental funds include the General Fund, Job and Family Services Fund, and Auto and Gas Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. The modified cash basis governmental fund financial statements can be found on page 17-18 of this report.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the County's programs. The basic fiduciary fund financial statement can be found on page 22 of this report.

Budgetary Comparison Statements. The County's budgetary process accounts for certain transactions on a cash basis. The budgetary comparison statement for the General Fund and all annually budgeted major Special Revenue funds are presented to demonstrate the County's compliance with annually adopted budgets. The budgetary fund financial statements can be found on pages 19-21 in this report.

Notes to the 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 financial statements can be found on pages 27-57 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets – modified cash basis may serve over time as a useful indicator of a government's financial position. This is the fifth year for Brown County has chosen to report on an *Other Comprehensive Basis of Accounting*, in a format similar to that required by Governmental Accounting Statement No. 34. This statement requires a comparative analysis of government-wide data in the Management Discussion and Analysis (MD&A) section.

The Government as a Whole

Table 1 provides a summary of the County's net assets for 2007 compared to 2006 on a modified cash basis:

Table 1
Brown County's Net Assets – Modified Cash Basis

	Governmental Activities	
	2007	2006
Equity in Pooled Cash and Investments	\$ 16,897,431	\$ 15,281,418
TOTAL ASSETS	\$ 16,897,431	\$ 15,281,418
Restricted for:		
Legislative and Executive	721,027	634,271
Public Safety	1,359,129	1,113,272
Health	3,537,770	3,212,236
Public Works	5,420,059	5,405,106
Human Services	1,603,478	1,232,450
Other Purposes	737,763	1,014,491
Capital Outlay	372,895	72,895
Debt Service	592,774	610,361
Unrestricted	2,552,536	1,986,336
TOTAL NET ASSETS	\$ 16,897,431	\$ 15,281,418

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2007
(Unaudited)
(Continued)

As mentioned previously, net assets of government activities increased \$1,616,013 or 11% during 2007. The primary increase in cash balances is due to the continuation of reduction in overall spending.

Table 2 reflects the changes in net assets on a modified cash basis in 2007 and 2006.

	2007	2006
Table 2 Governmental Activities		
Program Revenues:		
Charges for Services	\$4,249,201	\$3,704,797
Operating Grants, Contributions, and Interest	15,125,090	13,709,150
Capital Grants and Contributions	887,668	303,400
General Receipts:		
Property Taxes	3,084,941	2,955,197
Sales Taxes	3,248,786	3,316,332
Grants and Entitlements not Restricted to Specific Programs	512,214	454,700
Interest	836,320	875,414
Miscellaneous	750,792	714,083
Other Financing Sources/(Uses), net	100,045	216,959
Total Receipts	28,795,057	26,250,032
Program Disbursements:		
General Government:		
Executive and Legislative	3,960,649	4,355,564
Judicial	2,052,801	1,951,029
Public Safety	3,066,961	3,265,852
Public Health	4,981,226	4,475,145
Public Works	5,344,306	3,857,952
Human Services	6,072,679	5,574,640
Economic Development and Assistance	549,422	537,472
Capital Outlay	797,201	319,900
Debt Service:		
Principal Retirement	221,844	216,191
Interest and Fiscal Charges	131,955	144,076
Total Disbursements	27,179,044	24,697,821
Increase/(Decrease) in Net Assets	1,616,013	1,552,211
Net Assets - Beginning of Year	15,281,418	13,729,207
Net Assets - End of Year	\$16,897,431	\$15,281,418

Program receipts represent 70 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license, gas tax money, building permits, inspection fees and charges to nearby governments for police services provided under contract. Program receipts increased over the prior year largely due to new operating and capital grants.

General receipts represent 30 percent of the County's total receipts, and of this amount, over 74 percent are local taxes. Earnings on investments make up the balance of the County's general receipts at 10 percent. Other receipts are insignificant and somewhat unpredictable revenue sources. General receipts increased very little over the prior year.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2007
(Unaudited)
(Continued)

Disbursements for General Government represent the overhead costs of running the County and the support services provided for the other County activities. These include the costs of the commissioners, and the auditor, and treasurer, County departments, as well as internal services such as payroll and purchasing.

Public Safety is the costs of police protection; the economic development department promotes the County to industry and commerce as well as working with other governments in the area to attract new business; and Public Works is the cost of maintaining the roads.

Governmental Activities

If you look at the Statement of Activities on page 16, you will see that the first column lists the major services provided by the County. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for health and human services, which account for 20 and 22 percent of all governmental disbursements, respectively. General government also represents a significant cost, about 22 percent. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the County that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement.

(Table 3)

	Governmental Activities			
	Total Cost Of Services	Total Cost Of Services	Net Cost of Services	Net Cost of Services
	2007	2006	2007	2006
General Government				
Executive and Legislative	\$3,960,649	\$ 4,355,564	\$ (2,296,158)	\$ (2,657,507)
Judicial	2,052,801	1,951,029	(852,399)	(908,618)
Public Safety	3,066,961	3,265,852	(1,820,973)	(1,958,909)
Public Health	5,344,306	4,475,145	(906,361)	230,771
Public Works	4,981,226	3,857,952	(428,928)	170,146
Human Services	6,072,679	5,574,640	(397,995)	(1,175,938)
Economic Development & Assistance	549,422	537,472	49,061	(303,652)
Capital Outlay	797,201	319,900	90,467	(16,500)
Principal Retirement	221,844	216,191	(221,844)	(216,191)
Interest and Fiscal Charges	131,955	144,076	(131,955)	(144,076)
Total Expenses	<u>\$ 27,179,044</u>	<u>\$ 24,697,821</u>	<u>\$ (6,917,085)</u>	<u>\$ (6,980,474)</u>

The dependence upon property and sales tax receipts is apparent as over 18 percent of governmental activities are supported through these general receipts.

Financial Analysis of the Government's Funds

The focus of Brown County's governmental funds is to provide information on cash basis inflows, outflows, and balances. Such information is useful in assessing Brown County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the County's cash basis resources available for spending at the end of the fiscal year.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2007
(Unaudited)
(Continued)

As of the end of the current fiscal year Brown County's governmental funds reported combined ending fund modified cash basis balances of \$16,897,431 an increase of 11% in comparison with the prior year. Approximately \$15,111,107 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The General Fund is the chief operating fund of Brown County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,356,015 with receipts of \$9,242,731 and disbursements of \$8,676,535. Budget restraints have been put into place to solidify the future of the general fund. State budget cuts have some impact on the general fund of Brown County and further countywide budget cuts will be implemented as needed. The general fund balance increased by \$566,196 during the current fiscal year.

The Job and Family Services fund reported an increase in fund balance of \$405,296. This is due to monies received for overpayments and spendowns of public assistance funds.

The Auto and Gas fund received \$3,950,501 from state gasoline tax and motor vehicle registration fees. This fund reported an increase in fund balance of \$14,953.

General Fund Budgetary Highlights

The County's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. Budgetary information is presented for the General, Job and Family Services, and Auto and Gas funds.

During the year, the County revised the General Fund budget at various times. The final adjusted budget, however, was consistent with the prior year budget.

For the year ended December 31, 2007, General Fund disbursements were \$827,977 less than final appropriations, while estimated resources were \$618,118 above the actual receipts.

Capital Assets and Debt Administration

Capital Assets

Brown County does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements.

County Debt Administration

At the end of 2007, the County had general obligation debt outstanding of \$2,011,603, backed by the full faith and credit of the County. The County's general obligation debt decreased by \$221,844 or 11% during the 2007 fiscal year.

State statute limits the total amount of debt a governmental entity may issue. The current unvoted debt margin for the County is \$5,369,337. In addition to the bonded debt, the County's long-term obligations include a Forgivable Debt with the Ohio Department of Mental Health. Additional information on the County's long-term debt can be found in note 14 of this report. Interest and fiscal charges for 2007, were \$131,955 or .5% of total governmental activities.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2007
(Unaudited)
(Continued)

Economic Factors and Next Year's Budgets and Rates

- . The County maintains a conservative approach to spending while maximizing its local revenue.
- . The vacancy rate of the County's general business districts is not tracked; however, much of the district is utilized by service entities such as government offices, banks, insurance offices, restaurants, etc. There are only a few retail stores located in the county. Sales tax revenue during the past four years has remained basically the same.

All of these factors were considered in preparing Brown County's budget for the 2007 year.

Request for information

This financial report is designed to provide a general overview of Brown County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for addition financial information should be addressed to Doug Green, Brown County Auditor, 800 Mt Orab Pike, Suite 181, Georgetown, Ohio 45121.

Brown County General Hospital

This section of Brown County General Hospital's (the Hospital) annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance during the year ended December 31, 2007. This MD&A includes a discussion and analysis of the activities and results of the Hospital.

This MD&A should be read together with the financial statements included in this report.

FINANCIAL HIGHLIGHTS

- The Hospital's net assets decreased by \$1.4 million mainly due to a loss from operations for 2007 of \$1.4 million.
- During the year, the Hospital's net operating revenues increased 3.1% to \$34.5 million and operating expenses increased 0.2% to \$35.9 million. The result is a loss from operations of \$1.4 million compared to a loss from operations in 2006 of \$2.4 million.
- During the year, the Hospital made the following significant capital acquisition:

Progress payments on a modular building that will house the Hospital's new MRI unit.

The primary source of funding for this project was operations.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2007
(Unaudited)
(Continued)

FINANCIAL STATEMENTS

The financial statements of the Hospital present information about the Hospital using financial reporting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information. The Statements of Net Assets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the financial results of the Hospital's operations and present revenues earned and expenses incurred. The final financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Hospital's cash flows from operating activities, capital and related financing activities, and investing activities, and to provide information on the sources and uses of cash during the year. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided. The notes to the financial statements can be found beginning on page 9 of this report.

FINANCIAL ANALYSIS

The Statements of Net Assets and Revenues, Expenses and Changes in Net Assets report information about the Hospital's net assets and the Hospital's changes in net assets. Increases or decreases in the Hospital's net assets are one indicator of whether the Hospital's financial health is improving or deteriorating. However, other non-financial factors, such as changes in economic conditions, population growth (including uninsured and medically indigent individuals and families), new or changed government legislation and the Hospital's strategic plan should also be considered.

A summary of the Hospital's Statements of Net Assets as of December 31, 2007, 2006 and 2005 is presented below (in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
ASSETS			
Cash and Cash Equivalents	\$ 1,801	\$ 1,309	\$ 2,942
Patient Accounts Receivable, Net	4,966	5,362	4,699
Property, Plant and Equipment, Net	10,530	12,272	12,482
Other Assets	<u>1,016</u>	<u>1,336</u>	<u>2,019</u>
Total Assets	<u>\$ 18,313</u>	<u>\$ 20,279</u>	<u>\$ 22,142</u>

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2007
(Unaudited)
(Continued)

LIABILITIES AND NET ASSETS

Current Portion of Long-Term Liabilities	\$ 277	\$ 304	\$ 244
Other Current Liabilities	3,794	4,063	4,097
Long-Term Liabilities	<u>1,325</u>	<u>1,602</u>	<u>1,136</u>
Total Liabilities	5,396	5,969	5,477
Invested in Property, Plant and Equipment, Net of Related Debt	9,952	11,465	11,431
Unrestricted	2,780	2,704	4,446
Restricted	<u>185</u>	<u>141</u>	<u>788</u>
Total Net Assets	<u>12,917</u>	<u>14,310</u>	<u>16,665</u>
Total Liabilities and Net Assets	<u>\$ 18,313</u>	<u>\$ 20,279</u>	<u>\$ 22,142</u>

A summary of the Hospital's Revenues, Expenses and Changes in Net Assets for the years ended December 31, 2007, 2006 and 2005 is presented below (in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues			
Net Patient Service Revenues	\$ 34,004	\$ 33,050	\$ 35,391
Other Revenues	<u>489</u>	<u>402</u>	<u>475</u>
Total Revenues	<u>34,493</u>	<u>33,452</u>	<u>35,866</u>
Expenses			
Salaries and Benefits	20,804	20,778	20,391
Purchased Services and Professional Fees	3,164	3,076	4,298
Depreciation and Amortization	1,835	1,905	1,825
Supplies and Other	<u>10,128</u>	<u>10,106</u>	<u>10,745</u>
Total Expenses	<u>35,931</u>	<u>35,865</u>	<u>37,259</u>
Loss from Operations	(1,438)	(2,413)	(1,393)
Non-Operating (Expenses) Revenues	<u>(49)</u>	<u>21</u>	<u>(229)</u>
Changes in Net Assets	<u>\$ (1,487)</u>	<u>\$ (2,392)</u>	<u>\$ (1,622)</u>

Changes in the Hospital's cash flows are consistent with changes in operating losses and property and equipment acquisitions discussed earlier.

Sources of Revenues

During 2007, the Hospital derived substantially all of its revenues from patient services and other related activities. Revenues include, among other items, revenues from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

Payer Mix

The Hospital provides care to patients under payment arrangements with Medicare, Medicaid, and various commercial programs. Services provided under those arrangements are paid at predetermined rates or rates per discharge as defined. Provisions have been made in the financial statements for bad debt allowances and contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payment.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2007
(Unaudited)
(Continued)

OPERATING AND FINANCIAL PERFORMANCE

The Hospital generated 11.6% more gross revenues from patients in 2007 compared to 2006, but continued to have a loss from operations due to a 20.9% increase in its contractual allowances and bad debts. This section will discuss highlights of 2007 operations and changes in activity.

Revenues

Net patient service revenues increased \$1.0 million in 2007 primarily due to an increase in outpatient volume.

Expenses

Total operating expenses remained fairly constant in 2007 at \$35.9 million, a \$66,000 increase over 2006.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year-end, the Hospital had \$10.5 million invested in property, plant and equipment. This amount represents a net decrease (including additions, deletions, and depreciation expense) of \$1.8 million, or 14.2%, from last year. See page one of the MD&A for a description of the significant capital acquisition during 2007 and the notes to the basic financial statements for a detailed presentation of the acquisitions, deletions and depreciation for the year.

Debt Administration

At year-end, the Hospital had \$1.8 million in outstanding debt (including capital lease obligations and a line of credit) versus \$2.1 million last year, a decrease of 14.5%. Interest rates varied from 4.57% to 8.25%. For a breakdown of the interest payment schedule and a detailed presentation of debt acquisitions and retirements for the year, refer to the notes to the basic financial statements.

ECONOMIC FACTORS AND 2007 BUDGET

The Hospital's Board and management considered many factors when setting the 2007 budget. Of primary importance in setting the budget was the status of the economy, which takes into account market focus and other environmental factors such as the following:

- Demographics and impact areas of population growth and the expanding need for services
- Expansion and costs related to increasing the Hospital's visibility in the community
- Continuously increasing expectations for quality improvement
- Advances in medical equipment technology and the need to replace obsolete equipment
- Privacy legislation – Health Insurance Portability and Accountability Act (HIPAA)
- Increasing emphasis on the integrity of financial information
- Increasing number of uninsured patients
- Increasing cost of medical supplies
- Access to additional capital
- Increasing drug costs

The focus of management is to implement a multi-year plan that will emphasize expanded services to all areas of Brown County, continuous quality improvement, cost control, capital requirements, and financing in support of net asset improvement.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2007
(Unaudited)
(Continued)

CONTACTING THE HOSPITAL'S MANAGEMENT

This financial statement is designed to provide users with a general overview of the Hospital's finances. Questions or comments about this report should be directed to Mr. Michael Patterson, CEO, by telephone at 1-937-378-7500, or by mail to the Administrative Department at 425 Home Street, Georgetown, OH 45121.

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Brown County, Ohio
Statement of Net Assets - Modified Cash Basis
December 31, 2007

	Governmental Activities	Component Unit <u>GROW Inc.</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	<u>\$16,897,431</u>	<u>\$34,799</u>
<i>Total Assets</i>	<u><u>\$16,897,431</u></u>	<u><u>\$34,799</u></u>
Net Assets		
Restricted for:		
Legislative and Executive	\$721,027	\$0
Public Safety	1,359,129	0
Health	3,537,770	0
Public Works	5,420,059	0
Human Services	1,603,478	0
Other Purposes	737,763	0
Capital Projects	372,895	0
Debt Service	592,774	0
Unrestricted	<u>2,552,536</u>	<u>34,799</u>
<i>Total Net Assets</i>	<u><u>\$16,897,431</u></u>	<u><u>\$34,799</u></u>

See accompanying notes to the basic financial statements

Brown County, Ohio
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2007

	Cash Disbursements	Charges for Services	Program Receipts		Net (Disbursements) Receipts and Changes in Net Assets	Component Unit
			Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	GROW Inc.
Governmental Activities						
General Government:						
Executive and Legislative	(\$3,960,649)	\$1,340,418	\$324,073	\$0	(\$2,296,158)	
Judicial	(2,052,801)	1,091,659	108,743	0	(852,399)	
Public Safety	(3,066,961)	598,974	647,014	0	(1,820,973)	
Public Works	(4,981,226)	314,450	4,237,848	0	(428,928)	
Health	(5,344,306)	685,362	3,752,583	0	(906,361)	
Human Services	(6,072,679)	205,852	5,468,832	0	(397,995)	
Economic Development and Assistance	(549,422)	12,486	585,997	0	49,061	
Capital Outlay	(797,201)	0	0	887,668	90,467	
Debt Service						
Principal Retirement	(221,844)	0	0	0	(221,844)	
Interest and Fiscal Charges	(131,955)	0	0	0	(131,955)	
<i>Total Governmental Activities</i>	(27,179,044)	4,249,201	15,125,090	887,668	\$ (6,917,085)	
Component Unit:						
GROW Inc.	(147,131)	141,412				(5,719)
<i>Total</i>	<u>(\$27,326,175)</u>	<u>\$4,390,613</u>	<u>\$15,125,090</u>	<u>\$887,668</u>		
General Receipts:						
Taxes						
Property					3,084,941	
Sales					3,248,786	
Grants and Entitlements not Restricted to Specific Programs					512,214	
Interest					836,320	
Miscellaneous					750,792	
Other Financing Sources/Uses (Net)					100,045	
<i>Total General Receipts</i>					<u>8,533,098</u>	
Change in net assets					1,616,013	(5,719)
<i>Net assets - beginning of year</i>					<u>15,281,418</u>	<u>40,518</u>
<i>Net assets - end of year</i>					<u>\$16,897,431</u>	<u>\$34,799</u>

See accompanying notes to the basic financial statements

Brown County, Ohio
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2007

	<u>General Fund</u>	<u>Job and Family Services</u>	<u>Auto and Gas</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	<u>\$2,552,532</u>	<u>\$741,867</u>	<u>\$5,273,292</u>	<u>\$8,329,740</u>	<u>\$16,897,431</u>
<i>Total Assets</i>	<u><u>\$2,552,532</u></u>	<u><u>\$741,867</u></u>	<u><u>\$5,273,292</u></u>	<u><u>\$8,329,740</u></u>	<u><u>\$16,897,431</u></u>
Fund Balances					
Reserved:					
Reserved for Encumbrances	\$196,517	\$175,963	\$631,392	\$782,452	\$1,786,324
Unreserved:					
Undesignated, Reported in:					
General Fund	2,356,015	0	0	0	2,356,015
Special Revenue Funds	0	565,904	4,641,900	6,581,619	11,789,423
Debt Service Funds	0	0	0	592,774	592,774
Capital Projects Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>372,895</u>	<u>372,895</u>
<i>Total Fund Balances</i>	<u><u>\$2,552,532</u></u>	<u><u>\$741,867</u></u>	<u><u>\$5,273,292</u></u>	<u><u>\$8,329,740</u></u>	<u><u>\$16,897,431</u></u>

See accompanying notes to the basic financial statements

Brown County, Ohio
*Statement of Cash Receipts, Disbursements
and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2007*

	<u>General Fund</u>	<u>Job and Family Services</u>	<u>Auto and Gas</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts					
Taxes:					
Property	\$2,290,738	\$0	\$0	\$794,203	\$3,084,941
Permissive Sales Tax	2,598,829	0	0	649,957	3,248,786
Charges for Services	1,487,473	0	241,376	1,666,657	3,395,506
Intergovernmental	1,141,679	4,531,183	3,950,501	6,631,511	16,254,874
Fines and Forfeitures	435,619	0	22,431	390,784	848,834
Licenses and Permits	2,650	0	0	2,211	4,861
Miscellaneous	186,123	171,054	90,320	303,295	750,792
Interest	836,320	0	270,098	0	1,106,418
Total Receipts	8,979,431	4,702,237	4,574,726	10,438,618	28,695,012
Disbursements					
Current:					
General Government:					
Legislative and Executive	3,562,875	0	0	397,774	3,960,649
Judicial	1,318,942	0	0	733,859	2,052,801
Public Safety	2,309,122	0	0	757,839	3,066,961
Public Health	267,074	0	0	5,077,232	5,344,306
Public Works	209,656	0	4,559,773	211,797	4,981,226
Human Services	304,710	4,530,187	0	1,237,782	6,072,679
Economic Development and Assistance	0	0	0	549,422	549,422
Capital Outlay	0	0	0	797,201	797,201
Debt Service:					
Principal Retirement	0	0	0	221,844	221,844
Interest and Fiscal Charges	0	0	0	131,955	131,955
Total Disbursements	7,972,379	4,530,187	4,559,773	10,116,705	27,179,044
Excess of Receipts Over (Under) Disbursements	1,007,052	172,050	14,953	321,913	1,515,968
Other Financing Sources (Uses)					
Transfers In	0	0	0	1,537,917	1,537,917
Transfers Out	(381,000)	0	0	(1,156,917)	(1,537,917)
Advances In	263,300	0	0	158,035	421,335
Advances Out	(158,035)	0	0	(263,300)	(421,335)
Other Financing Sources	0	233,246	0	118,275	351,521
Other Financing Uses	(165,121)	0	0	(86,355)	(251,476)
Total Other Financing Sources (Uses)	(440,856)	233,246	0	307,655	100,045
Net Changes in Fund Balance	566,196	405,296	14,953	629,568	1,616,013
Fund Balance at Beginning of Year	1,986,336	336,571	5,258,339	7,700,172	15,281,418
Fund Balance at End of Year	\$2,552,532	\$741,867	\$5,273,292	\$8,329,740	\$16,897,431

See accompanying notes to the basic financial statements

Brown County, Ohio
*Statement of Receipts, Disbursements and Changes
In Fund Balances - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2007*

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Taxes:				
Property Tax	\$2,100,239	\$4,189,921	\$2,264,057	(\$1,925,864)
Permissive Sales Tax	2,500,000	2,500,000	2,598,829	98,829
Charges for Services	1,212,431	1,141,372	1,485,149	343,777
Intergovernmental	932,032	877,407	1,141,679	264,272
Licenses, Permits and Fees	355,626	334,784	435,619	100,835
Fines and Forfeitures	3,148	2,963	3,856	893
Miscellaneous	149,059	140,322	182,587	42,265
Interest	682,701	642,689	836,264	193,575
<i>Total Receipts</i>	7,935,236	9,829,458	8,948,040	(881,418)
Disbursements				
Current:				
General Government:				
Executive/Legislative	4,511,762	4,978,702	3,705,485	1,273,217
Judicial	1,333,132	1,379,263	1,336,611	42,652
Public Safety	2,166,458	2,350,237	2,343,141	7,096
Public Health	265,602	267,603	267,430	173
Public Works	209,312	211,242	209,899	1,343
Human Services	337,679	337,679	306,330	31,349
<i>Total Disbursements</i>	8,823,945	9,524,726	8,168,896	1,355,830
<i>Excess of Receipts Over (Under) Disbursements</i>	(888,709)	304,732	779,144	474,412
Other Financing Sources				
Transfers Out	(395,591)	(176,303)	(381,000)	(204,697)
Advances In	0	0	263,300	263,300
Advances Out	0	0	(158,035)	(158,035)
Other Financing Uses	0	0	(165,121)	(165,121)
<i>Total Other Financing Sources (Uses)</i>	(395,591)	(176,303)	(440,856)	(264,553)
<i>Net Change in Fund Balance</i>	(1,284,300)	128,429	338,288	209,859
<i>Fund Balance at Beginning of Year (as restated, see Note 5)</i>	1,613,325	1,613,325	1,613,325	0
Prior Year Encumbrances Appropriated	187,035	187,035	187,035	0
<i>Fund Balance at End of Year</i>	<u>\$516,060</u>	<u>\$1,928,789</u>	<u>\$2,138,648</u>	<u>\$209,859</u>

See accompanying notes to the basic financial statements

Brown County, Ohio
*Statement of Receipts, Disbursements and Changes
 In Fund Balances - Budget and Actual - Budget Basis
 Job and Family Services Fund
 For the Year Ended December 31, 2007*

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Intergovernmental	\$3,438,415	\$4,370,467	\$4,531,183	\$160,716
Miscellaneous	129,802	164,987	171,054	6,067
<i>Total Receipts</i>	3,568,217	4,535,454	4,702,237	166,783
Disbursements				
Current:				
Human Services	3,790,100	4,843,250	4,706,150	137,100
<i>Total Disbursements</i>	3,790,100	4,843,250	4,706,150	137,100
<i>Excess of Receipts Over (Under) Disbursements</i>	(221,883)	(307,796)	(3,913)	303,883
Other Financing Sources				
Other Financing Sources	0	0	233,246	233,246
<i>Net Change in Fund Balance</i>	(221,883)	(307,796)	229,333	537,129
<i>Fund Balance at Beginning of Year</i>	114,688	114,688	114,688	0
Prior Year Encumbrances Appropriated	221,883	221,883	221,883	0
<i>Fund Balance at End of Year</i>	<u>\$114,688</u>	<u>\$28,775</u>	<u>\$565,904</u>	<u>\$537,129</u>

See accompanying notes to the basic financial statements

Brown County, Ohio
*Statement of Receipts, Disbursements and Changes
 In Fund Balances - Budget and Actual - Budget Basis
 Auto and Gas Fund
 For the Year Ended December 31, 2007*

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Charges for Services	\$253,282	\$227,349	\$241,376	\$14,027
Intergovernmental	4,145,364	3,720,923	3,950,501	229,578
Fines and Forfeitures	23,158	20,786	22,069	1,283
Miscellaneous	94,775	85,071	90,320	5,249
Interest	283,421	254,402	270,098	15,696
<i>Total Receipts</i>	4,800,000	4,308,531	4,574,364	265,833
Disbursements				
Current:				
Public Works	5,532,084	5,770,584	5,191,165	579,419
<i>Total Disbursements</i>	5,532,084	5,770,584	5,191,165	579,419
<i>Excess of Receipts Over (Under) Disbursements</i>	(732,084)	(1,462,053)	(616,801)	845,252
<i>Fund Balance at Beginning of Year (as restated, see Note 5)</i>	4,523,997	4,523,997	4,523,997	0
Prior Year Encumbrances Appropriated	733,155	733,155	733,155	0
<i>Fund Balance at End of Year</i>	<u>\$4,525,068</u>	<u>\$3,795,099</u>	<u>\$4,640,351</u>	<u>\$845,252</u>

See accompanying notes to the basic financial statements

Brown County, Ohio
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
December 31, 2007

	<u>Agency Funds</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,759,945
Cash and Cash Equivalents in Segregated Accounts	<u>436,893</u>
<i>Total Assets</i>	<u><u>\$3,196,838</u></u>
Net Assets	
Undistributed Monies	<u><u>\$3,196,838</u></u>

See accompanying notes to the basic financial statements

**BROWN COUNTY GENERAL HOSPITAL
BROWN COUNTY**

**CONSOLIDATED STATEMENTS OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007 AND 2006**

ASSETS

	December 31,	
	2007	2006
Current Assets		
Cash and Cash Equivalents (Includes Restricted Cash of \$185,134 and \$140,615 as of December 31, 2007 and 2006, Respectively)	\$ 1,786,245	\$ 1,294,716
Patient Accounts Receivable, Net of Allowance for Doubtful Accounts and Contractual Adjustments of \$5,643,952 for 2007 and \$6,028,488 for 2006	4,966,317	5,361,712
Grant Receivable	246,498	246,498
Notes, Contracts and Other Accounts Receivable	110,806	333,482
Supplies Inventory	350,358	362,918
Prepaid Expenses and Other Assets	307,127	392,592
Total Current Assets	7,767,351	7,991,918
Cash and Cash Equivalents Whose Use is Limited		
By Board for Plant Renewal and Replacement	15,234	14,763
Property, Plant and Equipment, Net	10,530,420	12,272,029
Total Assets	\$ 18,313,005	\$ 20,278,710

See accompanying notes to the financial statements.

**BROWN COUNTY GENERAL HOSPITAL
BROWN COUNTY**

**CONSOLIDATED STATEMENTS OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007 AND 2006
(Continued)**

LIABILITIES AND NET ASSETS

	December 31,	
	2007	2006
Current Liabilities		
Line of Credit	\$ 500,000	\$ 499,688
Revenue Bond, Current	75,000	75,000
Current Portion of Long-Term Debt	201,873	229,184
Accounts Payable	1,187,387	1,204,973
Estimated Settlement Amounts Due to Third-Party Payors	21,426	41,287
Deferred Income	33,299	26,912
Accrued Expenses		
Salaries, Wages, Withholdings and Benefits	852,295	945,912
Compensated Absences	760,203	781,967
Other	439,238	562,430
	<u>4,070,721</u>	<u>4,367,353</u>
Long-Term Liabilities		
Accrued Compensated Absences, Less Current Portion	315,000	315,000
Revenue Bond, Net of Current Portion	633,720	708,720
Long-Term Debt, Net of Current Portion	376,212	578,086
	<u>1,324,932</u>	<u>1,601,806</u>
	<u>5,395,653</u>	<u>5,969,159</u>
Net Assets		
Invested in Property, Plant and Equipment, Net of Related Debt	9,243,615	10,681,040
Unrestricted	3,488,603	3,487,896
Restricted	185,134	140,615
	<u>12,917,352</u>	<u>14,309,551</u>
	<u>18,313,005</u>	<u>20,278,710</u>
Total Liabilities and Net Assets	\$ 18,313,005	\$ 20,278,710

See accompanying notes to the financial statements.

**BROWN COUNTY GENERAL HOSPITAL
BROWN COUNTY**

**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	Years Ended December 31,			
	2007		2006	
	Amount	Percent	Amount	Percent
Net Patient Service Revenues	\$ 34,004,411	98.6 %	\$ 33,050,260	98.8 %
Other Operating Revenues	<u>488,889</u>	<u>1.4</u>	<u>401,970</u>	<u>1.2</u>
Total Operating Revenues	<u>34,493,300</u>	<u>100.0</u>	<u>33,452,230</u>	<u>100.0</u>
Operating Expenses				
Salaries and Wages	16,669,310	48.3	15,938,386	47.6
Employee Benefits	4,135,241	12.0	4,839,760	14.5
Supplies and Other	8,764,027	25.4	8,768,800	26.2
Depreciation	1,835,212	5.3	1,905,188	5.7
Purchased Services and Professional Fees	3,163,553	9.2	3,076,161	9.2
Utilities	770,883	2.2	631,687	1.9
Insurance	479,406	1.4	625,753	1.9
Interest	<u>113,909</u>	<u>0.3</u>	<u>79,535</u>	<u>0.2</u>
Total Operating Expenses	<u>35,931,541</u>	<u>104.1</u>	<u>35,865,270</u>	<u>107.2</u>
Loss from Operations	<u>(1,438,241)</u>	<u>(4.1)</u>	<u>(2,413,040)</u>	<u>(7.2)</u>
Non-Operating (Expenses) Revenues				
Investment Income	52,694	0.2	42,255	0.1
Gifts, Grants and Donations	13,244	-	21,940	0.1
Non-Operating Expenses	<u>(114,707)</u>	<u>(0.3)</u>	<u>(43,067)</u>	<u>(0.1)</u>
Total Non-Operating (Expenses) Revenues	<u>(48,769)</u>	<u>(0.1)</u>	<u>21,128</u>	<u>0.1</u>
Changes in Net Assets	(1,487,010)	<u>(4.2) %</u>	(2,391,912)	<u>(7.1) %</u>
Net Assets, Beginning of Year	14,309,551		16,665,245	
Donations of Property, Plant and Equipment	<u>94,811</u>		<u>36,218</u>	
Net Assets, End of Year	<u>\$ 12,917,352</u>		<u>\$ 14,309,551</u>	

See accompanying notes to the financial statements.

**BROWN COUNTY GENERAL HOSPITAL
BROWN COUNTY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	Years Ended December 31,	
	2007	2006
Cash Flows from Operating Activities		
Cash Received from Patients	\$ 40,512,426	\$ 36,971,797
Cash Payments to Suppliers for Goods and Services	(19,161,709)	(17,820,372)
Cash Payments to Employees for Services	(20,919,931)	(20,611,721)
Other Operating Revenues	488,889	401,970
Net Cash Provided (Used) by Operating Activities	919,675	(1,058,326)
Cash Flows from Non-Capital Financing Activities		
Investment Income	52,694	42,255
Gifts, Grants and Donations	13,244	21,940
Non-Operating Expenses	(114,707)	(43,067)
Net Cash (Used) Provided by Non-Capital Financing Activities	(48,769)	21,128
Cash Flows from Capital and Related Financing Activities		
Acquisition of Property, Plant and Equipment	(127,471)	(1,639,266)
Principal Paid on Long-Term Debt	(304,184)	(244,006)
Net Change in Line of Credit	312	499,688
Proceeds from Note Payable	-	783,720
Proceeds from Sale of Property, Plant and Equipment	52,437	4,430
Net Cash Used by Capital and Related Financing Activities	(378,906)	(595,434)
Net Change in Cash and Cash Equivalents	492,000	(1,632,632)
Cash and Cash Equivalents at Beginning of Year	1,309,479	2,942,111
Cash and Cash Equivalents at End of Year	\$ 1,801,479	\$ 1,309,479
Recap of Cash and Cash Equivalents		
Undesignated Cash	\$ 1,601,111	\$ 1,154,101
Designated Cash	15,234	14,763
Restricted Cash	185,134	140,615
Total Cash and Cash Equivalents	\$ 1,801,479	\$ 1,309,479
Reconciliation of Loss from Operations to Net Cash Provided (Used) by Operating Activities		
Loss from Operations	\$ (1,438,241)	\$ (2,413,040)
Adjustments to Reconcile Loss from Operations to Net Cash Provided by Operating Activities		
Depreciation	1,835,212	1,905,188
Provision for Bad Debts	6,112,620	4,584,589
Loss (Gain) on Disposal of Property, Plant and Equipment	76,242	(23,742)
Changes in		
Patient Accounts Receivable	(5,717,225)	(5,247,641)
Notes, Contracts, Grants and Other Receivables	222,676	621,539
Supplies Inventory	12,560	(85,963)
Prepaid Expenses and Other Assets	85,465	147,818
Accounts Payable	(17,586)	(183,894)
Estimated Settlement Amounts Due to Third-Party Payors	(19,861)	(644,668)
Deferred Income	6,387	6,940
Accrued Expenses	(238,574)	274,548
Net Cash Provided (Used) by Operating Activities	\$ 919,675	\$ (1,058,326)
Supplemental Cash Flow Information		
Cash Paid for Interest	\$ 115,450	\$ 75,953
Non-cash investing and financing activities		
Donated Property, Plant and Equipment	\$ 94,811	\$ 36,218

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007

1. REPORTING ENTITY AND BASIS OF PRESENTATION

Brown County, Ohio (the County), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The county operates under the direction of a three-member Board of County Commissioners. The County Auditor is responsible for the fiscal controls of the resources of the County, which are maintained in the funds described herein. The County Treasurer is the custodian of funds and the investment officer. The voters of the County elect all of these officials. Other elected officials of the County that manage various segments of county operations are the Recorder, Clerk of Courts, Coroner, Engineer, Prosecutor, Sheriff, a Common Pleas Court Judge, and a Probate/Juvenile Judge. Services provided by the County include general government, public safety, health, public works, human services, maintenance of highways and roads, and economic development.

Although 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 the chief administrators of public services for the entire County.

REPORTING ENTITY

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the County consists of all funds, departments, boards, and agencies that are not legally separate from the County. For Brown County, this includes the Brown County Board of Mental Retardation and Developmental Disabilities, Brown County Board of Alcohol, Drug Addiction and Mental Health, Brown County Solid Waste Management District, Brown County Airport, Brown County General Hospital, and all departments and activities that are directly operated by the elected County officials.

The Brown County General 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 Brown County. The Hospital is not considered legally separate from the County and for financial reporting purposes is treated as an Enterprise Fund of the County. The Hospital prepares its financial statements in accordance with a basis of accounting, which is different from that used by the County to report its other activities and consequently the Hospitals financial statements and related notes are presented separately.

As the custodian of public funds, the County Treasurer invests all public monies held on deposit in the County treasury. In the case of separate agencies, boards and commissions listed below the County serves as fiscal agent, but are 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.

Soil and Water Conservation District
Brown County Health District
Family and Children First Council

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

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 and 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 also include organizations that are fiscally dependent on the County in that the County approves the organization's budget, the issuance of its debt or levying of its taxes.

Grow Inc. – *Grow Inc.* is a legally separate, not-for-profit corporation, served by a self-appointed board of trustees. The workshop, under contractual agreement with the Brown County Board of Mental Retardation and Developmental Disabilities (MR/DD), provides sheltered employment for mentally and/or physically handicapped adults in Brown County.

The Brown County Board of MR/DD provides *Grow, Inc.* with staff salaries, transportation, equipment, staff of administer and subversive ranging programs, and other funds necessary for the operation of *Grow, Inc.* and *Grow's* sole purpose of proving assistance to the mentally and/or physically handicapped adults of Brown County. *Grow* is a component unit of the County and is presented as a component unit in these financial statements.

The County is associated with certain organizations, which are defined as joint ventures, jointly governed organizations or risk sharing pool and a group purchasing pool. These organizations are:

- Brown County Emergency Management Agency
- Ohio Valley Resource Conservation and Development Area, Inc.
- Workforce Investment Board
- Private Industry Council
- County Risk Sharing Authority (CORSA)
- County Commissioners' Association of Ohio Workers' Compensation Group Rating Program

Brown County Emergency Management Agency - *Brown County Emergency Management Agency* is a joint venture between the County, Township and Villages. The executive committee consists of a county commissioner, seven chief executives from municipalities and sixteen from townships, with money provided by the members, which is reimbursed by the State. The degree of control is limited to the individual representation on the board.

Ohio Valley Resource Conservation and Development Area, Inc. - *Ohio Valley Resource Conservation and Development Area, Inc.* is a jointly governed organization that is operated as a non-profit corporation. The *Ohio Valley Resource Conservation and Development Area, Inc.* was created to aid regional planning to participating counties. Brown County, along with Ross, Vinton, Highland, Pike, Adams, Scioto, Jackson, Gallia, and Lawrence Counties, each appoint three members to a thirty member council. The Council selects an administrator to oversee operations.

Each entity contributes \$250 annually; other revenue is from USDA grants. Brown County does not have any ongoing financial interest or responsibilities nor can it significantly influence management.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

Workforce Investment Board – The Workforce Investment Board is a jointly governed organization of representatives from the private and public sectors of Pike, Scioto, Adams, and Brown Counties appointed by the county commissioners from each county. The forty-eight-member board includes twelve members from each participating county and includes fifty-one percent of its members from the private sector. The remaining members include individuals from education, one-stop partners, juvenile justice centers, labor organizations, local public housing and former participants. The Workforce Investment Board typically meets three to four times per year and is responsible for the five year plan, selecting one stop operators, selecting youth providers and coordinating all activities in association with Workforce Improvement Act funds. This board enables the participating counties to have more local control over the programs, which they assist in overseeing. The Workforce Advisory Board received no contributions from the County during 2007.

Private Industry Council - The Private Industry Council (PIC) is jointly governed organization of representatives from the private and public sectors of Brown, Scioto, Adams, Jackson and Brown counties appointed by the county commissioners from each county. The Board of Trustees is the governing board of the PIC. The Board of Trustees elects a President, Vice President, Secretary, Treasurer and an Executive Director. The President may execute, without limitation, contracts, bonds, notes, debentures, deeds, mortgages and other obligations in the name of the PIC. The County does not have any ongoing financial interest in or responsibility for the Council.

County Risk Sharing Authority (CORSA) - County Risk Sharing Authority (CORSA) is a shared risk pool among fifty-seven counties in Ohio. CORSA was formed as an Ohio nonprofit corporation for the purpose of establishing the CORSA Insurance/Self-Insurance Program, a group primary and excess insurance/self-insurance and risk management program. Member counties agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverages provided by CORSA. These coverages include comprehensive general liability, automobile liability, certain property insurance and public official's errors and omissions liability insurance.

Each member county has one vote on all matters requiring a vote, to be cast by a designated representative. An elected board of not more than nine trustees manages the affairs of CORSA. County Commissioners of members' counties are eligible to serve on the Board of Trustees. No county may have more than one representative on the Board at any time. Each member county's control over the budgeting and financing of CORSA is limited to its voting authority and any representation it may have on the Board of Trustees.

CORSA has issued certificates of participation in order to provide adequate cash reserves. The certificates are secured by the member counties' obligations to make coverage payments to CORSA. The participating counties have no responsibility for the payment of the certificates. The Certificates were retired on May 1, 1997. The County has equity interest in CORSA. The County's payment for insurance of CORSA in 2007 was \$183,641. Financial statements may be obtained by contacting the County Commissioners Association of Ohio in Columbus, Ohio.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

County Commissioners' Association of Ohio Workers' Compensation Group Rating Program – The County is participating in the County Commissioners' Association of Ohio Workers' Compensation Group Rating Program as established under Section 4123.29 of the Ohio Revised Code. The County Commissioners' Association of Ohio (CCAO) is a group purchasing pool. A group executive committee is responsible for calculating annual rate contributions and rebates; approving the selection of a third party administrator; reviewing and approving proposed third party fees, fees for risk management services, and general management fees; determining ongoing responsibility of each participant; and performing any other acts and functions which may be delegated to it by the participating employers. The group executive committee consists of seven members. Two members are the president and the treasurer of the CCAOSC; the participants at a meeting held in the month of December each year elect the remaining five members for ensuing year. No participant can have more than one member on the group executive committee in any year, and each elected member shall be a county commissioner.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – Although required by Ohio Administrative Code, Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the County chooses to prepare its financial statements and notes on a modified basis of cash receipts and disbursements, with the exception of the Brown County General Hospital. The Brown County General Hospital presents its financial data in stand-alone statements, which are presented according to Generally Accepted Accounting Principles. The cash receipts and disbursement basis is a comprehensive basis of accounting other than generally accepted accounting principals (GAAP). Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the County that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Fund Financial Statements

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

B. Fund Accounting

The County uses funds to maintain its financial records during the year. Fund accounting is a concept development to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts. The County classifies each fund as either governmental, or fiduciary.

Governmental: The County classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other non-exchange transactions as governmental funds. The following are the County's major governmental funds:

General Fund – The General Fund accounts for all financial resources except for restricted resources requiring a separate accounting. The general fund balance is available for any purpose provided it is expended or transferred according to Ohio law.

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

Auto and Gas Fund – This fund accounts for monies received from state gasoline tax and motor vehicle registration fees designated for maintenance and repair of roads and bridges.

The other governmental funds of the County account for grants and other resources whose use is restricted for a particular purpose.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds: Fiduciary funds account for cash and investments where the County is acting as trustee or fiscal agent for other entities. The following is the County's significant fiduciary fund type:

Agency Funds – Agency funds are used to account for assets held by a government unit as an agent for individuals, other governmental units, and/or other funds.

C. Basis of Accounting

The County's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the County's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. The County varies from the cash basis of accounting on their financial statements by the following modifications:

- Real Estate taxes collected by the County as of December 31, 2007, which have not been distributed to the County are reported as revenue in those funds to which the taxes belong.
- The agency fund includes various outside segregated accounts held by the Clerk of Courts and Probate and Juvenile Courts of the County. Amounts held in the account at year end due to the County have been reported in those funds to which they belong.

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

D. Budgetary Process

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

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

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

E. Cash and Investments

To improve cash management, cash received by the County is pooled and invested. Individual fund integrity is maintained through County records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalent that are held separately within department of the County are recorded as "Cash and Cash Equivalents in Segregated Account".

Investment of the cash management pool and investment with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Accordingly, investments of the cash management pool are reported as "Equity in Pooled Cash and Cash Equivalents".

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

During 2007, the County invested in Goldman Sachs Financial Square Money Market Mutual Fund, federal agency securities, and STAR Ohio. Investments are reported at cost, except for STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for 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, 2007.

Interest earnings are allocated to County funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2007 were \$836,320, which includes \$687,911 assigned from other County funds.

F. Inventory and Prepaid Items

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

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

H. 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.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Accumulated Leave

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

J. Employer Contributions to Cost-Sharing Pension Plans

The County recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-Term Obligations

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

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. 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.

The government-wide Statement of Net Asset – Modified Cash Basis reports \$14,344,895 of restricted net asset, none of which are restricted by enabling legislation.

M. Fund Balance Designations and Reserves

The County reserves those portions of fund equity, which are legally segregated for a specific future use, or which are not available for appropriation or expenditure. Fund equity reserves have been established for encumbrances.

N. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

3. COMPLIANCE

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

Receipts and disbursements for certain line items were incorrectly reported on the financial statements presented for audit. Ohio Administrative Code 117-2-02(A) requires public officials to monitor accounting records sufficient to reports its transactions. Reclassifications were made to the individual line items and are reflected as such on the accompanying financial statements.

Ohio Revised Code Section 5715.23 provides that the county auditor transmit to the tax commissioner an abstract of real property by taxing district. The abstract submitted on February 1, 2007 for tax year 2006 contained incorrect tax rates for three taxing districts. This error was subsequently discovered and corrected via real estate bills being adjusted for those three taxing districts during the second half real estate collection in 2007.

4. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The statement of receipts, disbursements and changes in fund balance – budget and actual – budgetary basis presented for the General Fund and each major special revenue fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The difference between the budgetary basis and the cash basis is (are) outstanding year-end encumbrances are treated as expenditures (budgetary basis) rather than as a reservation of fund balance (cash basis), and rather than as an interfund receivable or payable (cash basis). In addition, cash that is held by agency funds on behalf of the County funds are allocated and reported on the cash basis in the appropriate County fund. The encumbrances outstanding at year-end and agency fund distributions (budgetary basis) as reflected in the Net Change in Fund Balance per the financial statement amounted to:

	<u>General Fund</u>	<u>Job and Family Services</u>	<u>Auto and Gas</u>
Cash Basis (Net Change in Fund Balance)	\$566,196	\$405,296	\$14,953
Encumbrances	(196,517)	(175,963)	(631,392)
Agency Fund Distribution:			
Beginning of Year	185,976	0	1,187
End of Year	(217,367)	0	(1,549)
Budget Basis (Net Change in Fund Balance)	<u>\$338,288</u>	<u>\$229,333</u>	<u>(\$616,801)</u>

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

5. BUDGETARY BASIS FUND BALANCE RESTATEMENT

A prior period adjustment was made due to interfund transactions involving the County's agency funds being adjusted. The effects on the budgetary basis fund balance are as follows:

	General Fund	Auto and Gas Fund
Budgetary Basis Fund Balance December, 31, 2006	\$1,799,301	\$4,525,184
Agency Fund Distribution	(185,976)	(1,187)
Restated Budgetary Basis Fund Balance as of January 1, 2007	\$1,613,325	\$4,523,997

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 demands upon the County treasury. Active monies must be maintained either as cash in the County treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States, or any book entry, zero coupon United States treasury security that is a direct obligation of the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to simultaneously exchange either securities or cash, equal value for equal value;
9. Commercial paper notes, corporate notes and bankers' acceptances; and
10. Debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government. All interest and principal shall be denominated and payable in United States funds.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

6. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS (Continued)

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

At year end, the County had \$3,000 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

Deposits

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, \$7,853,995 of the County's bank balance of \$8,153,995 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the County's name, or securities held by the financial institution, however, the statutory requirements were met.

Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the County or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured. The County has no deposit policy for custodial risk beyond the requirements of State statute.

Investments

As of December 31, 2007, the County had the following investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Investment Matures In Less than 1 Year</u>
Goldman Sachs Financial Square Money Market Mutual Fund	\$4,665,181	\$4,665,181
STAR Ohio	549,629	549,629
Total Investments	<u>\$5,214,810</u>	<u>\$5,214,810</u>

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's investment policy addresses interest rate risk by requiring that the County's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

6. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS (Continued)

The security underlying the Goldman Sachs Financial Square Money Market Mutual Fund carry a rating of Aaa by Moody's and AAAM by Standard and Poor's. STAR Ohio carries a rating of AAAM by Standard and Poor's. The County has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

7. PERMISSIVE SALES TAX

In 1990, in accordance with Section 5739.021 of the Revised Code, the County Commissioners, by resolution, imposed a 1% tax on all retail sales, except sales of motor vehicles, made in the County, and on the storage, use or consumption in the County of tangible personal property, including automobiles, not subject to the sales tax. Proceeds of the tax are credited to the General Fund.

In 1993 an additional ½% sales and use tax was passed, and then rolled back to ¼%, by the voters for the purpose of funding and operation of a 9-1-1 system in the County. Vendor collections of tax are paid to the State Treasurer by the 23rd day of the month following collection. Proceeds of the tax are credited to the 9-1-1 Emergency Special Revenue Fund.

The State Tax Commissioner certified to the State Auditor the amount of the 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 tax revenue for 2007 amounted to \$3,248,786.

8. 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 2007 for real and public utility property taxes represents collections of 2006 taxes. Property tax payments received during 2007 for tangible personal property (other than public utility property) are for 2007 taxes.

2007 real property taxes are levied after October 1, 2007 on the assessed value as of January 1, 2007, the lien date. Assessed values are established by State law at 35% of appraised market value. 2007 real property taxes are collected and intended to finance 2008.

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

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. 2007 public utility property taxes became a lien December 31, 2006 are levied after October 1, 2007 are collected in 2008 with real property taxes.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

8. PROPERTY TAX (Continued)

2007 tangible personal property taxes are levied after October 1, 2006 on the value as of December 31, 2006. Collections are made in 2007. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008, and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 3, with the remainder due September 20.

The full tax rate applied to real property for the fiscal year ended December 31, 2007 was \$5.80 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$4.66 per \$1,000 of assessed valuation of real property classified as residential/agricultural and \$4.75 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the County by the State of Ohio.

The County Auditor reappraises all real property every six years with a triennial update. The last reappraisal was completed for tax year 2006 and the next update will be completed for tax year 2009.

	2007	2006
Real Property:		
Residential/Agricultural	\$ 582,023,790	\$ 498,203,479
Commercial/Industrial	63,359,740	53,519,180
Total Real Property	645,383,530	551,722,659
 Tangible Personal Property:		
Public Utilities	26,064,200	27,646,720
General	7,368,870	14,889,201
Total Tangible Property	33,433,070	42,535,921
 Total All Property	\$ 678,816,600	\$ 594,258,580

The Brown County Treasurer collects property tax on behalf of all taxing districts within the County. The Brown County Auditor periodically remits to the taxing districts their portions of the taxes collected. The collection and distribution of taxes for all subdivisions within the County, excluding the County itself, is accounted for through agency funds. The amount of the County's tax collections is accounted for within the applicable funds.

9. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disasters. By participating in the County Risk Sharing Authority (CORSA), a risk sharing pool for liability, property, auto, and crime insurance, the County has addressed these various types of risk.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

9. RISK MANAGEMENT (Continued)

CORSA, a non-profit corporation sponsored by the County Commissioners Association of Ohio, was created to provide affordable liability, property, casualty and crime insurance coverage for its members. CORSA was established May 12, 1987, and has grown to fifty-seven members.

Under the CORSA program general liability, auto liability, error and omission liability, and law enforcement liability are covered in the amount of \$1,000,000, with a \$2,500 deductible. The limit applies to any one occurrence of loss, with no annual aggregate except for the Error and Omissions Liability and General Liability on Products and Completed Operations Limit, which both have the same per occurrence and annual aggregate limit. In addition, the county has \$5,000,000 of excess liability coverage, which has no deductible. This coverage is for claims in excess of underlying limits for general liability, law enforcement liability, automotive liability, and errors and omissions liability, with the exception of stop gap liability and uninsured/underinsured motorists. Real and personal property damage is on a replacement cost basis. Equipment breakdown coverage has a combined limit with property damage, business income, extra expense, and service interruption of \$100,000,000 for each accident. There are several additional sublimits which have various coverage amounts for each accident.

Settled claims have not exceeded this commercial coverage in any of the last three years. There have been no significant reductions in coverage from last year.

Employee dishonesty/faithful performance, money and securities (loss inside and out the premises), money orders and counterfeit currency, and depositor's forgery are covered in the amount of \$1,000,000 aggregate per occurrence.

Workers' Compensation benefits are provided through the Ohio Bureau of Workers' Compensation. In 2007, the county participated in the County Commissioner's Association of Ohio Workers' Compensation Group Rating Program (CCAO). A workers' compensation group purchasing pool (See Note 1). The intent of the CCAO is 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 counties in the CCAO. Each participant pays its workers' compensation premium to the State based on the rate for the CCAO rather than its individual rate.

In order to allocate the savings derived by formation of the CCAO and to maximize the number of participants in the CCAO, annually the CCAO's executive committee calculates the total savings that accrued to the CCAO through its formation. This savings is then compared to the overall savings percentage of the CCAO. The CCAO's executive committee then collects rate contributions from, or pays rate equalization rebates to the various participants. Participation in the CCAO is limited to counties that can meet the CCAO's selection criteria. The firm of CompManagement Inc. provides administrative cost control and actuarial services to the CCAO. Each year, the County pays an enrollment fee to the CCAO to cover the cost of administering the CCAO.

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

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

10. DEFINED BENEFIT PENSION PLAN (OPERS)

Ohio Public Employees Retirement System

Plan Description – The County participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2007, members in state and local classifications contributed 9.5% of covered payroll, public safety members contributed 9.75%, and law enforcement members contributed 10.1%.

The County's contribution rate for 2007 was 13.85 percent, except for those plan members in law enforcement or public safety, for whom the County's contribution was 17.17 percent of covered payroll. For the period January 1 through June 30, a portion of the County's contribution equal to 5 percent of covered payroll was allocated to fund the post-employment health care plan; for the period July 1 through December 31, 2007 this amount was increased to 6 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the County of 14 percent, except for public safety and law enforcement, where the maximum employer contribution rate is 18.1 percent.

The County's required contributions for pension obligations to the traditional and combined plans OPERS for the years ended December 31, 2007, 2006, and 2005 were \$790,282, \$900,925 and \$925,160 respectively; 92% has been contributed for 2007 and 100% has been contributed for 2006, and 2005. Contributions to the member-directed plan for 2007 were \$20,130 made by the County and \$13,808 was made by the plan members.

11. POST EMPLOYMENT BENEFITS

Plan Description – OPERS maintains a cost sharing multiple employer defined benefit post-employment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part b premium reimbursement.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

11. POST EMPLOYMENT BENEFITS (Continued)

To qualify for post-employment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 4642 or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). State statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2007, local government employers contributed 13.85 percent of covered payroll (17.17 percent for public safety and law enforcement). Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The amount of the employer contributions which was allocated to fund post-employment health care was 5.00 percent of covered payroll from January 1 through June 30, 2007, and 6.00 percent from July 1 to December 31, 2007.

The retirement board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The County's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2007, 2006, and 2005 were \$497,743, \$424,578 and \$387,502 respectively; 92 percent has been contributed for 2007 and 100 percent for 2006 and 2005.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan which was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

12. OTHER EMPLOYEE BENEFITS

Insurance Benefits

The County provides life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance. The County has elected to provide employee medical/surgical benefits through Medical Mutual of Ohio. The premium varies with employee depending on the department and terms of the union contract. The County does not share in the cost of premiums for dental or vision insurance except in limited circumstances. Additionally, employees were reimbursed for their deductibles up to \$500.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

13. CONTINGENT LIABILITIES

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

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

14. LONG-TERM DEBT

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

Governmental Activities	Principal Outstanding 12/31/06	Reductions	Principal Outstanding 12/31/07	Amounts Due In One Year
General Obligation Bonds:				
Human Services Building Bonds	\$ 120,000	\$ 65,000	\$ 55,000	\$ 55,000
Brown County Public Library				
District Bonds	1,880,000	145,000	1,735,000	155,000
Mental Health Project Bonds	233,447	11,844	221,603	12,535
Total General Obligation Bonds	<u>2,233,447</u>	<u>221,844</u>	<u>2,011,603</u>	<u>222,535</u>
Other Long-Term Obligations:				
Forgivable Debt (Mental Health)	246,458	8,750	237,708	8,750
Total Other Long-Term Obligations	<u>246,458</u>	<u>8,750</u>	<u>237,708</u>	<u>8,750</u>
Total General and Other Long-Term Obligations	<u>\$ 2,479,905</u>	<u>\$ 230,594</u>	<u>\$ 2,249,311</u>	<u>\$ 231,285</u>

County's total legal debt margin was \$14,051,586 with an unvoted debt margin of \$5,369,337.

The Human Services Bonds will be paid from the debt service fund. The Brown County Public Library District Bonds will be retired from proceeds of a voted tax levied upon the County residents living in the Library District and will be paid from the Debt Service Fund.

The Mental Health Project Bonds will be paid from Mental Health revenues.

Forgivable debt consists of construction loans and a loan contract made between the Brown County Community Board of Alcohol, Drug Addiction, and Mental Health Services (the Board) and the Ohio Department of Mental Health (ODMH), for the purchase of land and building construction thereon for the use in providing mental health services to the residents of the County. The terms of the contract are essentially equivalent to a mortgage on the property, with the Board being obligated to provide mental health services for a period of 40 years from the inception of the contract. Should the Board discontinue mental health services at the facility, the balance of the contract would immediately become due. Failure to pay the balance could result in foreclosure by ODMH. The balance due is reduced on a month-by-month basis over the term of the contract as long as the facility is used for mental health services. The mortgage loan payable represents twenty-five percent of the land purchase and construction costs which the County was required to pay.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

14. LONG-TERM DEBT (Continued)

Years Ended December 31,	General Obligation		Other Long-Term Obligations	
	Principal	Interest	Principal	Interest
2008	\$222,535	\$119,552	\$8,750	\$0
2009	178,266	106,633	8,750	0
2010	184,039	95,960	8,750	0
2011	194,858	84,941	8,750	0
2012	205,725	73,274	8,750	0
2013-2017	968,501	166,695	43,750	0
2018-2022	57,679	5,069	43,750	0
2023-2027	0	0	43,750	0
2028-2032	0	0	43,750	0
2033-2035	0	0	18,958	0
Total	<u>\$2,011,603</u>	<u>\$652,124</u>	<u>\$237,708</u>	<u>\$0</u>

15. INTERFUND TRANSFERS

Interfund cash transfers for the year ended December 31, 2007, were as follows:

		Transfer From		
		General	Other Governmental	Total
Transfer To	Other Governmental	<u>\$381,000</u>	<u>\$1,156,917</u>	<u>\$1,537,917</u>
	Total All Funds	<u>\$381,000</u>	<u>\$1,156,917</u>	<u>\$1,537,917</u>

The transfers to the other governmental funds mainly represent transfers of dollars to meet service payments. The transfer from the other governmental funds to the Board of MRDD represents transfers for operational needs.

16. ACCUMULATED UNPAID VACATION, PERSONAL, COMPENSATORY TIME AND SICK LEAVE

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 limitation, be paid to the employees. The liability is not recorded on the financial statements.

17. BROWN COUNTY HOSPITAL

A. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brown County General Hospital (the Hospital), located in Brown County, Ohio is a county owned, tax-exempt Ohio not-for-profit corporation which operates an acute care hospital facility providing inpatient and outpatient services primarily to patients in Brown County, Ohio and the surrounding area. The Hospital is operated under the provisions of the Ohio Revised Code.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

17. BROWN COUNTY GENERAL HOSPITAL (Continued)

The Hospital's reporting entity is composed of the Hospital, component units, and other organizations that are included to ensure that the financial statements are not misleading. Component units are legally separate organizations for which the Hospital is financially accountable. The Hospital is financially accountable for an organization if the Hospital appoints a voting majority of the organization's governing board and the Hospital is able to significantly influence the programs or services performed or provided by the organization; or the Hospital is legally entitled to or can otherwise access the organization's resources; or the Hospital is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the Hospital is obligated for the debt of the organization. Component units may also include organizations for which the Hospital approves the budget, the issuance of debt, or the levying of taxes. Accordingly, the Hospital has no component units.

A summary of the significant accounting policies applied in the accompanying consolidated financial statements follows:

Method of Consolidation

The consolidated financial statements include the accounts of Brown County General Hospital and the Brown County General Hospital Foundation (Foundation), which provides services exclusively for the benefit of the Hospital. All material intercompany transactions and balances have been eliminated.

Basis of Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements, including those issued after November 30, 1989.

Use of Estimates

The process of preparing consolidated financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

Cash and Cash Equivalents

Cash and cash equivalents are deposited in financial institutions as authorized and directed by State statutes. All deposits are collateralized by pledged securities of the financial institutions up to or exceeding the value of the deposits, as specified by State statutes.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

17. BROWN COUNTY GENERAL HOSPITAL (Continued)

Cash and cash equivalents are defined as those funds on deposit which are considered short term.

Assets Whose Use is Limited

Assets whose use is limited primarily consists of certificates of deposit, money market accounts and United States Treasury notes. Certain amounts have been designated by the Board of Trustees for future property, plant and equipment renewal and replacement.

Supplies Inventory

Supplies inventory, consisting primarily of medical and surgical supplies and drugs, is stated at the lower of cost under the first-in/first-out method, or market.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost or at fair market value at the date received if acquired by gift. It is the Hospital's policy to capitalize acquired property, plant and equipment with a cost or fair market value of \$500 or greater. Expenditures for maintenance and repairs, which do not extend the life of the applicable assets, are charged to expense as incurred. Depreciation is computed using the straight line method over the estimated useful lives of the depreciable assets as follows:

Land Improvements	5-20 Years
Buildings and Building Improvements	5-40 Years
Other Fixed and Major Movable Equipment	2-20 Years
Leased Equipment	3-15 Years
Vehicles	5-7 Years

It is the Hospital's policy to capitalize donations of property, plant and equipment greater than \$500 at their fair market value at the date of the donation. These donations are recorded directly to the Hospital's fund balance. For the years 2007 and 2006, these types of donations amounted to \$94,811 and \$36,218, respectively, and are non-cash financing activities.

Lease Agreements

The liability for lease obligations which are in substance installment purchases has been recorded in the financial statements and the leased equipment capitalized as fixed assets. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. Annual rentals pertaining to leases which convey merely the right to use property are charged to current operations. Depreciation of capital leases is included in depreciation expense on the statements of revenues, expenses and changes in net assets.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

17. BROWN COUNTY GENERAL HOSPITAL (Continued)

Compensated Absences

It is the Hospital's policy to compensate eligible employees during authorized absences. Such employees earn sick leave credit proportionately to the paid hours in each bi-weekly pay period according to rates prescribed to by the Ohio Revised Code (ORC). This sick leave is accrued at the rate specified by the ORC (0.0575 per hour worked). Sick leave does not accrue on overtime hours. Employees who retire from active service with the Hospital, the State of Ohio, or any of its political subdivisions will be paid for one-fourth (1/4) of the total of his/her accrued but unused sick leave. Payment of sick leave will be based on the employee's rate of pay at the time of retirement. The maximum payment shall not exceed 240 hours.

An employee who transfers from, or is separated and reinstated from a state or county employer shall be credited with the unused balance of accumulated sick leave provided the transfer to employment or reinstatement takes place within 10 years of the date on which the employee was last employed. It is the employee's responsibility upon hire to notify Human Resources of any previous leave credits.

An employee who transfers from full-time to pool status is no longer eligible to accrue sick benefits. Earned sick hours will be banked and available if the employee returns to full-time or part-time status under OPERS.

Net Patient Service Revenues

For purposes of these financial statements, operating revenues are those revenues generated by the Hospital for healthcare services rendered, grants received, or any other activity related to the Hospital's primary purpose as previously described in Note 1.

Also, the Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare. Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed on a prospective rate scale based on Ambulatory Patient Classifications (APC's). Home Health Services are reimbursed on a prospective basis for episodes of care spanning 60 days. There are exceptions which could adjust the 60-day payment period. The payment rates are based on a clinical assessment system called OASIS (the Outcome and Assessment Information Set). Final settlements are determined upon submission of the annual cost report by the Hospital and audits thereof by the Medicare Fiscal Intermediary.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed on a rate per discharge basis. Outpatient services rendered to Medicaid program beneficiaries are reimbursed on a fee schedule basis. Inpatient capital costs are reimbursed at a tentative rate per discharge with a final settlement to be determined after submission of the annual cost report by the Hospital and audits thereof by the State Medicaid Agency.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

17. BROWN COUNTY GENERAL HOSPITAL (Continued)

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Charity Care

Hospital patients who meet certain criteria under its charity care policy are provided care without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. Hospital services at normal established rates totaled \$1,277,238 and \$1,579,027 for patients meeting the charity care criteria for the years ended December 31, 2007 and 2006, respectively.

Restricted and Unrestricted Resources

It is the Hospital's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Unrestricted resources are used only after restricted resources have been depleted.

Net Assets

Net assets of the Hospital are classified into three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are net assets that must be used for a particular purpose as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Restricted net assets include amounts that must be held in perpetuity with the income unrestricted as to use. Restricted net assets were restricted to the following:

	2007	2006
Foundation	\$ 180,134	\$ 119,103
Revenue Bond	-	16,512
Other Endowments	5,000	5,000
Total	\$ 185,134	\$ 140,615

Unrestricted net assets are the remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted net assets.

Contributions

Contributions are recognized during the period in which they are received. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Gifts and Donated Services

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

17. BROWN COUNTY GENERAL HOSPITAL (Continued)

Risk Management

The Hospital is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets; business interruption, errors and omissions, employee injuries and illness; natural disasters, and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Hospital also maintains coverage for medical malpractice claims and judgments.

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

B. CASH AND CASH EQUIVALENTS

State statutes classify monies held by the Hospital into three categories.

Active deposits are public deposits necessary to meet current demands. Such monies must be maintained either as cash in the Hospital, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Hospital has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of the Hospital 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 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.

Interim monies are to be deposited or invested in the following securities:

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

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

17. BROWN COUNTY GENERAL HOSPITAL (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Hospital, 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 Board or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

As of December 31, 2007 and 2006, the Hospital had \$2,635 in undeposited cash on hand which is included in the financial statements of the Hospital as part of "Cash and Cash Equivalents".

B. Deposits with Financial Institutions

As of December 31, 2007 the carrying amount of all Hospital deposits was \$1,797,539. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2007, \$1,506,045 of the Hospital's bank balance of \$1,855,314 was exposed to custodial credit risk as discussed below, while \$349,269 was covered by the Federal Deposit Insurance Corporation.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

17. BROWN COUNTY GENERAL HOSPITAL (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the Hospital'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 Hospital.

C. THIRD-PARTY SETTLEMENTS AND COMPONENTS OF PATIENT ACCOUNTS RECEIVABLE

In addition to those patients unable to pay, there are patients receiving services who will not pay. The Hospital has established credit and collection policies to hold this cost to a minimum. Provisions for bad debts are recorded as deductions from gross revenues in the statements of revenues, expenses and changes in net assets.

Estimated third-party settlements for the Medicare and Medicaid programs reflect differences between interim reimbursement and reimbursement as determined by cost reports filed after the end of each year. Such third-party settlements reflect differences owed to or by the Hospital. The years December 31, 2007 and 2006 for Medicare remain unsettled as of December 31, 2007.

The Hospital's net patient accounts receivable (unsecured) were concentrated in the following major payor classes:

	<u>2007</u>	<u>2006</u>
Federal Government: Medicare	\$ 812,888	\$ 1,150,687
State of Ohio: Medicaid, Workers Compensation	1,095,636	1,270,221
Commercial Insurance, Self-Pay and Other	<u>3,057,793</u>	<u>2,940,804</u>
Total	<u>\$ 4,966,317</u>	<u>\$ 5,361,712</u>

D. GRANT RECEIVABLE

The Hospital was awarded a grant in 2003 from the US Department of Housing and Urban Development that is restricted for construction projects and the purchase of equipment. The original grant amount was \$390,000. At December 31, 2007 and 2006 the grant receivable was \$246,498, which represents the amount not drawn by the Hospital.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

17. BROWN COUNTY GENERAL HOSPITAL (Continued)

E. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment transactions for the year ended December 31, 2007 were as follows:

	Balance January 1, 2007	Additions	Transfers/ Disposals	Balance December 31, 2007
Property, Plant and Equipment Not Being Depreciated				
Construction in Progress	\$ 233,115	\$ 101,263	\$ 39,661	\$ 294,717
Depreciable Property, Plant and Equipment				
Land and Land Improvements	2,102,552	8,512	-	2,111,064
Buildings and Building Improvements	11,543,577	1,430	-	11,545,007
Fixed Equipment	8,661,113	6,065	10,470	8,656,708
Major Movable Equipment	10,712,866	105,347	416,087	10,402,126
Vehicles	320,086	-	-	320,086
Total Property, Plant and Equipment at Historical Cost	33,573,309	222,617	466,218	33,329,708
Less Accumulated Depreciation				
Land and Land Improvements	689,709	39,193	-	728,902
Buildings and Building Improvements	7,225,943	344,972	-	7,570,915
Fixed Equipment	6,040,956	402,098	2,792	6,440,262
Major Movable Equipment	7,116,886	1,010,767	334,412	7,793,241
Vehicles	227,786	38,182	-	265,968
Total Accumulated Depreciation	21,301,280	1,835,212	337,204	22,799,288
Property, Plant and Equipment - Net	\$ 12,272,029	\$ (1,612,595)	\$ 129,014	\$ 10,530,420

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

17. BROWN COUNTY GENERAL HOSPITAL (Continued)

Property, plant and equipment transactions for the year ended December 31, 2006 were as follows:

	Balance January 1, 2006	Additions	Transfers/ Disposals	Balance December 31, 2006
Property, Plant and Equipment Not Being Depreciated				
Construction in Progress	\$ 234,812	\$ -	\$ 1,697	\$ 233,115
Depreciable Property, Plant and Equipment				
Land and Land Improvements	2,097,933	4,619	-	2,102,552
Buildings and Building Improvements	10,804,256	739,321	-	11,543,577
Fixed Equipment	8,578,630	82,483	-	8,661,113
Major Movable Equipment	10,081,731	873,331	242,196	10,712,866
Vehicles	320,086	-	-	320,086
 Total Property, Plant and Equipment at Historical Cost	 <u>32,117,448</u>	 <u>1,699,754</u>	 <u>243,893</u>	 <u>33,573,309</u>
Less Accumulated Depreciation				
Land and Land Improvements	644,352	45,357	-	689,709
Buildings and Building Improvements	6,885,085	340,858	-	7,225,943
Fixed Equipment	5,568,023	472,933	-	6,040,956
Major Movable Equipment	6,347,923	1,007,898	238,935	7,116,886
Vehicles	189,644	38,142	-	227,786
 Total Accumulated Depreciation	 <u>19,635,027</u>	 <u>1,905,188</u>	 <u>238,935</u>	 <u>21,301,280</u>
 Property, Plant and Equipment - Net	 <u>\$ 12,482,421</u>	 <u>\$ (205,434)</u>	 <u>\$ 4,958</u>	 <u>\$ 12,272,029</u>

F. LINE OF CREDIT

The Hospital has a line of credit with a bank that matures in June, 2008. The Hospital may borrow up to \$1,000,000. The line charges interest at the prime rate (the prime rate was 7.25% at December 31, 2007) and is collateralized by the accounts receivable of the Hospital. The amount drawn on the line of credit was \$500,000 as of December 31, 2007.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

17. BROWN COUNTY GENERAL HOSPITAL (Continued)

G. LONG-TERM DEBT

	<u>December 31, 2007</u>	
	<u>Bonds and Notes Payable</u>	<u>Capital Lease Obligations</u>
Debt Outstanding January 1, 2007	\$ 1,554,678	\$ 36,311
Additions of New Debt	-	-
Repayments	<u>(267,873)</u>	<u>(36,311)</u>
Debt Outstanding December 31, 2007	<u>\$ 1,286,805</u>	<u>\$ -</u>
Expected to be Paid Within One Year	<u>\$ 276,873</u>	<u>\$ -</u>

	<u>December 31, 2006</u>	
	<u>Bonds and Notes Payable</u>	<u>Capital Lease Obligations</u>
Debt Outstanding January 1, 2006	\$ 955,230	\$ 96,045
Additions of New Debt	783,720	-
Repayments	<u>(184,272)</u>	<u>(59,734)</u>
Debt Outstanding December 31, 2006	<u>\$ 1,554,678</u>	<u>\$ 36,311</u>
Expected to be Paid Within One Year	<u>\$ 267,872</u>	<u>\$ 36,311</u>

Long-term debt, including capital lease obligations, consists of the following:

	<u>2007</u>	<u>2006</u>
Construction Revenue Bond issued on May 3, 2006 at par value, collateralized by a pledge of all net revenues, charging interest at 5.54% and maturing in June, 2016.	\$ 708,720	\$ 783,720
Note Payable issued in 2005, collateralized by equipment purchased with the proceeds, charging interest at 4.57% and maturing in September, 2010.	578,085	770,958
Capital lease obligations, at various effective interest rates between 4.0% and 8.0% collateralized by leased equipment and maturing at various dates with the final payment made June, 2007.	<u>-</u>	<u>36,311</u>
Less Current Portion	<u>1,286,805</u> <u>276,873</u>	<u>1,590,989</u> <u>304,184</u>
	<u>\$ 1,009,932</u>	<u>\$ 1,286,805</u>

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

17. BROWN COUNTY GENERAL HOSPITAL (Continued)

The Hospital's Long-Term Debt is subject to certain financial and administrative covenants. The Debt Service Coverage Ratio and Maximum Total Liabilities to Unrestricted Fund Balance covenants that were not met as of December 31, 2007 were waived by the bank.

Scheduled principal repayments on long-term debt for the next five years are as follows:

<u>Years Ending December 31,</u>	<u>Long-Term Debt</u>
2008	\$ 276,873
2009	286,295
2010	239,917
2011	75,000
2012	75,000
Thereafter	<u>333,721</u>
	<u>\$ 1,286,806</u>

H. NET PATIENT SERVICE REVENUES

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Total gross patient service revenues and related allowances for the years ended December 31 were as follows:

	<u>2007</u>	<u>2006</u>
Gross Patient Service Charges at Established Rates (Including Charity Care)	\$ 78,566,546	\$ 70,418,322
Less		
Contractual Allowances	(37,172,277)	(31,204,446)
Charity Care	(1,277,238)	(1,579,027)
Bad Debts	<u>(6,112,620)</u>	<u>(4,584,589)</u>
Net Patient Service Revenues	<u>\$ 34,004,411</u>	<u>\$ 33,050,260</u>

I. OPERATING LEASES

The Hospital has operating leases for facilities and medical equipment. These obligations extend through October, 2011.

Minimum future payments for these leases are as follows:

<u>Year Ending December 31,</u>	
2008	\$ 155,839
2009	106,411
2010	106,411
2011	<u>90,002</u>
Total	<u>\$ 458,663</u>

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

17. BROWN COUNTY GENERAL HOSPITAL (Continued)

Lease expense for the years ended December 31, 2007 and 2006 was \$278,480 and \$227,832, respectively.

J. RETIREMENT PLAN

The Hospital participates in a state pension plan, the Ohio Public Employees Retirement System (OPERS), which covers all employees.

OPERS administers three separate pension plans; the Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and death benefits, annual cost of living adjustments, and post-retirement healthcare benefits to qualifying members of both the Traditional and the Combined Plan; however healthcare benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment healthcare coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS Board of Trustees.

The plan issues a separate, publicly available financial report that includes a balance sheet and required supplementary information. This report may be obtained by contacting: Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 42315, Telephone (614) 466-2085.

The Ohio Revised Code provides OPERS statutory authority for employer and employee contributions. The required, actuarially-determined contribution rates for the Hospital and for the employee are 13.85% and 9.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years are as follows:

<u>Years</u>	<u>Contribution</u>
2007	\$ 2,259,619
2006	2,170,947
2005	2,076,827

K. OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in the previous note, OPERS also provides postretirement health care coverage, commonly referred to as OPEB (Other Post-Employment Benefits). The Ohio Revised Code provides the authority for public employers to fund postretirement health care through their contributions. The following information is based on data obtained from OPERS for the periods ended December 31, 2007 and 2006.

OPERS provides post-retirement health care coverage to age and service retirants and dependents with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The 2007 employer rate for employees' coverage by OPERS was 13.85%, of which 4.5% was used to fund health care. The total Hospital contribution used to fund health care was \$750,119 and \$717,227 for the years ended December 31, 2007 and 2006, respectively.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2007
(Continued)

17. BROWN COUNTY GENERAL HOSPITAL (Continued)

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

OPEB are advanced-funded on an actuarially-determined basis. The number of active contributing participants at June 30, 2007 was 369,214. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2005 was approximately \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively, as of December 31, 2005. The actuarial assumptions used to calculate these amounts are as follows:

- Funding Method – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.
- Assets Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets, not to exceed a 12% corridor.
- Investment Return – The investment assumption rate for 2005 was 6.5%.
- Active Employee Total Payroll – An annual increase of 4.0% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%.
- Health Care – Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.5% to 6% for the next nine years.

L. PROFESSIONAL LIABILITY INSURANCE

The Hospital maintains malpractice insurance coverage on a per occurrence basis with Ohio Hospital Association Insurance Solutions, Inc. Professional liability claims are currently pending against the Hospital. A provision for loss of \$50,000 has been recorded in the accompanying financial statements for possible future deductibles payable by the Hospital for claims incurred.

M. CONCENTRATIONS

Medicare and Medicaid accounted for approximately 63.0% and 62.7% of the Hospital's gross patient service revenues during 2007 and 2006, respectively.

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BROWN COUNTY

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2007**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed Through the Ohio Department of Mental Health:</i>			
Block Grants for Prevention and Treatment of Substance Abuse	N/A	93.959	\$ 112,675
Alcohol, Drug and Mental Health Services Block Grant	N/A	93.958	28,960
<i>Passed Through the Ohio Department of Mental Health:</i>			
Social Services Block Grant - Title XX	N/A	93.667	43,184
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>			
Social Services Block Grant - Title XX	N/A	93.667	30,230
Total Social Services Block Grant (Title XX)			<u>73,414</u>
<i>Passed Through the Ohio Department of Alcohol and Drug Addiction Services</i>			
Medical Assistance Program - Title XIX	N/A	93.778	1,052,094
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>			
Medical Assistance Program - Title XIX - TCM	N/A	93.778	113,134
Medical Assistance Program - Title XIX - Day Habilitation	N/A	93.778	214,036
Total Medical Assistance Program - Title XIX			<u>1,379,264</u>
Total U.S. Department of Health and Human Services			1,594,313
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through the Ohio Department of Development:</i>			
Community Development Block Grants	BF-05-008-1	14.228	95,015
Community Development Block Grants	BF-06-008-1	14.228	167,222
Community Development Block Grants	BF-07-008-1	14.228	57,178
Community Development Block Grants	BN-05-008-1	14.228	77
Community Development Block Grants	BN-07-008-1	14.228	2,343
Community Development Block Grants	B-C-04-008-1	14.228	23,718
Community Development Block Grants	B-C-06-008-1	14.228	58,408
			<u>403,961</u>
<i>Passed Through the Ohio Department of Development:</i>			
Home Investment Partnership Program	B-C-04-008-2	14.239	66,804
Home Investment Partnership Program	B-C-06-008-2	14.239	56,579
			<u>123,383</u>
Total U.S. Department of Housing and Urban Development			527,344

(Continued)

BROWN COUNTY

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF JUSTICE			
<i>Passed Through the Ohio Attorney General:</i>			
Crime Victim Assistance	2008VAGENE308	16.575	7,734
Crime Victim Assistance	2007VAGENE308	16.575	23,206
Crime Victim Assistance	2008VADSCE461	16.575	5,597
Crime Victim Assistance	2007VADSCE461	16.575	<u>19,553</u>
Total U.S. Department of Justice			56,090
UNITED STATES DEPARTMENT OF HOMELAND SECURITY			
<i>Passed Through the Ohio Department of Public Safety Emergency Management Agency:</i>			
Pre-Disaster Mitigation Grant	EMC-2003-GR-7043	97.047	5,608
State Homeland Security Program	2006-GE-T6-0051	97.073	16,080
Emergency Management Performance Grants	2007-EM-E7-0024	97.042	5,219
Emergency Management Performance Grants	2006-EME60042	97.042	<u>14,239</u>
			19,458
Total United States Department of Homeland Security			41,146
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through the Ohio Department of Health</i>			
Special Education Grants for Infants and Families with Disabilities	00810021HG0108	84.181	22,151
Special Education Grants for Infants and Families with Disabilities	08-1-002-1-EG-07	84.181	<u>20,437</u>
Total U.S. Department of Education			42,588
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed through the Federal Aviation Administration</i>			
Direct from Federal Government			
Airport Improvement Program Grant	N/A	20.106	<u>223,681</u>
Total United States Department Transportation			223,681
TOTAL FEDERAL ASSISTANCE			<u>\$ 2,485,162</u>

BROWN COUNTY

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2007**

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 Mental Health and the Ohio Department of Drug and Alcohol Addiction 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 - 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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Mary Taylor, CPA

Auditor of State

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

Brown County
800 Mount Orab Pike
Georgetown, Ohio 45121

To the Board of County Commissioners:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Brown County, Ohio (the County), as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 29, 2008, wherein, we noted the County except for the Brown County General Hospital, the (Hospital), the County's enterprise fund, uses a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, and wherein we noted the County's modified cash basis financial statements do not include amounts related to the Hospital in its fund statements or its entity wide statements. Accordingly, the County's financial statements do not present fairly the financial position of the proprietary fund or business type activities for the County as of December 31, 2007, or the changes in its modified cash basis financial position for the year ended. We did not audit the financial statements of the Hospital as of and for the year ended December 31, 2007, which are presented as stand-alone statements of the County. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Hospital is based on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the County's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the County's internal control over financial reporting.

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

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

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We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-002 through 2007-004.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding number 2007-003 is also a material weakness.

We also noted certain internal control matters that we reported to the County's management in a separate letter dated September 29, 2008.

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 item 2007-001 to 2007-004.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the County's management in a separate letter dated September 29, 2008.

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

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



Mary Taylor, CPA
Auditor of State

September 29, 2008



Mary Taylor, CPA

Auditor of State

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

Brown County
800 Mount Orab Pike
Georgetown, Ohio 45121

To the Board of County Commissioners:

Compliance

We have audited the compliance of Brown County, Ohio (the County), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended December 31, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the County's major federal program. 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, Brown County complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the County's management in a separate letter dated September 29, 2008.

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



Mary Taylor, CPA
Auditor of State

September 29, 2008

BROWN COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2007

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Qualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 93.778 Medical Assistance Program – Medicaid - Title XIX
<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 2007-001

Finding For Recovery

Ohio Revised Code, Section 2101.16(A)(59), states that except as provided in section 2101.164 of the Revised Code, the fees enumerated in this division shall be charged and collected, if possible, by the probate judge and shall be in full for all services rendered in the respective proceedings: \$60 for relieving an estate from administration under section 2113.03 of the Revised Code or granting an order for a summary release from administration under section 2113.031 of the Revised Code.

Ohio Revised Code, Section 2101.16(C), states, in part, that twenty dollars of the sixty-dollar fee collected pursuant to division (A)(59) of this section shall be deposited by the county treasurer in the indigent guardianship fund created pursuant to section 2111.51 of the Revised Code.

During testing it was noted that only \$50 of the \$60 fee was being collected. The \$20 was being properly collected and posted to the indigent guardianship fund. However, of the remaining \$40 due to the General Fund, only \$30 was being collected.

The Court utilizes a vendor supplied court accounting software program to process fee collection for the court. The software determines the fees to be collected based upon the type of case and applicable related revised code sections. The software program had not been updated with the correct fee schedule when the fee was increased from \$50 to \$60. As a result the Court mistakenly believed it was collecting the correct fee amount. Once the Court was made aware of the change in fee the software was updated and corrected to collect the appropriate fee.

It was determined that 95 cases in 2007, and 72 cases in 2008, (167 total cases) were charged \$50 instead of \$60. This resulted in \$950 and \$720 in fees due to the County General Fund that were not collected in 2007 and 2008, respectively. However, one case was still open and the court was able to charge the additional \$10 fee. Furthermore, one case in 2007 was not charged the \$40 fee. An overall total of \$1,700 is to be repaid.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies due but not collected is issued against Honorable Judge Margaret A. Clark and the Judge's bonding company, Ohio Farmer's Insurance; jointly and severally, in the amount of \$1,700, and in favor of the Brown County General Fund.

To assure that the proper court fees are collected by the Court, we recommend a system be established to identify changes in fees in accordance with the Revised Code, the Court review these changes and assure the updates are reflected in the Court's accounting software. Additionally, we recommend that at least yearly the Court review all fees collected with the accounting software and assure that these amounts are current and up to date.

Officials' Response:

The noncollection of these monies was entirely inadvertent and was not at any time due to any action on the part of this court to ignore any part of the Ohio Revised Code. Whether any other local official had notification of the amendment we have been unable to ascertain.

FINDING NUMBER 2007-002

Noncompliance Finding and Significant Deficiency

Ohio Revised 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 report. Ohio Administrative Code Section 117-2-03(B) further clarifies the requirements of Ohio Revised Code Section 117.38 by requiring the County to prepare its annual financial report in accordance with generally accepted accounting principles. Public offices reporting pursuant to generally accepted accounting principles shall file their reports with the Auditor of State within one hundred fifty days after the close of the fiscal year.

Additionally, Ohio Revised Code Section 319.11 states that the county auditor shall, on or before ninety days after the close of the fiscal year, prepare a financial report of the county for the preceding fiscal year in such form as prescribed by the auditor of state. Per Ohio Administrative Code counties are to prepare generally accepted accounting principles statements.

Upon completing the report, the county auditor shall publish notice that the report has been completed and is available for public inspection at the office of the county auditor. The notice shall be published once in two newspapers of general circulation published in the county, except that if only one newspaper is published in the county, then publication in only one newspaper is required, and if there are no newspapers in the county, then publication is required the newspaper of an adjoining county that has the largest circulation in the adjoining county. The report shall contain at least the information required by section 117.38 of the Revised Code, and a copy shall be filed with the auditor of state. No county auditor shall fail or neglect to prepare the report or publish notice of completion of the report as required by this section. The financial report was not filed with the Auditor of State and a notice was not published in the newspaper.

The County, with the exception of the Brown County General Hospital, prepares its financial statements in accordance with the modified cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis-for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. The County can be fined and various other administrative remedies may be taken against the County for not complying with this section of law.

We recommend the County take the necessary steps to ensure that the financial report is prepared in accordance with generally accepted accounting principles, filed within the prescribed deadline, and a notice published in the local papers.

Officials’ Response:

We did not receive a response from officials regarding this finding.

FINDING NUMBER 2007-003

Noncompliance and Material Weakness

Ohio Administrative Code, Sec 117-2-01(A), states that public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of certain objectives. One of these objectives is to provide assurance of the reliability of financial reporting. Ohio Administrative Code Sec 117-2-02(A) requires that all local public offices maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if general accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

**FINDING NUMBER 2007-003
(Continued)**

The 2007 financial statements presented by the County for audit had the following significant misclassifications and errors noted:

- The County had \$89,303 of wireless – 911 surcharges collected by the state and forwarded to the County that were recorded as taxes however they should have been recorded as intergovernmental in Fund A-26 – Enhanced 911 surcharge fund, which is included in Other Governmental Funds.
- The County had \$23,245 and \$244,165 in the General and Other Governmental Funds, respectively, of reserve for encumbrances incorrectly recorded on the fund financial statements that related to blanket and super blanket purchase orders that would expire at year end and thus not be reserves for encumbrances.
- The County had \$32,601 and \$1,066,374 in the General and Other Governmental Funds, respectively, recorded as miscellaneous receipts from an airport grant, state subsidy payments from the Ohio Department of Mental Health, state deregulation monies, jail diversion grant, and community housing improvement program grant funds which should have been recorded as intergovernmental receipts.
- The County had \$237,413 and \$79,659 in the General and Other Governmental Funds, respectively, of tangible personal property replacement tax, state deregulation monies, personal property exemption receipts, state real estate homestead and rollback receipts recorded incorrectly as taxes; however, they should have been recorded as intergovernmental receipts.
- The County had \$573,520 in Other Governmental Funds of Ohio Public Works Commission on behalf grant payments received through the County Engineer's office that was not recorded on the financial statements as intergovernmental receipts and a related expenditure of capital outlay.

As a result of these errors, receipts and disbursements for certain line items and funds were incorrectly reported on the financial statements presented for audit. Reclassifications were made to the individual line items and funds and are reflected as such on the accompanying financial statements.

We recommend that the County Auditor work with the various offices in the County to assure that they prepare pay in orders accurately and exercise due care in properly classifying receipt codes used on their pay in orders. We also recommend that the County Auditor review postings to assure that the various offices in the County have coded their receipts and implement controls to ensure that the financial statements prepared are accurate and that misstatements are detected in a timely manner.

Officials' Response:

The County Auditor will discuss all noted occurrences with each of the affected departments, and steps will be taken to correct this in the future.

FINDING NUMBER 2007-004

Noncompliance and Significant Deficiency

Ohio Revised Code, Section 5715.23, requires, in part, that the county auditor shall transmit to the tax commissioner an abstract of real property in which it sets the aggregate amount and valuation of each class of real property of each taxing district in his county, in which he shall set forth the aggregate amount and valuation of each class of real property in such county and in each taxing district therein as it appears on his tax list or the statements and returns on file in his office and an abstract of the current year's true value of land valued for such year under section 5713 of the Revised Code as it appears in the current year's agricultural land tax list. The abstract submitted on February 1, 2007 for tax year 2006 contained incorrect tax rates for three taxing districts which resulted in incorrect amounts totaling \$9,039 being collected during the first half real estate collection in 2007. This error was subsequently discovered and corrected via real estate bills being adjusted for those three taxing districts during the second half real estate collection in 2007.

The input of tax rates by taxing district that is submitted via the abstract of real and public utility to the Department of Taxation – Division of Tax Equalization is crucial in establishing amounts due via the real estate tax billing cycle. During each year there are often changes in rates due to the addition or deletion of various taxing subdivision voted levies. Due care should be taken to review those rates calculated for Brown County each taxing subdivision and assure that changes made to tax rates are taken into affect when setting those rates. We recommend that at least two people review these calculations to assure the rates are accurate and then at least two people review the abstract to assure those rates are correct before submitting to the Division of Tax Equalization.

Officials' Response:

The County Auditor has implemented a new procedure which includes a second person reviewing all reports.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

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BROWN COUNTY

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	Ohio Revised Code Section 117.38, and Ohio Administrative Code Section 117-2-03. County did not prepare its annual financial report in accordance with GAAP.	No	Repeat as finding number 2007-002
2006-002	Ohio Revised Code, Section 9.38, passport and notary fees in the Clerk of Courts office were not deposited – resulting in a finding for recovery in a special audit report.	Partially repaid Total amount remaining unpaid \$877.25	Finding for Recovery in the total amount of \$3,509 On October 26, 2007 Tina Meranda repaid \$877.25. On November 26, 2007 Erin Hicks repaid \$877.25. On November 28, 2007 Anette Mineer repaid \$877.25. In addition other noncompliance and control recommendations listed in the Special Audit report were reviewed and found to be partially corrected.
2006-003	Ohio Administrative Code Sec 117-2-01(A), material misstatements in the financial statements	Partially corrected	Finding number 2007-003 issued for incorrectly classified receipts. Improvement in posting of receipts to proper fund.
2006-004	Finding For Recovery Repaid Under Audit, Brown County Alcohol, Drug Addiction and Mental Health Board overpaid vendor.	Yes Vendor made repayment on December 3, 2007.	No longer applicable
2006-005	Medicaid vendor overpaid	Yes Vendor made repayment on December 3, 2007	No longer applicable



Mary Taylor, CPA
Auditor of State

FINANCIAL CONDITION

BROWN 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
OCTOBER 14, 2008**