



Mary Taylor, CPA
Auditor of State

BROWN COUNTY
TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Governmental-wide Financial Statements:	
Statement of Net Assets – Modified Cash Basis as of December 31, 2006.....	15
Statement of Activities – Modified Cash Basis For The Year Ended December 31, 2006.....	16
Fund Financial Statements:	
Balance Sheet – Modified Cash Basis – Governmental Funds	17
Statement of Receipts, Disbursements, and Changes in Fund Balances – Modified Cash Basis – Governmental Funds	18
Statement of Fiduciary Net Assets – Modified Cash Basis	19
Budgetary Comparison Schedule – Modified Cash Basis – General Fund	20
Budgetary Comparison Schedule – Modified Cash Basis – Job and Family Services	21
Budgetary Comparison Schedule – Modified Cash Basis – Auto and Gas Tax Fund	22
Budgetary Comparison Schedule – Modified Cash Basis – Mental Retardation and Developmental Disabilities Fund	23
Brown County General Hospital:	
Consolidated Statement of Net Assets – Brown County General Hospital	24
Consolidated Statement of Operations – Brown County General Hospital.....	26
Consolidated Statement of Cash Flows – Brown County General Hospital	27
Notes to Basic Financial Statements	29
Schedule of Federal Awards Expenditures.....	63
Notes to Schedule of Federal Awards Expenditures	65
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	67

BROWN COUNTY
TABLE OF CONTENTS
(Continued)

TITLE	PAGE
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	69
Schedule of Findings.....	71
Schedule of Prior Audit Findings.....	75



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, 2006, 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 opinions 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, 2006 and 2005. 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 our audit provides a reasonable basis for our opinions.

Ohio Administrative Code § 117-2-03 (B) requires the County to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, 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, 2006 and December 31, 2005, and its changes in financial position and its cash flows for the years then 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, 2006 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 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, 2006, and the respective changes in modified cash financial position and the respective budgetary comparison for the General, Job and Family Services, Auto and Gas Tax and Mental Retardation and Developmental Disabilities 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 December 17, 2007, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Mary Taylor, CPA
Auditor of State

December 17, 2007

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(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, 2006. 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 \$1,552,211.

- At the close of the current fiscal year, Brown County's governmental funds reported a combined ending fund balance of \$15,281,418. Approximately 13%, \$1,986,336 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, 2006
(Unaudited)
(Continued)

Reporting the Government as a Whole

The statement of net assets and the statement of activities reflect how the County did financially during 2006, 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 report the County's governmental activities. Both of the government-wide financial statements identify functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the County include general government, judicial, public safety, public works, health, human services, economic development and assistance, miscellaneous, and debt service.

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 nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The County's major governmental funds include the General Fund, Job and Family Services Fund, Auto and Gas Fund, and the Mental Retardation/Developmental Disabilities fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

The 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 19 of this report.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)
(Continued)

Budgetary Comparison Schedules. The County's budgetary process accounts for certain transactions on a cash basis. The budgetary comparison schedule 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 20-23 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 29-61 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 fourth 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 2006 compared to 2005 on a modified cash basis:

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

	Governmental Activities	
	2006	2005
Equity in Pooled Cash and Investments	\$ 15,281,418	\$ 13,729,207
TOTAL ASSETS	\$ 15,281,418	\$ 13,729,207
Restricted for:		
Legislative and Executive	634,271	-
Public Safety	1,113,272	-
Health	3,212,236	-
Public Works	5,405,106	-
Human Services	1,232,450	-
Other Purposes	1,014,491	11,552,322
Capital Outlay	72,895	72,895
Debt Service	610,361	531,668
Unrestricted	1,986,336	1,572,322
TOTAL NET ASSETS	\$ 15,281,418	\$ 13,729,207

At the end of the current fiscal year, Brown County is able to report positive balances in all three categories of net cash assets, both for the government as a whole, as well as for its separate governmental type activities.

Net assets of government activities increased \$1,552,211 or 11% during 2006. The primary increase in cash balances is due to the continuation of reduction in overall spending.

Governmental activities. Governmental activities increased Brown County's net cash assets by \$1,552,211. Continued strict budget restraints have been put in place to ensure the financial future of the county. Table 2 reflects the changes in net assets in 2006 and 2005.

Changes in Net Assets

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)
(Continued)

Table 2 Governmental Activities

	<u>2006</u>	<u>2005</u>
Program Revenues:		
Charges for Services	\$ 3,704,797	\$ 3,781,748
Operating Grants and Contributions	13,709,150	13,410,459
Capital Grants and Contributions	303,400	677,295
General Receipts:		
Property Taxes	2,955,197	2,778,468
Sales Taxes	3,316,332	3,290,560
Unrestricted Grants	454,700	444,683
Earnings of Investments	875,414	448,058
Miscellaneous	714,083	839,558
Other Financing Sources/(Uses), net	<u>216,959</u>	<u>620,002</u>
Total Receipts	<u>26,250,032</u>	<u>26,290,831</u>
 Program Disbursements:		
General Government:		
Legislative and Executive	4,355,564	4,160,082
Judicial	1,951,029	1,920,952
Public Safety	3,265,852	3,071,230
Public Health	4,475,145	4,607,172
Public Works	3,857,952	3,890,063
Human Services	5,574,640	4,809,168
Economic Development and Assistance	537,472	818,886
Capital Outlay	319,900	802,420
Debt Service:		
Principal Retirement	216,191	680,362
Interest and Fiscal Charges	<u>144,076</u>	<u>180,952</u>
Total Disbursements	<u>24,697,821</u>	<u>24,941,287</u>
 Increase/(Decrease) in Net Assets	 1,552,211	 1,349,544
 Net Assets- Beginning of Year	 <u>13,729,207</u>	 <u>12,379,663</u>
Net Assets- End of Year	<u>\$ 15,281,418</u>	<u>\$ 13,729,207</u>

Program receipts represent 67 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits and inspection fees and charges to nearby governments for police services provided under contract. Program receipts decreased over the prior year largely due to less capital grants and contributions.

General receipts represent 33 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 very insignificant and somewhat unpredictable revenue sources. General receipts increased over the prior year because of increases in taxes and earnings on investments.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(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, auditor, treasurer, County departments, as well as internal services such as payroll and purchasing. There was a significant decrease in Economic Development, Capital Outlay, and Debt Service expenditures from the prior year. Economic Development and Capital Outlay expenditures decreased due to the completion of a grant period during the audit period. Debt Service expenditures decreased due to payoff of General Hospital Bonds in 2005. There was also an increase in Human Services expenditures from the prior year due to remodeling of the Job and Family Services Department.

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 general government and human services, which account for 26 and 23 percent of all governmental disbursements, respectively. Public Health also represents a significant cost, about 18 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
	2006	2005	2006	2005
General Government				
Executive and Legislative	\$4,355,564	\$ 4,160,082	\$ (2,657,507)	\$ (2,456,282)
Judicial	1,951,029	1,920,952	(908,618)	(822,452)
Public Safety	3,265,852	3,071,230	(1,958,909)	(1,968,579)
Public Health	4,475,145	4,607,172	230,771	(649,083)
Public Works	3,857,952	3,890,063	170,146	337,574
Human Services	5,574,640	4,809,168	(1,175,938)	(465,395)
Economic Development & Assistance	537,472	818,886	(303,652)	(13,124)
Capital Outlay	319,900	802,420	(16,500)	(173,130)
Principal Retirement	216,191	680,362	(216,191)	(680,362)
Interest and Fiscal Charges	144,076	180,952	(144,076)	(180,952)
Total Expenses	\$ 24,697,821	\$ 24,941,287	\$ (6,980,474)	\$ (7,071,785)

The dependence upon property and sales tax receipts is apparent as over 26 percent of governmental activities are supported through these general receipts.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)
(Continued)

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.

As of the end of the current fiscal year Brown County's governmental funds reported combined ending fund modified cash basis balances of \$15,281,418 an increase of 11% in comparison with the prior year. Approximately \$13,177,604 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 \$1,799,301 with receipts of \$8,615,729 and disbursements of \$8,201,715. 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 \$414,014 during the current fiscal year.

The Job and Family Services fund reported a decrease in fund balance of \$412,716. This resulted from disbursements made on reimbursable program costs and remodeling of the office.

The Auto and Gas fund received \$3,922,234 from state gasoline tax and motor vehicle registration fees. This fund reported an increase in fund balance of \$745,485.

The Mental Retardation/Developmental Disabilities fund reported an increase in fund balance of \$338,125. This resulted from receiving the final settlement for Community Alternative Funding System and Targeted Case Management programs.

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, Auto and Gas, and Mental Retardation/Developmental Disabilities 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, 2006, General Fund disbursements were \$649,331 less than final appropriations and actual resources available for appropriation were \$131,792 less the final budgeted amount.

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 three years has remained basically the same.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)
(Continued)

All of these factors were considered in preparing Brown County's budget for the 2006 year.

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 2006, the County had general obligation debt outstanding of \$2,233,447, backed by the full faith and credit of the County. The County's general obligation debt decreased by \$216,191 or 9% during the 2006 fiscal year.

State statute limits the total amount of debt a governmental entity may issue. The current unvoted debt margin for the County is \$4,308,839. 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 12 of this report. Interest and fiscal charges for 2006, were \$144,076 or 1% of total governmental activities.

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, 2006. 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 approximately \$2.4 million mainly due to a loss from operations for 2006 of \$2.5 million.
- During the year, the Hospital's net operating revenues decreased 3.5% to \$38.0 million and operating expenses decreased 0.7% to \$40.4 million. The result is a loss from operations of \$2.4 million compared to a loss from operations in 2005 of \$1.4 million.
- During the year, the Hospital made the following significant capital acquisitions and improvements:

Bethel Building Project
Laboratory Equipment

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)
(Continued)

The primary source of funding for these projects was revenue bonds and other long-term debt.

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 29 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, 2006, 2005 and 2004 is presented below (in thousands):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS			
Cash and Cash Equivalents	\$ 1,309	\$ 2,942	\$ 1,379
Patient Accounts Receivable, Net	5,362	4,699	5,073
Property, Plant and Equipment, Net	12,272	12,482	13,178
Other Assets	<u>1,336</u>	<u>2,019</u>	<u>2,599</u>
Total Assets	<u>\$ 20,279</u>	<u>\$ 22,142</u>	<u>\$ 22,229</u>

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)
(Continued)

LIABILITIES AND NET ASSETS

Current Portion of Long-Term Liabilities	\$ 304	\$ 244	\$ 837
Other Current Liabilities	4,063	4,097	2,862
Long-Term Liabilities	<u>1,602</u>	<u>1,136</u>	<u>407</u>
Total Liabilities	5,969	5,477	4,106
Invested in Property, Plant and Equipment, Net of Related Debt	11,465	11,431	12,245
Unrestricted	2,704	4,446	5,788
Restricted	<u>141</u>	<u>788</u>	<u>90</u>
Total Net Assets	<u>14,310</u>	<u>16,665</u>	<u>18,123</u>
Total Liabilities and Net Assets	<u>\$ 20,279</u>	<u>\$ 22,142</u>	<u>\$ 22,229</u>

A summary of the Hospital's Revenues, Expenses and Changes in Net Assets for the years ended December 31, 2006, 2005 and 2004 is presented below (in thousands):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues			
Net Patient Service Revenues	\$ 37,635	\$ 38,938	\$ 35,095
Other Revenues	<u>402</u>	<u>475</u>	<u>476</u>
Total Revenues	<u>38,037</u>	<u>39,413</u>	<u>35,571</u>
Expenses			
Salaries and Benefits	20,778	20,391	18,977
Purchased Services and Professional Fees	3,076	4,298	3,449
Provision for Bad Debts	4,585	3,547	2,906
Depreciation and Amortization	1,905	1,825	1,759
Supplies and Other	<u>10,106</u>	<u>10,745</u>	<u>9,237</u>
Total Expenses	<u>40,450</u>	<u>40,806</u>	<u>36,328</u>
Loss from Operations	<u>(2,413)</u>	<u>(1,393)</u>	<u>(757)</u>
Non-Operating Revenues (Expenses)	<u>21</u>	<u>(229)</u>	<u>62</u>
Changes in Net Assets	<u>\$ (2,392)</u>	<u>\$ (1,622)</u>	<u>\$ (695)</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 2006, 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.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)
(Continued)

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 and/or reimbursable costs as defined. Provisions have been made in the financial statements for contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payment.

OPERATING AND FINANCIAL PERFORMANCE

The Hospital generated slightly more gross revenues from patients in 2006, but sustained a loss from operations due to an increase in its contractual allowances and bad debts. This section will discuss highlights of 2006 operations and changes in activity.

Revenues

Net patient service revenues decreased \$1.3 million in 2006 primarily due to an overall increase in revenue deductions for contractual allowances.

Expenses

Total operating expenses decreased \$0.4 million in 2006 which was attributed to a decrease in costs for purchased services, supplies and professional fees, combined with increases in bad debt expenses, salaries and employee benefits.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year-end, the Hospital had \$12.3 million invested in property, plant and equipment. This amount represents a net decrease (including additions, deletions, and depreciation expense) of \$0.2 million, or 1.7%, from last year. See page 10 of the MD & A for a description of the significant capital acquisitions during 2006 and note 15E in the notes to the basic financial statements for a detailed presentation of the acquisitions and deletions for the year.

Debt Administration

At year-end, the Hospital had \$2.1 million in outstanding debt (including capital lease obligations and a line of credit) versus \$1.1 million last year, an increase of 98.9%. Interest rates varied from 4.0% to 8.0%. For a breakdown of the interest payment schedule, and a detailed presentation of debt acquisitions and retirements for the year, refer to note 15G in 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

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)
(Continued)

- 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.

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BROWN COUNTY

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2006**

	Governmental Activities	Component Unit <u>GROW Inc.</u>
ASSETS		
Equity in Pooled Cash and Investments	\$ 15,281,418	\$ 40,518
TOTAL ASSETS	\$ 15,281,418	\$ 40,518
 NET ASSETS		
Restricted for:		
Legislative and Executive	\$ 634,271	\$ -
Public Safety	1,113,272	-
Health	3,212,236	-
Public Works	5,405,106	-
Human Services	1,232,450	-
Other Purposes	1,014,491	-
Capital Projects	72,895	-
Debt Service	610,361	-
Unrestricted	<u>1,986,336</u>	<u>40,518</u>
TOTAL NET ASSETS	\$ 15,281,418	\$ 40,518

See accompanying notes to the financial statements

BROWN COUNTY

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets Governmental Activities	Component Unit GROW Inc.
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions and Interest		
Governmental activities:						
General Government:						
Executive and Legislative	\$ (4,355,564)	\$ 1,330,081	\$ 367,976	\$ -	\$ (2,657,507)	\$ -
Judicial	(1,951,029)	934,103	108,308	-	(908,618)	-
Public Safety	(3,265,852)	563,584	743,359	-	(1,958,909)	-
Public Health	(4,475,145)	600,521	4,105,395	-	230,771	-
Public Works	(3,857,952)	88,985	3,939,113	-	170,146	-
Human Services	(5,574,640)	174,223	4,224,479	-	(1,175,938)	-
Economic Development and Assistance	(537,472)	13,300	220,520	-	(303,652)	-
Capital Outlay	(319,900)	-	-	303,400	(16,500)	-
Debt Service						
Principal Retirement	(216,191)	-	-	-	(216,191)	-
Interest and Fiscal Charges	(144,076)	-	-	-	(144,076)	-
<i>Total Governmental Activities</i>	<u>(24,697,821)</u>	<u>3,704,797</u>	<u>13,709,150</u>	<u>303,400</u>	\$ (6,980,474)	\$ -
Componet Unit:						
GROW Inc.	(97,032)	105,228	-	-		8,196
<i>Total Component Unit</i>	<u>(97,032)</u>	<u>105,228</u>	<u>-</u>	<u>-</u>		<u>8,196</u>
<i>Totals</i>	<u>\$ (24,794,853)</u>	<u>\$ 3,810,025</u>	<u>\$ 13,709,150</u>	<u>\$ 303,400</u>		8,196
General Receipts:						
Taxes						
Property					2,955,197	-
Sales					3,316,332	-
Unrestricted Grant Entitlements					454,700	-
Earnings on Investments					875,414	-
Miscellaneous					714,083	-
Other Financing Sources/Uses (Net)					216,959	-
Total General Receipts					8,532,685	-
Increase in net assets					1,552,211	8,196
					13,729,207	32,322
Net assets - end of year					<u>\$ 15,281,418</u>	<u>\$ 40,518</u>

See accompanying notes to the financial statements.

BROWN COUNTY

**BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	<u>General Fund</u>	<u>Job & Family Services Fund</u>	<u>Auto & Gas Fund</u>	<u>MRDD Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Equity in Pooled Cash and Investments	\$ 1,986,336	\$ 336,571	\$ 5,258,339	\$ 957,697	\$ 6,742,475	\$ 15,281,418
TOTAL ASSETS	<u>\$ 1,986,336</u>	<u>\$ 336,571</u>	<u>\$ 5,258,339</u>	<u>\$ 957,697</u>	<u>\$ 6,742,475</u>	<u>\$ 15,281,418</u>
FUND BALANCE						
Reserved for Encumbrances	187,035	221,883	733,155	59,359	902,382	2,103,814
Unreserved, Undesignated	<u>1,799,301</u>	<u>114,688</u>	<u>4,525,184</u>	<u>898,338</u>	<u>5,840,093</u>	<u>13,177,604</u>
TOTAL FUND BALANCE	<u>\$ 1,986,336</u>	<u>\$ 336,571</u>	<u>\$ 5,258,339</u>	<u>\$ 957,697</u>	<u>\$ 6,742,475</u>	<u>\$ 15,281,418</u>

See accompanying notes to the financial statements

BROWN COUNTY

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE -
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
AS OF THE YEAR ENDED DECEMBER 31, 2006**

	General Fund	Job & Family Services Fund	Auto & Gas Fund	MRDD Funds	Other Governmental Funds	Total Governmental Funds
RECEIPTS						
Taxes						
Property	\$ 2,046,608	\$ -	\$ -	\$ 606,419	\$ 302,170	\$ 2,955,197
Sales (Permissive Sales Tax)	2,653,051	-	-	-	663,281	3,316,332
Charges for Services	1,465,516	-	4,314	-	1,422,941	2,892,771
Intergovernmental	1,076,178	3,195,944	3,922,234	1,255,510	5,017,384	14,467,250
Fines and Forfeitures	428,018	-	26,741	-	343,222	797,981
Licenses and Permits	2,825	-	9,130	-	2,090	14,045
Miscellaneous	143,306	173,680	100,625	39,481	256,991	714,083
Interest	667,663	-	207,751	-	-	875,414
TOTAL RECEIPTS	8,483,165	3,369,624	4,270,795	1,901,410	8,008,079	26,033,073
DISBURSEMENTS						
Executive/Legislative	3,853,697	-	-	-	501,867	4,355,564
Judicial	1,281,216	-	-	-	669,813	1,951,029
Public Safety	2,149,344	-	-	-	1,116,508	3,265,852
Public Health	1,376	-	-	1,563,285	2,910,484	4,475,145
Public Works	199,672	-	3,581,818	-	76,462	3,857,952
Human Services	273,837	4,072,122	-	-	1,228,681	5,574,640
Economic Development and Assistance	-	-	-	-	537,472	537,472
Capital Outlay	-	-	-	-	319,900	319,900
Debt Service	-	-	-	-	-	-
Principal Retirement	-	-	-	-	216,191	216,191
Interest and Fiscal Charges	-	-	-	-	144,076	144,076
TOTAL DISBURSEMENTS	7,759,142	4,072,122	3,581,818	1,563,285	7,721,454	24,697,821
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	724,023	(702,498)	688,977	338,125	286,625	1,335,252
OTHER FINANCING SOURCES (USES)						
Operating Transfer - In	-	-	-	-	610,351	610,351
Advance - In	75,000	-	-	-	186,900	261,900
Other Financing Sources	57,564	310,650	56,508	-	115,316	540,038
Other Financing Uses	145,673	20,868	-	-	156,538	323,079
Operating Transfer - Out	110,000	-	-	-	500,351	610,351
Advance - Out	186,900	-	-	-	75,000	261,900
TOTAL OTHER FINANCING SOURCES (USES)	(310,009)	289,782	56,508	-	180,678	216,959
NET CHANGE IN FUND BALANCE	414,014	(412,716)	745,485	338,125	467,303	1,552,211
CASH BASIS FUND BALANCE - Beginning of year	1,572,322	749,287	4,512,854	619,572	6,275,172	13,729,207
CASH BASIS FUND BALANCE - End of year	\$ 1,986,336	\$ 336,571	\$ 5,258,339	\$ 957,697	\$ 6,742,475	\$ 15,281,418
RESERVED FOR ENCUMBRANCES	\$ 187,035	\$ 221,883	\$ 733,155	\$ 59,359	\$ 902,382	\$ 2,103,814

See accompanying notes to the financial statement

BROWN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
DECEMBER 31, 2006

	<u>Agency Funds</u>
Assets:	
Equity in Pooled Cash and Investments	\$ 2,714,121
Equity in Pooled Cash and Investments in Outside Accounts	<u>609,187</u>
TOTAL ASSETS	<u>\$ 3,323,308</u>
TOTAL NET ASSETS	<u>\$ 3,323,308</u>

See accompanying notes to the financial statements

BROWN COUNTY

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$1,572,322	\$1,572,322	\$1,572,322	\$0
Resources (Inflows):				
Property Tax	2,200,000	2,200,000	2,046,608	(153,392)
Sales (Permissive Sales Tax)	2,321,601	2,674,867	2,653,051	(21,816)
Charges for services	1,282,427	1,477,567	1,465,516	(12,051)
Intergovernmental	941,729	1,085,027	1,076,178	(8,849)
Licenses	2,472	2,848	2,825	(23)
Fines and Forfeitures	374,545	431,538	428,018	(3,520)
Other Income	125,403	144,484	143,306	(1,178)
Interest	584,251	673,153	667,663	(5,490)
Other Financing Sources:				
Other Financing Sources	50,372	58,037	57,564	(473)
Advances from other funds	-	-	75,000	75,000
Amounts available for appropriation	<u>9,455,122</u>	<u>10,319,843</u>	<u>10,188,051</u>	<u>(131,792)</u>
Charges to Appropriations (Outflows):				
Executive/Legislative	4,493,251	4,709,751	3,998,656	711,095
Judicial	1,253,578	1,329,985	1,293,177	36,808
Public Safety	2,046,979	2,181,544	2,167,428	14,116
Public Health	2,296	2,296	1,376	920
Public Works	195,332	200,353	200,957	(604)
Human Services	324,776	324,776	284,583	40,193
Other Financing Uses:				
Other Financing Uses	220,080	179,376	145,673	33,703
Transfers to other funds	104,000	110,000	110,000	-
Advances to other funds	-	-	186,900	(186,900)
Total Charges to Appropriations	<u>8,640,292</u>	<u>9,038,081</u>	<u>8,388,750</u>	<u>649,331</u>
Ending Budgetary Fund Balance	<u><u>\$814,830</u></u>	<u><u>\$1,281,762</u></u>	<u><u>\$1,799,301</u></u>	<u><u>\$517,539</u></u>

BROWN COUNTY

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
JOB AND FAMILY SERVICES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$749,287	\$749,287	\$749,287	\$0
Resources (Inflows):				
Intergovernmental	2,760,782	3,194,876	3,195,944	1,068
Other Revenue	150,032	173,622	173,680	58
Other Financing Sources	268,352	310,546	310,650	104
Amounts available for appropriation	<u>3,928,453</u>	<u>4,428,331</u>	<u>4,429,561</u>	<u>1,230</u>
Charges to Appropriations (Outflows):				
Human Services	3,378,863	4,407,015	4,294,005	113,010
Other Financing Uses	-	20,868	20,868	-
Total Charges to Appropriations	<u>3,378,863</u>	<u>4,427,883</u>	<u>4,314,873</u>	<u>113,010</u>
Ending Budgetary Fund Balance	<u>\$549,590</u>	<u>\$448</u>	<u>\$114,688</u>	<u>\$114,240</u>

BROWN COUNTY

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 AUTO AND GAS TAX FUND
 FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$4,512,854	\$4,512,854	\$4,512,854	\$0
Resources (Inflows):				
Charges for services	3,370	4,042	4,314	272
Intergovernmental	3,063,606	3,674,942	3,922,234	247,292
Fines and Forfeitures	20,887	25,055	26,741	1,686
Licenses and Permits	7,131	8,554	9,130	576
Other Income	78,597	94,281	100,625	6,344
Interest	162,272	194,653	207,751	13,098
Other Financing Sources	44,139	52,945	56,508	3,563
Amounts available for appropriation	<u>7,892,855</u>	<u>8,567,326</u>	<u>8,840,157</u>	<u>272,831</u>
Charges to Appropriations (Outflows):				
Public Works	<u>3,957,791</u>	<u>4,964,791</u>	<u>4,314,973</u>	<u>649,818</u>
Total Charges to Appropriations	<u>3,957,791</u>	<u>4,964,791</u>	<u>4,314,973</u>	<u>649,818</u>
Ending Budgetary Fund Balance	<u><u>\$3,935,064</u></u>	<u><u>\$3,602,535</u></u>	<u><u>\$4,525,184</u></u>	<u><u>\$922,649</u></u>

BROWN COUNTY

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 MENTAL RETARDATION/DEVELOPMENTAL DISABILITIES FUND
 FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$619,572	\$619,572	\$619,572	\$0
Resources (Inflows):				
Taxes	425,429	597,696	606,419	8,723
Intergovernmental	880,794	1,237,449	1,255,510	18,061
Miscellaneous	27,698	38,913	39,481	568
	<u>1,953,493</u>	<u>2,493,630</u>	<u>2,520,982</u>	<u>27,352</u>
Amounts available for appropriation				
Charges to Appropriations (Outflows):				
Public Health	1,381,540	1,660,963	1,622,644	38,319
	<u>1,381,540</u>	<u>1,660,963</u>	<u>1,622,644</u>	<u>38,319</u>
Total Charges to Appropriations				
	<u>1,381,540</u>	<u>1,660,963</u>	<u>1,622,644</u>	<u>38,319</u>
Ending Budgetary Fund Balance	<u>\$571,953</u>	<u>\$832,667</u>	<u>\$898,338</u>	<u>\$65,671</u>

**BROWN COUNTY GENERAL HOSPITAL
BROWN COUNTY**

**CONSOLIDATED STATEMENTS OF NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

ASSETS

	December 31,	
	2006	2005
Current Assets		
Cash and Cash Equivalents (Includes Restricted Cash of \$140,615 and \$788,536 as of December 31, 2006 and 2005, Respectively)	\$ 1,294,716	\$ 2,927,481
Patient Accounts Receivable, Net of Allowance for Doubtful Accounts and Contractual Adjustments of \$6,028,488 for 2006 and \$4,031,813 for 2005	5,361,712	4,698,660
Grant Receivable	246,498	230,751
Notes, Contracts and Other Accounts Receivable, Net of Allowance for Doubtful Accounts of \$-0- for 2006 and \$329,061 for 2005	333,482	970,768
Supplies Inventory	362,918	276,955
Prepaid Expenses and Other Assets	392,592	540,410
Total Current Assets	7,991,918	9,645,025
Cash and Cash Equivalents Whose Use is Limited		
By Board for Plant Renewal and Replacement	14,763	14,630
Property, Plant and Equipment, Net	12,272,029	12,482,421
Total Assets	\$ 20,278,710	\$ 22,142,076

See accompanying notes to the financial statements

**BROWN COUNTY GENERAL HOSPITAL
BROWN COUNTY**

**CONSOLIDATED STATEMENTS OF NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Continued)**

LIABILITIES AND NET ASSETS

	December 31,	
	2006	2005
Current Liabilities		
Line of Credit	\$ 499,688	\$ -
Revenue Bond, Current	75,000	-
Current Portion of Long-Term Debt	229,183	244,007
Accounts Payable	1,204,973	1,388,867
Estimated Settlement Amounts Due to Third-Party Payors	41,287	685,955
Deferred Income	26,912	19,972
Accrued Expenses		
Salaries, Wages, Withholdings and Benefits	945,912	841,370
Compensated Absences	781,967	706,032
Other	562,431	454,308
	4,367,353	4,340,511
Total Current Liabilities	4,367,353	4,340,511
Long-Term Liabilities		
Accrued Compensated Absences, Less Current Portion	315,000	329,052
Revenue Bond, Net of Current Portion	708,720	-
Long-Term Debt, Net of Current Portion	578,086	807,268
	1,601,806	1,136,320
Total Long-Term Liabilities	1,601,806	1,136,320
Total Liabilities	5,969,159	5,476,831
Net Assets		
Invested in Property, Plant and Equipment, Net of Related Debt	11,464,760	11,431,146
Unrestricted	2,704,176	4,445,563
Restricted	140,615	788,536
	14,309,551	16,665,245
Total Net Assets	14,309,551	16,665,245
Total Liabilities and Net Assets	\$ 20,278,710	\$ 22,142,076

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, 2006 AND 2005**

	Years Ended December 31,			
	2006		2005	
	Amount	Percent	Amount	Percent
Net Patient Service Revenues	\$ 37,634,849	98.9 %	\$ 38,937,972	98.8 %
Other Operating Revenues	<u>401,970</u>	<u>1.1</u>	<u>475,431</u>	<u>1.2</u>
Total Operating Revenues	<u>38,036,819</u>	<u>100.0</u>	<u>39,413,403</u>	<u>100.0</u>
Operating Expenses				
Salaries and Wages	15,938,386	41.9	15,627,138	39.6
Employee Benefits	4,839,760	12.7	4,763,408	12.1
Supplies and Other	8,768,800	23.1	9,246,407	23.5
Provision for Bad Debts	4,584,589	12.1	3,546,745	9.0
Depreciation and Amortization	1,905,188	5.0	1,824,670	4.6
Purchased Services and Professional Fees	3,076,161	8.1	4,297,979	10.9
Utilities	631,687	1.7	694,787	1.8
Insurance	625,753	1.6	747,562	1.9
Interest	<u>79,535</u>	<u>0.2</u>	<u>57,175</u>	<u>0.1</u>
Total Operating Expenses	<u>40,449,859</u>	<u>106.3</u>	<u>40,805,871</u>	<u>103.5</u>
Loss from Operations	<u>(2,413,040)</u>	<u>(6.3)</u>	<u>(1,392,468)</u>	<u>(3.5)</u>
Non-Operating Revenues (Expenses)				
Investment Income	42,255	0.1	33,842	0.1
Gifts, Grants and Donations	21,940	0.1	10,198	0.0
Non-Operating Expenses	<u>(43,067)</u>	<u>(0.1)</u>	<u>(273,538)</u>	<u>(0.7)</u>
Total Non-Operating Revenues (Expenses)	<u>21,128</u>	<u>0.1</u>	<u>(229,498)</u>	<u>(0.6)</u>
Change in Net Assets	(2,391,912)	<u>(6.3) %</u>	(1,621,966)	<u>(4.1) %</u>
Net Assets, Beginning of Year	16,665,245		18,122,990	
Donations of Property, Plant and Equipment	<u>36,218</u>		<u>164,221</u>	
Net Assets, End of Year	<u>\$ 14,309,551</u>		<u>\$ 16,665,245</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, 2006 AND 2005**

	Years Ended December 31,	
	2006	2005
Cash Flows from Operating Activities		
Cash Received from Patients	\$ 36,971,797	\$ 39,511,878
Cash Payments to Suppliers for Goods and Services	(17,820,372)	(17,007,601)
Cash Payments to Employees for Services	(20,611,721)	(20,317,230)
Other Operating Revenues	401,970	475,431
Net Cash (Used) Provided by Operating Activities	(1,058,326)	2,662,478
Cash Flows from Non-Capital Financing Activities		
Investment Income	42,255	33,842
Gifts, Grants and Donations	21,940	10,198
Non-Operating Expenses	(43,067)	(273,538)
Net Cash Provided (Used) by Non-Capital Financing Activities	21,128	(229,498)
Cash Flows from Capital and Related Financing Activities		
Acquisition of Property, Plant and Equipment	(1,639,266)	(990,473)
Principal Paid on Long-Term Debt	(244,006)	(881,468)
Proceeds from Line of Credit	499,688	-
Proceeds from Note Payable	783,720	1,000,000
Proceeds from Sale of Property, Plant and Equipment	4,430	1,609
Net Cash Used by Capital and Related Financing Activities	(595,434)	(870,332)
Net Change in Cash and Cash Equivalents	(1,632,632)	1,562,648
Cash and Cash Equivalents at Beginning of Year	2,942,111	1,379,463
Cash and Cash Equivalents at End of Year	\$ 1,309,479	\$ 2,942,111
Recap of Cash and Cash Equivalents		
Undesignated Cash	1,154,101	2,138,945
Designated Cash	14,763	14,630
Restricted Cash	140,615	788,536
Total Cash and Cash Equivalents	\$ 1,309,479	\$ 2,942,111
Reconciliation of Loss from Operations to		
Net Cash (Used) Provided by Operating Activities		
Loss from Operations	\$ (2,413,040)	\$ (1,392,468)
Adjustments to Reconcile Loss from Operations to Net Cash Provided by Operating Activities		
Depreciation	1,905,188	1,816,565
Amortization	-	8,105
Provision for Bad Debts	4,584,589	3,546,745
(Gain) Loss on Disposal of Property, Plant and Equipment	(23,742)	32,423
Changes in		
Patient Accounts Receivable	(5,247,641)	(3,172,839)
Notes, Contracts, Grants and Other Receivables	621,539	496,775
Supplies Inventory	(85,963)	(19,591)
Prepaid Expenses and Other Assets	147,818	94,286
Accounts Payable	(183,894)	552,244
Estimated Settlement Amounts Due to Third-Party Payors	(644,668)	565,955
Deferred Income	6,940	(14,561)
Accrued Expenses	274,548	148,839
Net Cash (Used) Provided by Operating Activities	\$ (1,058,326)	\$ 2,662,478
Supplemental Cash Flow Information		
Cash Paid for Interest	\$ 75,953	\$ 73,045

See accompanying notes to the financial statements

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BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006

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, 2006
(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. 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 \$60 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, 2006
(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 2006.

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, 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 2006 was \$163,941. 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, 2006
(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, 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, 2006
(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 developed 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.

Mental Retardation/Developmental Disabilities Fund – This fund accounts for various federal and state grants used to provide assistance and training to mentally retarded and developmentally disabled individuals.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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. Any such modifications made by the County are described in the appropriate section in this note.

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

D. Budgetary Process

All 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 certificated 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, 2006
(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".

Investments of the cash management pool are included in "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 2006, the County invested in Goldman Sachs, 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, 2006.

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 2006 were \$667,663, which includes \$568,295 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, 2006
(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.

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. The County has established a fund equity designation for capital asset replacement.

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 and after nonoperating receipts/cash disbursements in proprietary 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, 2006
(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.

Ohio Revised Code 9.38 requires public officials to deposit all public moneys received with the treasurer of the public office or properly designated depository on the next business day following the day of receipt, if the total amount of such moneys received exceeds \$1,000. If the total amount does not exceed \$1,000, the public official shall deposit the money on the next business day following the day of receipt unless the legislative authority of the public office adopts a policy permitting a different time period. The alternate time period, however, shall not exceed three business days following the day of receipt.

A special audit was performed by the Auditor of State to examine passport, notary, and non-sufficient fund fees collected by the Brown County Clerk of Courts for the period January 1, 2005 through November 30, 2006, to determine whether the fees due were collected and deposited timely during this period. As a result of the special audit, it was determined that amounts for passport and notary fees were not deposited with in the guidelines of this code section, resulting in findings for recovery being issued.

4. 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;

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

4. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS (Continued)

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.

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, \$14,124,209 of the County's bank balance of \$14,624,209 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, 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.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

4. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments

As of December 31, 2006, the County had the following investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Investment Maturities (In Years)</u>	
		<u>Less than 1</u>	<u>3-5</u>
Goldman Sachs Fund	\$ 1,456,839	\$ 1,456,839	\$ -
Federal National Mortgage Association	1,000,000	-	1,000,000
Federal Home Loan Mortgage Corporation Notes	500,000	500,000	-
STAR Ohio	522,360	522,360	-
Total Investments	\$ 3,479,199	\$ 2,479,199	\$ 1,000,000

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.

The security underlying the federal national mortgage association notes, federal home loan corporation notes and the federal home loan bank notes carry a rating of Aaa by Moody's and AAA by Standard and Poor's and Fitch. 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.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Goldman Sachs, Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, and the Federal Home Loan Bank Notes are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the County's name. The County has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.35(J)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

5. 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 General Fund and 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 2006 amounted to \$3,316,332

6. PROPERTY TAX

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

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

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

2006 tangible personal property taxes are levied after October 1, 2005 on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are 18.75% of true value for capital assets and 18.75% of true value for inventory.

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable September 20. However, single county filers may be granted an extension until June 30.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

6. PROPERTY TAX (Continued)

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.

Collections of the taxes and remittance of them to the taxing districts are accounted for in various agency funds of the County.

Collections of the taxes and remittance of them to the taxing districts are accounted for in the Undivided General Tax Agency Fund. The collection and distribution of taxes for the County and for all subdivisions within the County is accounted for through the Undivided General Tax Agency Fund.

The full tax rate applied to real property for the fiscal year ended December 31, 2006 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 \$4.77 per \$1,000 of assessed valuation of real property classified as residential/agricultural and \$4.88 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.

	<u>2006</u>	<u>2005</u>
Real Property:		
Residential/Agricultural	\$ 498,203,479	\$ 483,011,990
Commercial/Industrial	<u>53,519,180</u>	<u>49,530,220</u>
Total Real Property	<u>551,722,659</u>	<u>532,542,210</u>
Tangible Personal Property:		
Public Utilities	27,646,720	27,440,880
General	<u>14,889,201</u>	<u>19,952,466</u>
Total Tangible Property	<u>42,535,921</u>	<u>47,393,346</u>
Total All Property	<u>\$ 594,258,580</u>	<u>\$ 579,935,556</u>

7. 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.

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.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

7. RISK MANAGEMENT (Continued)

Under the CORSA program for general liability, auto liability, error and omission liability, and law enforcement liability are covered in the amount of \$1,000,000 aggregate per occurrence. There is no annual aggregate except for the Error and Omissions for Public Officials and General Liability on Products and Completed Operations Limit, which both have the same per occurrence and annual aggregate limit. For the General Liability (coverage other than products and completed operations limit), Law Enforcement and Auto Liability, there is no annual aggregate. Property damage is on a replacement cost basis.

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, money and securities (inside and out), 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 2006, 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, 2006
(Continued)

8. DEFINED BENEFIT PENSION PLAN (OPERS)

Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St Columbus, OH 34215-4642 or by calling (614) 222-6705 or 800-222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary. The County's contribution rate for 2006 was 13.70 percent, except for plan members in law enforcement or public safety division. For those classifications, the County's pension contributions were 16.93 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The County's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$900,925, 925,160 and \$796,836 respectively; 92% has been contributed for 2006 and 100% has been contributed for the years 2005 and 2004. Contributions to the member-directed plan for 2006 were \$20,219 made by the County and \$13,283 made by the plan members.

9. POST EMPLOYMENT BENEFITS

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

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

9. POST EMPLOYMENT BENEFITS (Continued)

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

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

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund post-employment benefits were \$424,578. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarially accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

10. 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.

11. 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.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

12. LONG-TERM DEBT

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

Governmental Activities	<u>Principal Outstanding 12/31/2005</u>	<u>Reductions</u>	<u>Principal Outstanding 12/31/06</u>	<u>Amounts Due In One Year</u>
General Obligation Bonds:				
Human Services Building Bonds	\$ 185,000	\$ 65,000	\$ 120,000	\$ 65,000
Brown County Public Library District Bonds	2,020,000	140,000	1,880,000	145,000
Mental Health Project Bonds	<u>244,638</u>	<u>11,191</u>	<u>233,447</u>	<u>11,844</u>
Total General Obligation Bonds	<u>2,449,638</u>	<u>216,191</u>	<u>2,233,447</u>	<u>221,844</u>
Other Long-Term Obligations:				
Forgivable Debt (Mental Health)	<u>255,208</u>	<u>8,750</u>	<u>246,458</u>	<u>8,750</u>
Total Other Long-Term Obligations	<u>255,208</u>	<u>8,750</u>	<u>246,458</u>	<u>8,750</u>
Total General and Other Long-Term Obligations	<u><u>\$2,704,846</u></u>	<u><u>\$ 224,941</u></u>	<u><u>\$ 2,479,905</u></u>	<u><u>\$ 230,594</u></u>

The County's total legal debt margin was \$11,722,718 with an unvoted debt margin of \$4,308,839.

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, 2006
(Continued)

12. LONG-TERM DEBT (Continued)

Years Ended December 31,	General Obligation		Other Long-Term Obligations	
	Principal	Interest	Principal	Interest
2007	\$ 221,844	\$ 131,993	\$ 8,750	\$ -
2008	222,535	119,552	8,750	-
2009	178,266	106,633	8,750	-
2010	184,039	95,960	8,750	-
2011	194,858	84,941	8,750	-
2012-2016	1,153,348	235,748	43,750	-
2017-2021	78,557	9,290	43,750	-
2022-2026	-	-	43,750	-
2027-2031	-	-	43,750	-
2032-2035	-	-	27,708	-
Total	<u>\$ 2,233,447</u>	<u>\$ 784,117</u>	<u>\$ 246,458</u>	<u>\$ -</u>

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

13. INTERFUND TRANSFERS

Interfund cash transfers for the year ended December 31, 2006, were as follows:

	Transfer In	Transfer Out
MAJOR FUNDS:		
GENERAL FUND:		
Common Pleas Mediation Fees	\$ -	\$ 51,000
Sewer and Water District Fund	-	20,000
Prosecutor's Victims Assistance	-	16,500
Other Revenue	-	22,500
Total General Fund	-	110,000
NON-MAJOR FUNDS:		
OTHER GOVERNMENTAL FUNDS:		
Common Pleas Mediation Fees		
General Fund	51,000	
Prosecutor's Victims Assistance		
General Fund	16,500	
County Capital Improvement Fund		
General Fund	22,500	
Sewer and Water District Fund		
General Fund	20,000	
Mental Health Construction		
Jail Diversion Grant		4,223
Jail Diversion Grant		
Mental Health	4,223	
MH/Line Item #408		
MH/Medicaid	434,754	
MH/Alcohol	17,154	
MH/Medicaid		
MH/Line Item #408		434,754
MH/ADMS		
MH/Alcohol	44,220	
MH/Alcohol		
MH/Line Item #408		17,154
MH/ADMS		44,220
Total Special Revenue Funds	610,351	500,351
GRAND TOTAL	\$ 610,351	\$ 610,351

14. 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.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

15. BROWN COUNTY GENERAL 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 and the surrounding area. The Hospital is operated under the provisions of the Ohio Revised Code. As the Hospital is not legally separate from the County, it is included along with the financial statements of the County as stand alone statements.

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 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.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

Estimates

The process of preparing 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.

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 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 2006 and 2005, these types of donations amounted to \$36,218 and \$164,221, respectively, and are non-cash financing activities.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

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.

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, 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 15A.

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.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

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.

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 \$1,579,027 and \$1,007,202 for patients meeting the charity care criteria for the years ended December 31, 2006 and 2005, respectively.

Governmental Accounting Standards Board (Statement) No. 34

The Hospital has implemented Statement of Governmental Accounting Standards Board (Statement) No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", as amended by Statement No.'s 37 and 38. These statements established new financial reporting requirements for state and local governments.

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:

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

	2006	2005
Equipment Purchases	\$ -	\$ 678,460
Revenue Bond	16,512	-
Foundation	119,103	105,076
Other Endowments	5,000	5,000
Total	\$ 140,615	\$ 788,536

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.

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.

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.

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.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

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;
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,

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.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

A. Cash on Hand

As of December 31, 2006 and 2005, the Hospital had \$2,635 and \$2,633, respectively in undeposited cash on hand which is included on the financial statements of the Hospital as part of "Cash and Cash Equivalents".

B. Deposits with Financial Institutions

As of December 31, 2006 the carrying amount of all Hospital deposits was \$1,309,479. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2006, \$1,248,383 of the Hospital's bank balance of \$1,556,018 was exposed to custodial credit risk as discussed below, while \$307,635 was covered by the Federal Deposit Insurance Corporation.

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.

The Hospital had the following non-cash transactions:

	December 31,	
	2006	2005
Donated Property, Plant and Equipment	\$ 36,218	\$ 164,221

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 operating expenses 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, 2006 and 2005 for Medicare and the year December 31, 2006 for Medicaid remain unsettled as of December 31, 2006.

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

	2006	2005
Federal Government: Medicare	\$ 1,150,687	\$ 1,075,111
State of Ohio: Medicaid, Workers Compensation	1,270,221	653,944
Commercial Insurance, Self-Pay and Other	2,940,804	2,969,605
Total	\$ 5,361,712	\$ 4,698,660

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

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 and the purchase of equipment. The original grant amount was \$390,000. At December 31, 2006 and 2005 the grant receivable was \$246,498, which represents the amount not drawn by the Hospital.

E. PROPERTY, PLANT AND EQUIPMENT

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

	Balance January 1, <u>2006</u>	<u>Additions</u>	Transfers/ <u>Disposals</u>	Balance December 31, <u>2006</u>
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	<u>320,086</u>	<u>-</u>	<u>-</u>	<u>320,086</u>
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	<u>189,644</u>	<u>38,142</u>	<u>-</u>	<u>227,786</u>
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>

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

Property, plant and equipment transactions for the year ended December 31, 2005 were as follows:

	Balance January 1,		Transfers/ Disposals	Balance December 31,
	<u>2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>2005</u>
Property, Plant and Equipment Not Being Depreciated				
Construction in Progress	\$ 456,616	\$ 60,699	\$ 282,503	\$ 234,812
Depreciable Property, Plant and Equipment				
Land and Land Improvements	2,091,433	6,500	-	2,097,933
Buildings and Building Improvements	10,446,087	358,169	-	10,804,256
Fixed Equipment	8,523,345	55,285	-	8,578,630
Major Movable Equipment	9,618,758	834,137	371,164	10,081,731
Vehicles	<u>207,354</u>	<u>122,408</u>	<u>9,676</u>	<u>320,086</u>
Total Property, Plant and Equipment at Historical Cost	<u>31,343,593</u>	<u>1,437,198</u>	<u>663,343</u>	<u>32,117,448</u>
Less Accumulated Depreciation				
Land and Land Improvements	593,083	51,269	-	644,352
Buildings and Building Improvements	6,411,269	473,816	-	6,885,085
Fixed Equipment	5,140,866	427,157	-	5,568,023
Major Movable Equipment	5,842,972	842,043	337,132	6,347,883
Vehicles	<u>177,079</u>	<u>22,280</u>	<u>9,675</u>	<u>189,684</u>
Total Accumulated Depreciation	<u>18,165,269</u>	<u>1,816,565</u>	<u>346,807</u>	<u>19,635,027</u>
Property, Plant and Equipment - Net	<u>\$ 13,178,324</u>	<u>\$ (379,367)</u>	<u>\$ 316,536</u>	<u>\$ 12,482,421</u>

F. LINE OF CREDIT

The Hospital had a line of credit with a bank that matured in February, 2007. The Hospital could borrow up to \$500,000. The line charged interest at 175 basis points below prime rate (the prime rate was 8.25% at December 31, 2006) and was collateralized by the accounts receivable of the Hospital. The amount drawn on the line of credit was \$499,688 as of December 31, 2006. The line was paid off upon maturity and a new line of credit arrangement was entered into (see note 15N).

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

G. LONG-TERM DEBT

	<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>
	<u>December 31, 2005</u>	
	<u>Bonds and Notes Payable</u>	<u>Capital Lease Obligations</u>
Debt Outstanding January 1, 2005	\$ 780,000	\$ 152,743
Additions of New Debt	1,000,000	-
Repayments	<u>(824,770)</u>	<u>(56,698)</u>
Debt Outstanding December 31, 2005	<u>\$ 955,230</u>	<u>\$ 96,045</u>
Expected to be Paid Within One Year	<u>\$ 184,273</u>	<u>\$ 59,734</u>

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

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

	2006	2005
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.	\$ 783,720	\$ -
Note Payable issued in 2005, collateralized by equipment purchased with the proceeds, charging interest at 4.57% and maturing in September, 2010.	770,958	955,230
Capital lease obligations, at various effective interest rates between 4.0% and 8.0% collateralized by leased equipment and maturing at various dates through June, 2007.	36,311	96,045
	1,590,989	1,051,275
Less Current Portion	304,183	244,007
	\$ 1,286,806	\$ 807,268

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, 2006 were waived by the bank.

Scheduled principal repayments on long-term debt and payments on capital lease obligations for the next five years are as follows:

<u>Years Ending</u> <u>December 31,</u>	<u>Long-Term</u> <u>Debt</u>	<u>Capital Lease</u> <u>Obligations</u>
2007	\$ 267,872	\$ 36,946
2008	276,873	-
2009	286,295	-
2010	239,918	-
2011	75,000	-
Thereafter	408,720	-
	\$ 1,554,678	36,946
Less Amount Representing Interest		(635)
		36,311
Present Value of Minimum Lease Payments		-
Less Current Portion		36,311
Non-Current Portion		\$ -

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

The Hospital is the lessee in various capital lease obligations as noted above. A provision of the lease agreements is a purchase commitment of a fixed number of supply packs for the capital equipment on an annual basis.

The cost of assets under capital lease obligations was approximately \$393,000 at December 31, 2006 and 2005, (with accumulated depreciation of approximately \$393,000 at December 31, 2006 and 2005) and is included in property, plant and equipment in the accompanying consolidated statements of net assets.

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:

	2006	2005
Gross Patient Service Charges at Established Rates (Including Charity Care)	\$ 70,418,322	\$ 67,092,502
Less		
Contractual Allowances	(31,204,446)	(27,147,328)
Charity Care	<u>(1,579,027)</u>	<u>(1,007,202)</u>
Net Patient Service Revenue	<u>\$ 37,634,849</u>	<u>\$ 38,937,972</u>

I. OPERATING LEASES

The Hospital has operating leases for facilities and medical equipment. These obligations extend through April, 2007.

Minimum future payments for these leases are as follows:

Year Ending <u>December 31,</u>	
2007	\$ <u>21,696</u>

Lease expense for the years ended December 31, 2006 and 2005 was \$227,832 and \$143,105, respectively.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

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 13.70% and 8.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years are as follows:

<u>Years</u>	<u>Contribution</u>
2006	\$ 2,170,947
2005	2,076,827
2004	1,969,265

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, 2006 and 2005.

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 2006 employer rate for employees' coverage by OPERS was 13.70%, of which 4.5% was used to fund health care. The total Hospital contribution used to fund health care was \$717,227 and \$613,086 for the years ended December 31, 2006 and 2005, respectively.

BROWN COUNTY
Notes to the Financial Statements
For The Year Ended December 31, 2006
(Continued)

15. 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 December 31, 2006 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 4.0% annually.

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 \$150,000 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 62.7% and 62.3% of the Hospital's gross patient service revenues during 2006 and 2005, respectively.

N. SUBSEQUENT EVENT

The Hospital paid off its existing line of credit at December 31, 2006 on February 9, 2007. On the same day, the Hospital obtained another line of credit with a different bank. The Hospital may borrow up to \$1.0 million with interest at the prime rate. The line is collateralized by substantially all of the Hospital's accounts receivable.

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BROWN COUNTY

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

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF 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	\$ 86,701
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	15,834
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>			
Social Services Block Grant - Title XX	N/A	93.667	25,189
Total Social Services Block Grant (Title XX)			<u>41,023</u>
<i>Passed Through the Ohio Department of Alcohol and Drug Addiction Services</i>			
Medical Assistance Program - Title XIX	N/A	93.778	707,444
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>			
Medical Assistance Program - Title XIX - CAFS	N/A	93.778	316,534
Medical Assistance Program - Title XIX - TCM	N/A	93.778	164,518
Medical Assistance Program - Title XIX - Day Habilitation	N/A	93.778	319,728
Total Medical Assistance Program - Title XIX			<u>1,508,224</u>
Total U.S. Department of Health and Human Services			1,664,908
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through the Ohio Department of Development:</i>			
Community Development Block Grants	BF-04-008-1	14.228	12,823
Community Development Block Grants	BF-05-008-1	14.228	92,076
Community Development Block Grants	BF-06-008-1	14.228	6,162
Community Development Block Grants	BN-05-008-1	14.228	14,922
Community Development Block Grants	B-C-04-008-1	14.228	28,357
			<u>154,340</u>
<i>Passed Through the Ohio Department of Development:</i>			
Home Investment Partnership Program	B-C-04-008-2	14.239	84,678
Total U.S. Department of Housing and Urban Development			239,018
U.S. DEPARTMENT OF JUSTICE			
<i>Passed Through the Ohio Attorney General:</i>			
Crime Victim Assistance	2007VAGENE308	16.575	7,734
Crime Victim Assistance	2006VAGENE308	16.575	22,750
Crime Victim Assistance	2007VADSCE461	16.575	6,047
Crime Victim Assistance	2006VADSCE461	16.575	17,607
			<u>54,138</u>
Bryne Formula Grant Program	2005-JG-B01-6290	16.579	12,012
Total U.S. Department of Justice			66,150
FEDERAL AGENCY DEPARTMENT OF HOMELAND SECURITY			
<i>Passed Through the Ohio Department of Public Safety Emergency Management Agency:</i>			
Public Assistance Grants	1580-DR-015-0F580	97.036	56,508
State Domestic Preparedness Equipment Support (See Federal Schedule Note D)	2004-GE-T4-0025	97.004	88,427
Homeland Security Grant Program (See Federal Schedule Note D)		97.067	109,512
Emergency Management Performance Grants	2006-EME60042	97.042	15,185
Total Federal Agency Department of Homeland Security			269,632

(Continued)

BROWN COUNTY

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

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through the Ohio Department of Health</i>			
Special Education Grants for Infants and Families with Disabilities	08-1-002-1-EG-07	84.181	18,084
Special Education Grants for Infants and Families with Disabilities	08-1-002-1-EG-06	84.181	<u>19,926</u>
Total U.S. Department of Education			38,010
U.S. GENERAL SERVICES ADMINISTRATION			
<i>Passed through the Ohio Secretary of State</i>			
Help America Vote Act of 2003	05-SOS-HAVA-08	39.011	8,235
Voting Access for Individuals with Disabilities_Grants to States	06-SOS-HHHS-08	93.617	<u>11,719</u>
Total General Services Administration			19,954
TOTAL FEDERAL ASSISTANCE			<u>\$ 2,297,672</u>

BROWN COUNTY OFFICES

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - SUBRECIPIENTS

The County passes-through certain Federal assistance received from 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.

NOTE D – HOMELAND SECURITY CLUSTER

The County reported the following federal programs for the Homeland Security Cluster on the Schedule of Expenditures of Federal Awards. Several programs for federal fiscal year 2005 were incorporated into the State Domestic Preparedness Equipment Support Program (97.004) and Homeland Security Grant Program (97.067) in accordance with the guidance from the U.S. Department of Homeland Security.

CFDA #	Program	Amount
97.004	State Domestic Preparedness Equipment Support Program	\$ 88,427
97.042	Emergency Management Performance Grants	\$ 9,699
97.073	State Homeland Security Program	97,379
97.067	Homeland Security Program	\$ 107,078
97.073	State Homeland Security Program	\$ 2,434
97.067	Homeland Security Grant Program	\$ 2,434

The first grouping is for federal fiscal year (FFY) 2004 grants, the second grouping is for FFY 2005 grants, and the third grouping is for FFY 2006 grants.

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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, the discretely presented component unit, each major fund, and the remaining fund information of Brown County, Ohio (the County) as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 17, 2007, 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, 2006, 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, 2006, 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

County's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-002 and 2006-003 and 2006-004.

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 2006-003 is also a material weakness.

Other auditors performed procedures to obtain an understanding of the internal control of the Hospital. The results of their procedures are reported separately in the audit report of the Hospital.

We also noted certain internal control matters that we reported to the County's management in a separate letter dated December 17, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the County's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 and 2006-002.

Other auditors performed tests of noncompliance related to the Hospital and the results of those tests are reported separately in the audit report of the Hospital.

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 December 17, 2007.

We intend this report solely for the information and use of the audit 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

December 17, 2007



Mary Taylor, CPA

Auditor of State

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

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 programs for the year ended December 31, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the County's major federal 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, 2006.

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.

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

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that the entity's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as finding 2006-005 to be a significant deficiency.

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. We did not consider any of the deficiencies described in the accompanying schedule of findings to be material weaknesses.

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

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



Mary Taylor, CPA
Auditor of State

December 17, 2007

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

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	93.778 Medical Assistance Program Title XIX
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2006-001

Noncompliance Finding

Ohio Revised Code, Section 117.38, provides that each public office shall file a financial report for each fiscal year. 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.

Ohio Administrative Code Section 117-2-03 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.

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 reasonable determined at this time. The County can be fined and various other administrative remedies may be taken against the County.

Ohio Revised Code Section 117.38 also requires the chief fiscal officer to publish notice in a newspaper published in the political subdivision at the time the report is filed with the auditor of state. The financial report was not filed and the notice was not published in the newspaper.

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 to the finding reported above.

FINDING NUMBER 2006-002

Noncompliance Finding and Significant Deficiency

Ohio Revised Code, Section 9.38, requires public officials to deposit all public moneys received with the treasurer of the public office or properly designated depository on the next business day following the day of receipt, if the total amount of such moneys received exceeds \$1,000. If the total amount does not exceed \$1,000, the public official shall deposit the money on the next business day following the day of receipt unless the legislative authority of the public office adopts a policy permitting a different time period. The alternate time period, however, shall not exceed three business days following the day of receipt. Further, the policy must include procedures to safeguard the money until the time of deposit. When designing the public office’s system of internal control and the specific control activities, management should ensure that all transactions are properly authorized in accordance with management’s policies, ensure that accounting records are properly designed, ensure adequate security of assets and records and plan for adequate segregation of duties or compensating controls.

**FINDING NUMBER 2006-002
(Continued)**

A special audit was performed by the Auditor of State to examine passport, notary and non-sufficient funds fees collected by the Brown County Clerk of Courts for the period January 1, 2005 through November 30, 2006 to determine whether the fees due were collected and deposited timely during this period. As a result of this special audit, it was determined that amounts for passport and notary fees were not deposited within the guidelines of this code section, resulting in findings for recovery being issued.

Numerous recommendations were made within the special audit report released on October 4, 2007 to improve controls related to the Clerk of Courts miscellaneous fees and reduce the risk that errors, theft or fraud, could occur and not be detected

Officials' Response:

We did not receive a response from Officials to the finding reported above.

FINDING NUMBER 2006-003

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.

The 2006 financial statements presented by the County for audit in May 2007 did not present fairly, in all material respects, the financial condition and results of operations of the County for 2006. Misstatements included the following:

- Fund balances presented on the financial statements did not represent fund balances recorded in the County's fund report. Adjustments were required to increase the fund balance of the General Fund by \$94,667 and the Other Governmental Funds by \$769,540. Adjustments were required to increase Governmental Activities net assets by \$864,207.
- Transfers and advances did not reconcile on the statement, nor did they match the County ledgers.
- Homestead, rollback and state deregulation monies were posted as taxes rather than intergovernmental revenue.
- Ohio Public Works grant receipts and expenditures were not posted to the County's ledger.

A lack of reliable, accurate financial reporting increases the risk that fraud and errors would not be detected in a timely manner, and that management could base decisions on incorrect financial information.

We recommend that the County implement controls to ensure that the financial statements prepared are accurate and that misstatements are detected in a timely manner.

FINDING NUMBER 2006-004

Finding For Recovery Repaid Under Audit and Significant Deficiency

The Brown County Alcohol, Drug Addiction and Mental Health Board (BCADAMHB) paid Integrated Youth, Inc for services performed which are presented for Medicaid reimbursement. After the service is provided, Integrated Youth submits a claim to Behavioral Health Generations (BHG) through the MACSIS system. BHG bills BCADAMHB for claims submitted. Upon board approval of the bill and voucher, the provider is paid for the services. The vouchers submitted to the County Auditor's Office include standard prior certification language and state that the bill was reviewed and approved for payment by the board during the monthly board meeting. The Board's approval is recorded in the official minutes of the board. In addition, bills that are submitted for payment between monthly board meetings are approved by the Executive Director and another representative, however this approval is not noted in the Board minutes.

The total amount of a voucher was altered after Board approval of the original amount, resulting in payment being remitted twice in error to Integrated Youth. Duplicate payments for services rendered were paid on July 10, 2006, voucher number 16134 and on August 14, 2006, voucher number 17545 by Brown County Alcohol, Drug Addiction and Mental Health Board.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Integrated Youth, Inc. for \$274 and in favor of the Brown County Alcohol, Drug Addiction and Mental Health Fund.

On December 3, 2007, Integrated Youth repaid the \$274 to the BCADAMHB. We recommend that the Board review and approve each expenditure and document this approval in the Board minutes. The Board approval should be documented on the voucher prior to submission to the County Auditor's Office to ensure that expenditures are valid and for a proper public purpose.

Officials' Response:

We did not receive a response from Officials to the finding reported above.

3. FINDINGS FOR FEDERAL AWARDS

FINDING NUMBER 2006-005

Significant Deficiency

Finding Number ⁷	2006-005
CFDA Title and Number	Medicaid Assistance Program – Title XIX
Federal Award Number / Year	93.778/2006
Federal Agency	US Department of Health and Human Services
Pass-Through Agency	Ohio Department of Alcohol and Drug Addiction Services

See GAGAS Finding number 2006-004; this finding is also required to be reported in accordance with OMB A-133.

BROWN COUNTY

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Ohio Administrative Code, Section 117-2-03(B): County did not prepare its annual financial report in accordance with GAAP.	No	Repeat as finding number 2006-001



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
JANUARY 8, 2008**