



Mary Taylor, CPA
Auditor of State

FAYETTE COUNTY
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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Fayette County
133 South Main Street
Washington Court House, Ohio 43160

To the Board of County Commissioners:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fayette County, Ohio (the County), as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Fayette County General Hospital for the year ended December 31, 2006. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions on the accompanying financial statements, insofar as it relates to the amounts included for the Fayette County General Hospital, are based on the reports 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 1, with the exception of the Fayette County General Hospital, the accompanying financial statements and notes follow the cash basis of accounting. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the accompanying financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of the County as of and for the year ended December 31, 2006 in accordance with accounting principles generally accepted in the United States of America.

The Fayette County General Hospital financial statements are presented as stand alone statements. In our opinion, based on the report of the other auditors, the Fayette County General Hospital's stand alone financial statements present fairly, in all material respects, its financial position as of December 31, 2006, and its changes in financial position and its cash flows for the year 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 Fayette County Memorial Hospital in its cash basis statements. In addition, the financial statements do not include financial data for the County's legally separate component unit, Fayette Progressive Industries. Accounting principles generally accepted in the

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United States of America require the financial data for those component units to be reported with the financial data of the County's primary government unless the County also issues financial statements for the reporting entity that include the component unit's financial data. The County has not issued reporting entity financial statements. We cannot determine the amount of assets, net assets, revenues and expenses that the accompanying statements should present for the component units. Therefore, in our opinion, the County's financial statements do not present fairly the financial position of the business-type activities, proprietary funds, and the discretely presented component unit of the County as of December 31, 2006 or the changes in its cash basis financial position for the year 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 cash basis financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of Fayette County, Ohio, as of December 31, 2006, and the respective changes in cash basis financial position thereof and the respective budgetary comparison for the General, Board of Mental Retardation and Developmental Disabilities, Job and Family Services, and Motor Vehicle and Gas Tax Funds, thereof for the year then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2007, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Mary Taylor, CPA
Auditor of State

September 24, 2007

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(Unaudited)

As Management of Fayette County (the County), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the 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.

- . In total, net cash assets increased \$1,803,850.
- . Net cash assets of governmental activities increased \$891,258 which represents a 13.23% increase from 2005. Net cash assets of business-type activities decreased \$235,158 which represents a 51.92% decrease from 2005. Net cash assets of fiduciary funds increased \$1,147,750 which represents a 33.35% increase from 2005.
- . At the close of the current fiscal year, the County's governmental funds reported a combined ending fund balance of \$7,626,136. Approximately 94.12%, \$7,177,610, is available for spending at the government's discretion. Business-type Funds reported a combined ending fund balance of \$217,728. Approximately 61.07%, \$132,963, is available for spending.
- . Additions to the County's total long-term debt during the current fiscal year amounted to \$223,000. Reductions in long-term debt during 2006 amounted to \$269,000.

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 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.

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

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

Reporting the 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 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 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

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(Unaudited)

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.

Both of the government-wide financial statements distinguishes functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include executive/legislative, judicial, public safety, public works, health, human services, conservation and recreation, economic development and assistance, and urban redevelopment and housing. The business-type activities of the County include a sanitary sewer, sanitary waste, and water district.

The government-wide financial statements can be found on pages 15-17 of the report.

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 three categories: governmental, proprietary, and fiduciary.

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

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2006
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Motor Vehicle and Gas Tax Fund, and the Capital Improvement Bond Retirement Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

The County adopts an annual appropriated budget for its general fund and the other major funds as well as all other governmental funds. A budgetary comparison statement has been provided for the general and the other major special revenue funds to demonstrate compliance with this budget.

The cash basis governmental fund financial statements can be found on pages 18-19 of this report.

Proprietary funds - The County maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for its sanitary sewer, sanitary waste, and water districts.

Proprietary funds provide the same type of information as the government-wide financial statements. All funds are combined into a single presentation.

The cash basis proprietary fund financial statements can be found on pages 22-23 of this report.

Fiduciary fund – Fiduciary funds account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are not available to support The County's own programs.

The cash basis fiduciary fund financial statements can be found on pages 24-25 of this report.

Budgetary Comparison Schedules. The County's budgetary process accounts for certain transactions on a cash basis. The budgetary statements for the General fund and all annually budgeted major Special Revenue funds are presented to demonstrate the County's compliance with annually adopted budgets.

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 31-47 of this report.

FAYETTE COUNTY
Management's Discussion and Analysis
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(Unaudited)

Government-Wide Financial Analysis

As noted earlier, net assets-cash basis may serve over time as a useful indicator of a government's financial position. The County has chosen to report on the *Other Comprehensive Basis of Accounting* in a format similar to that required by Government 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

	Governmental Activities 2006	Governmental Activities 2005
Cash and Cash Equivalents	\$7,626,136	\$6,764,579
Total Assets	7,626,136	6,764,579
Restricted for:		
Special Revenue	5,520,417	5,009,301
Capital Projects	552,141	105,637
Debt Service	1,041,077	964,830
Unrestricted	512,501	684,811
Total Net Assets	<u>\$7,626,136</u>	<u>\$6,764,579</u>

	Business-type Activities 2006	Business-type Activities 2005
Cash and Cash Equivalents	\$217,728	\$452,886
Total Assets	217,728	452,886
Unrestricted	217,728	452,886
Total Net Assets	<u>\$217,728</u>	<u>\$452,886</u>

At the end of the current fiscal year, the 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 and business-type activities.

For governmental activities, total assets increased \$861,557 or 12.74%. The primary increase in cash balances is due to a decrease in disbursements for capital outlay due to various Ohio Department of Transportation projects and ditch maintenance projects in 2005. Also disbursements for conservation and recreation increased due to improvements at the County Airport. For business-type activities, total assets decreased \$235,158 or 51.92%. The primary decrease in cash balances is due to an increase in disbursements for Sanitary Sewer Revenue and Sanitary Revenue Waste.

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FAYETTE COUNTY'S CHANGES IN NET ASSETS-

	Governmental Activities 2006	Governmental Activities 2005
Receipts:		
Program Receipts:		
Charges for Services	\$4,519,485	\$4,834,478
Operating grants and contributions	8,422,133	7,020,251
Capital grants and contributions	1,314,415	1,914,160
General receipts:		
Property Taxes	3,116,033	3,195,529
Sales and other taxes	4,625,547	4,418,765
State Local Government	4,177,537	3,778,442
Unrestricted investment earnings	560,300	349,942
Grants and contributions not Restricted to specific programs	357,929	424,328
Other	825,874	489,706
Total receipts	27,919,253	26,425,601
Disbursements:		
General government	3,285,425	2,925,902
Judicial	2,413,278	2,192,379
Public Safety	2,822,130	2,970,737
Public Works	5,279,741	5,206,517
Health	3,492,472	3,525,792
Human Services	6,611,548	5,993,441
Conservation and Recreation	1,013,783	670,570
Economic Development & Assist.	61,049	52,247
Urban Redevelopment & Housing	825,253	652,270
Capital Outlay	1,453,783	1,956,533
Debt Service	608,211	425,233
Total Disbursements	27,866,673	26,571,621
Increase/Decrease in net assets	52,580	(146,020)
Transfers	0	18,817
Advances	102,671	0
Proceeds of Loans	736,007	0
Change in net assets	891,258	(127,203)
Net assets End of Prior Year	6,734,878	6,891,782
Net assets End of Current Year	<u>\$ 7,626,136</u>	<u>\$6,764,579</u>

The County's governmental receipts are mainly from property and sales tax and operating grants and contributions. These receipts comprise 57.89% of the County's receipts for governmental activities. These revenue sources remained fairly consistent with modest increases from 2005. Charges for services comprise 16.19% of total governmental revenue. These receipts decreased by relatively small amount across several funds. State and local government receipts comprise 14.96% of total governmental activities revenue. These receipts increased due to additional funding received in 2006. Grants and contributions not restricted to specific programs comprise 1.27% of revenue from

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governmental activities. These receipts decreased due to a decrease in donations received and special assessments. Unrestricted Investment Earnings increased due to higher interest rates in 2006. Operating Grants and Contributions increased mainly due to additional funding in Job and Family Services.

The majority of the County's disbursements for governmental activities changed from 2005. Judicial disbursements which comprise 8.66% of the disbursements increased due to more cases being tried in Common Pleas Court in 2005. Public safety which comprises 10.12% of disbursements decreased. Public Works comprise 18.95% of disbursements and have increased a small amount. Human Services comprise 23.73% of disbursements increased due to an increase in state funding for displaced workers and other programs. Conservation and Recreation disbursements increased substantially due to more improvements at the County airport. These disbursements represent 3.63% of total government activities disbursements. Urban Redevelopment & Housing increased due to more Federal Grants being received in 2006. These disbursements represent 2.96% of total government activities disbursements. Capital Outlay which comprises 5.22% of total disbursements of governmental activities, decreased due to decreased funding for federal highway projects. General Government increased due to salary and related benefit increases. These disbursements represent 11.79% of total governmental activities disbursements.

FAYETTE COUNTY'S CHANGES IN NET ASSETS-

	Business-Type Activities 2006	Business-Type Activities 2005
Receipts:		
Program Receipts:		
Charges for Services	\$1,607,851	\$1,434,180
Total receipts	\$1,607,851	\$1,434,180
Disbursements:		
Sanitary Sewer Revenue	512,476	383,783
Sanitary Revenue Waste	1,128,949	1,054,707
Water District Revenue	98,913	115,735
Total Disbursements	1,740,338	1,554,225
Increase/Decrease in net assets	(132,487)	(120,045)
Transfers	0	(18,817)
Advances	(102,671)	0
Change in net assets	(235,158)	(138,862)
Net assets End of Prior Year	452,886	591,748
Net assets End of Current Year	<u>\$217,728</u>	<u>\$452,886</u>

Business-type activities derive their receipts from charges for services. These revenue sources increased slightly from 2005. Disbursements for business-type

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activities derive from three activities: sanitary sewer, sanitary waste, and water. Disbursements from sanitary waste accounts for 64.87% of total enterprise fund disbursements. This fund increased disbursements because of an increase in cost of materials and contracts. The water fund comprises 5.68% of the total enterprise fund disbursements. Activities in this fund decreased. The sanitary sewer fund comprises 29.45% of the total enterprise fund disbursements. The activities in this fund increased due to debt service payments.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the County's *governmental funds* is to provide information on cash basis inflows, outflows and balances. Such information is useful in assessing the 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, the County's governmental funds reported combined ending fund cash balances of \$7,626,136 an increase of \$891,258 in comparison with the prior year. Approximately \$7,177,610 constitutes unreserved fund balance, which is available for spending at the County'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.

Ending fund cash balances increased due to increases in receipts.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$433,185, with receipts of \$9,603,476 and disbursements of \$9,196,144.

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

At the end of the current fiscal year, the County's proprietary funds reported combined ending fund cash balances of \$217,728, a decrease of \$235,157 in comparison with the prior year. Approximately \$133,963 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.

Ending fund cash balances decreased due to increase in materials and supplies, contracts and an advance to a capital project fund which has not yet been repaid.

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(Unaudited)

Governmental Activities

If you look at the Statement of Activities on pages 16 and 17, 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 public works and human services which account for 18.95 and 23.72 percent of all governmental disbursements, respectively. General government and public health also represent a significant cost, about 20.45 percent and 12.53 percent respectively. 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 Government 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. A comparison between the total cost of services and the net cost is presented in the table below.

	Governmental Activities			
	Total Cost	Total Cost	Net Cost	Net Cost
	Of Services	Of Services	of Services	of Services
	2006	2005	2006	2005
General Government	\$5,698,703	\$ 5,118,281	\$3,850,718	\$ 3,478,167
Public Safety	2,822,130	2,970,737	2,008,699	2,053,220
Public Works	5,279,741	5,206,517	2,076,671	2,134,573
Health	3,492,472	3,525,792	1,266,951	1,305,454
Human Services	6,611,548	5,993,441	2,369,516	2,324,129
Conservation and Recreation	1,013,783	670,570	612,485	494,708
Economic Development and Assistance	61,049	52,247	20,241	18,807
Urban Redevelopment and Housing	825,253	652,270	450,453	389,912
Capital Outlay	1,453,783	1,956,533	374,675	308,655
Debt Service	608,211	425,233	580,231	295,107
Total Expenses	\$27,866,673	\$ 26,571,621	\$13,610,640	\$ 12,802,732

The dependence upon property and sales tax receipts is apparent as over 27.64 percent of governmental activities are supported through these general receipts.

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(Unaudited)

Business-type Activities

The water, sewer and waste district operation of the County is relatively small and routinely reports receipts and cash disbursements that are relatively equal.

The Government's Funds

Total governmental funds had receipts of \$27,548,823 and disbursements of \$27,866,673. The greatest change within governmental funds occurred within the Job and Family Services (PA) Fund. The fund balance of this fund increased \$414,196 as the result of increased charges for services and intergovernmental revenue.

General Fund receipts were less than disbursements by \$172,310 indicating that the General Fund is in a deficit spending situation. It was the recommendation of the administration that a reduction in disbursements was preferable to requesting additional funds from the taxpayers. These cuts will not eliminate the need for additional funds (or additional cuts) in the future if the growth in property and sales taxes remains stagnant.

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.

The difference between the original budget and final amended budget was an increase of \$42,656. The program differences are as follows:

- . Legislative and Executive decreased by \$9,580
- . Judicial increased by \$113,748
- . Public Safety decreased by \$26,863
- . Conservation and Recreation decreased by \$105,321
- . Public Works increased by \$34,640
- . Public Health decreased by \$5,568
- . Human Services increased by \$603
- . Urban Redevelopment increased by \$14,630

All programs spent less than budget.

FAYETTE COUNTY
Management's Discussion and Analysis
For the Year Ended December 31, 2006
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

The County does not currently keep track of its capital assets and infrastructure.

Debt

At December 31, 2006, the County's outstanding debt included \$2,714,000 in general obligation bonds issued for improvements to buildings, structures and roads; \$1,865,000 in enterprise general obligation bonds for improvements in water and sewer facilities and landfill; \$292,000 in special assessment bonds for improvements in water systems and storm sewers; and \$42,836 in capital leases for equipment. For further information regarding the Government's debt, refer to Notes 5 and 6 to the basic financial statements.

Economic Factors and Next Year's Budget and Rates

- . The Unemployment rate for the County at December 31, 2006 was 4.8%, compared to 5.3% a year earlier.
- . The vacancy rate of the County's central business district is not tracked, however, much of the district is utilized by service entities such as government offices, banks, insurance offices, restaurants, etc. The County also has two outlet malls which have the potential to generate sales tax income for the county. Unfortunately, the past two years has seen an increase in vacancies, particularly at the mall on State Route 41 with approximately 75% vacancy. The other mall on Old Route 35 is showing a small increase with a 99% occupancy range. The change in sales tax revenue during the past two years has actually had a positive impact on county receipts due in part to the Home Depot Home Improvement Center being built and complete as of December 31, 2006. The movie theater is still pending, a new Dakota's Restaurant was in operation by autumn of 2006 and continued retail growth in the New Route 35 area is expected which gives some hope of increasing future receipts. Also, the economic office is constantly working to bring new retail and commercial business to the area

Each of these factors was considered in preparing the County's budget for the 2007 year.

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Management's Discussion and Analysis
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(Unaudited)

Request for information

This financial report is designed to provide a general overview of The 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 additional financial information should be addressed to Michael D. Smith, Fayette County Auditor, 133 S. Main Street, Suite 303, Washington C.H., Ohio 43160.

FAYETTE COUNTY, OHIO
Statement of Net Assets-Cash Basis
December 31, 2006

	Governmental Activities	Business-Type Activities
ASSETS		
Equity in Pooled Cash	\$7,616,306	\$217,728
Cash with Fiscal Agent	9,830	
TOTAL ASSETS	\$7,626,136	\$217,728
 NET ASSETS		
Restricted for:		
Special Revenue	\$5,520,417	
Capital Projects	552,141	
Debt Service	1,041,077	
Unrestricted	512,501	\$217,728
TOTAL NET ASSETS	\$7,626,136	\$217,728

See accompanying notes to the financial statements.

FAYETTE COUNTY, OHIO
Statement of Activities - Cash Basis
for the Year Ending December 31, 2006

	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions, and Interest
Governmental activities:				
Executive and Legislative	\$ (3,285,425)	\$ 699,942	\$ 332,421	9,199
Judicial	(2,413,278)	506,278	292,063	8,082
Public Safety	(2,822,130)	616,681	191,452	5,298
Public Works	(5,279,741)	834,210	2,305,070	63,790
Health	(3,492,472)	537,543	1,638,516	49,462
Human Services	(6,611,548)	1,000,741	3,154,009	87,282
Conservation and Recreation	(1,013,783)	160,852	235,047	5,399
Economic Development and Assistance	(61,049)	8,929	31,021	858
Urban Redevelopment and Housing	(825,253)	154,309	214,554	5,937
Other Expenditures	(155,649)			
Capital Outlay	(1,298,134)			1,079,108
Debt Service	(608,211)		27,980	
Total Governmental Activities	<u>(\$27,866,673)</u>	<u>\$4,519,485</u>	<u>\$8,422,133</u>	<u>\$1,314,415</u>
Business Type Activities				
Sanitary Sewer Revenue	(\$512,476)	\$484,773		
Sanitary Revenue Waste	(1,128,949)	1,033,961		
Water District Revenue	(98,913)	89,117		
Total Business Type Activities	<u>(\$1,740,338)</u>	<u>\$1,607,851</u>		
General Receipts:				
Taxes				
Property				
Sales				
State Local Government				
Unrestricted investment earnings				
Grants and contributions not restricted to specific programs				
Miscellaneous				
Proceeds of Notes				
Net Advances				
Total General Receipts				
Increase (Decrease) in net assets				
Net assets - beginning of year (Restated)				
Net assets - end of year				

See accompanying notes to the financial statements.

Net (Disbursements) Receipts and Changes in Net Assets Governmental Activities	Net (Disbursements) Receipts and Changes in Net Assets Business-type Activities	Total (Memorandum Only)
\$ (2,243,863)		\$ (2,243,863)
(1,606,855)		(1,606,855)
(2,008,699)		(2,008,699)
(2,076,671)		(2,076,671)
(1,266,951)		(1,266,951)
(2,369,516)		(2,369,516)
(612,485)		(612,485)
(20,241)		(20,241)
(450,453)		(450,453)
(155,649)		(155,649)
(219,026)		(219,026)
(580,231)		(580,231)
(\$13,610,640)		(\$13,610,640)
	(\$27,703)	(\$27,703)
	(94,988)	(94,988)
	(9,796)	(9,796)
	(\$132,487)	(\$132,487)
3,116,033		3,116,033
4,625,547		4,625,547
4,177,537		4,177,537
560,300		560,300
357,929		357,929
825,874		825,874
736,007		736,007
102,671	(102,671)	0
14,501,898	(102,671)	14,399,227
891,258	(235,158)	656,100
6,734,878	452,886	7,187,764
\$7,626,136	\$217,728	\$7,843,864

FAYETTE COUNTY
Statement of Assets and Liabilities Arising From Cash Transactions - Government Funds
December 31, 2006

ASSETS	General Fund	CBMR/DD Fund	Job & Family Svs. Fund	MVGT Fund	Capital Improvement Bond Retirement	Other Governmental Funds	Total Governmental Funds
Equity in Pooled Cash	\$502,671	\$2,766,643	\$478,290	\$660,263	\$692,071	\$2,516,368	\$7,616,306
Cash with Fiscal Agent	9,830						9,830
TOTAL ASSETS	<u>\$512,501</u>	<u>\$2,766,643</u>	<u>\$478,290</u>	<u>\$660,263</u>	<u>\$692,071</u>	<u>\$2,516,368</u>	<u>\$7,626,136</u>
FUND BALANCE							
Reserved for Encumbrances	\$167,147			\$186,640		\$84,909	\$438,696
Designated for EPA	9,830						9,830
Unreserved, Undesignated	335,524	\$2,766,643	\$478,290	473,623	\$692,071	2,431,459	7,177,610
TOTAL FUND BALANCE	<u>\$512,501</u>	<u>\$2,766,643</u>	<u>\$478,290</u>	<u>\$660,263</u>	<u>\$692,071</u>	<u>\$2,516,368</u>	<u>\$7,626,136</u>

See accompanying notes to the financial statements.

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FAYETTE COUNTY, OHIO
Statement of Cash Basis Assets and Fund Balances and
Cash Receipts, disbursements, and Changes in Cash Basis Fund Balances - Governmental Funds
As of and For the Year Ended December 31, 2006

	General Fund	CBMR/DD Fund	Job & Family Svs. Fund	MVGT Fund
RECEIPTS				
Taxes				
Property	\$1,295,817	\$1,483,282		
Sales	4,302,982			322,565
Charges for Services	1,926,736	52,534	\$124,051	146,454
Fees				
Intergovernmental	947,915	1,130,834	4,140,501	3,611,041
Fines and Forfeitures	142,549			27,709
Licences and Permits	2,658			
Miscellaneous	424,519	1,982		173,991
Special Assessments				1,956
Interest	560,300			47,113
Donations				
TOTAL RECEIPTS	<u>9,603,476</u>	<u>2,668,632</u>	<u>4,264,552</u>	<u>4,330,829</u>
DISBURSEMENTS				
Legislative and Executive	2,631,220			
Judicial	1,838,498			
Public Safety	2,445,353			
Public Works	743,367			4,412,465
Health	100,413	2,415,479		
Human Services	404,461		3,850,356	
Conservation and Recreation	629,822			
Economic Development and Assistance				
Urban Redevelopment and Housing	403,010			
Other Expenses				
Capital Outlay				
Debt Service				
Principal Retirement				
Interest and Fiscal Charges				
TOTAL DISBURSEMENTS	<u>9,196,144</u>	<u>2,415,479</u>	<u>3,850,356</u>	<u>4,412,465</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	407,332	253,153	414,196	(81,636)
OTHER FINANCING SOURCES (USES)				
Operating Transfers - In	120,000			59,000
Proceeds of Notes				
Proceeds of Bonds				
Advances - In	90,677	57,984		
Operating Transfers - Out	(733,169)			
Advances - Out	(57,150)	(68,959)		
TOTAL OTHER FINANCING SOURCES (USES)	<u>(579,642)</u>	<u>(10,975)</u>	<u>0</u>	<u>59,000</u>
NET CHANGE IN FUND BALANCES	(172,310)	242,178	414,196	(22,636)
CASH BASIS FUND BALANCE - Beginning of year (Restated)	684,811	2,524,465	64,094	682,899
CASH BASIS FUND BALANCE - End of year	<u>\$512,501</u>	<u>\$2,766,643</u>	<u>\$478,290</u>	<u>\$660,263</u>

See accompanying notes to the financial statements.

Capital Improvement Bond Retirement	Other Governmental Funds	Total Governmental Funds
\$92,443	\$154,732	\$3,026,274
	1,915,255	4,625,547
	8,583	4,165,030
13,980	3,511,838	8,583
	172,956	13,356,109
		343,214
		2,658
46,181	489,369	1,136,042
	170,329	172,285
	1,511	608,924
	104,157	104,157
<u>152,604</u>	<u>6,528,730</u>	<u>27,548,823</u>
	654,205	3,285,425
	574,780	2,413,278
	376,777	2,822,130
	123,909	5,279,741
	976,580	3,492,472
	2,356,731	6,611,548
	383,961	1,013,783
	61,049	61,049
	422,243	825,253
155,649		155,649
	1,298,134	1,298,134
46,181	396,224	442,405
	165,806	165,806
<u>201,830</u>	<u>7,790,399</u>	<u>27,866,673</u>
(49,226)	(1,261,669)	(317,850)
	674,169	853,169
	883,437	883,437
	223,000	223,000
	298,761	447,422
	(120,000)	(853,169)
	(218,642)	(344,751)
<u>0</u>	<u>1,740,725</u>	<u>1,209,108</u>
(49,226)	479,056	891,258
741,297	2,037,312	6,734,878
<u>\$692,071</u>	<u>\$2,516,368</u>	<u>\$7,626,136</u>

FAYETTE COUNTY
Balance Sheet-Enterprise Funds-Cash Basis
December 31, 2006

ASSETS	<u>Total Enterprise Funds</u>
Equity in Pooled Cash	\$ 217,728
TOTAL ASSETS	<u><u>217,728</u></u>
FUND BALANCE	
Reserved for encumbrances	84,765
Unreserved, Undesignated	132,963
TOTAL FUND BALANCE	<u><u>\$ 217,728</u></u>

See accompanying notes to the financial Statements.

FAYETTE COUNTY, OHIO
Statement of Cash Basis Assets and Fund Balances and
Cash Receipts, disbursements, and Changes in Cash Basis Fund Balances - Enterprise Funds
As of and For the Year Ended December 31, 2006

	Total Enterprise Funds
RECEIPTS	
Charges for Services	\$1,423,902
Other Operating Receipts	183,949
TOTAL RECEIPTS	1,607,851
EXPENSES	
Personal Services	342,125
Contract Services	712,641
Materials & Supplies	299,831
Other Operating Exp.	201,791
Debt Service	
Principal Retirement	75,000
TOTAL EXPENSES	1,631,388
(DEFICIENCY) OF RECEIPTS UNDER EXPENSES	(23,537)
NON-OPERATING RECEIPTS AND EXPENSES	
Advances - In	12,055
Interest and Fiscal Charges	(108,949)
Advances - Out	(114,726)
TOTAL NON-OPERATING RECEIPTS AND EXPENSES	(211,620)
CHANGE IN NET ASSETS	(235,157)
CASH BASIS FUND BALANCE-Beginning of Year	452,885
CASH BASIS FUND BALANCE-End of Year	\$217,728

See accompanying notes to the financial statements.

FAYETTE COUNTY, OHIO
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2006

	<u>Agency Funds</u>
Assets:	
Equity in Pooled Cash and Investments	\$3,953,426
Equity in Cash in Segregated Accounts	635,573
	<hr/>
Total Assets	<u>\$4,588,999</u>
Net Assets:	
Total Net Assets	<u>\$4,588,999</u>

See accompanying notes to the financial statements.

FAYETTE COUNTY, OHIO
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2006

	AGENCY
Additions:	
Other Non-operating	\$ 29,084,433
Total Additions	29,084,433
Deductions:	
Segregated Accounts	20,521
Other Non-operating	27,916,162
Total Deductions	27,936,683
Change In Net Assets	1,147,750
Net Assets Beginning of Year (Restated)	3,441,249
Net Assets End of Year	\$ 4,588,999

See accompanying notes to the financial statements

**Fayette County
General Fund
Budgetary Comparison Schedule - Cash Basis
For the Year Ended December 31, 2006**

	Budgeted Amount		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
Beginning Budgetary Fund Balance	\$675,228	\$675,228	\$675,228	\$0
Resources (Inflows):				
Property Tax	1,335,720	1,298,379	1,298,379	0
Sales Tax	4,133,500	4,302,982	4,302,982	0
Charges for services	2,106,928	1,966,680	1,966,680	0
Intergovernmental	771,208	905,409	905,409	0
Licenses	2,650	2,658	2,658	0
Fines and Forfeitures	121,600	142,549	142,549	0
Other Income	468,000	424,519	424,519	0
Interest	400,000	560,052	560,052	0
Other Financing Sources:				
Transfers from other funds	150,000	120,000	120,000	0
Advances from other funds	37,820	90,677	90,677	0
Amounts available for appropriation	<u>10,202,654</u>	<u>10,489,133</u>	<u>10,489,133</u>	<u>0</u>
Charges to Appropriations (Outflows):				
Executive/Legislative	2,676,170	2,666,590	2,630,671	35,919
Judicial	1,773,893	1,887,641	1,838,498	49,143
Public Safety	2,489,723	2,462,860	2,445,353	17,507
Public Health	112,665	107,097	100,413	6,684
Conservation and Recreation	729,114	623,793	629,822	(6,029)
Public Works	716,240	750,880	743,367	7,513
Human Services	441,431	442,034	404,461	37,573
Urban Redevelopment	389,648	404,278	403,010	1,268
Other Financing Uses:				
Transfers to other funds	706,623	732,990	733,717	(727)
Advances to other funds			57,150	(57,150)
Total Charges to Appropriations	<u>10,035,507</u>	<u>10,078,163</u>	<u>9,986,462</u>	<u>91,701</u>
Ending budgetary Fund Balance	<u>\$167,147</u>	<u>\$410,970</u>	<u>\$502,671</u>	<u>\$91,701</u>

See accompanying notes to the financial statements.

Fayette County
County Board of Mental Retardation and Developmental Disabilities
Budgetary Comparison Schedule - Cash Basis
For the Year Ended December 31, 2006

	Budgeted Amount		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
Beginning Budgetary Fund Balance	\$2,524,465	\$2,524,465	\$2,524,465	\$0
Resources (Inflows):				
Property Tax	1,470,997	1,483,282	1,483,282	0
Charges for services	47,415	52,534	52,534	0
Intergovernmental	763,967	1,130,834	1,130,834	0
Other Income	0	1,982	1,982	0
Other Financing Sources:				
Advances from other funds	44,206	57,984	57,984	0
Amounts available for appropriation	<u>4,851,050</u>	<u>5,251,081</u>	<u>5,251,081</u>	<u>0</u>
Charges to Appropriations (Outflows):				
Public Health	2,597,771	2,619,284	2,415,479	203,805
Other Financing Uses:				
Transfers to other funds	25,000	3,487		3,487
Advances to other funds			68,959	(68,959)
Total Charges to Appropriations	<u>2,622,771</u>	<u>2,622,771</u>	<u>2,484,438</u>	<u>138,333</u>
Ending budgetary Fund Balance	<u><u>\$2,228,279</u></u>	<u><u>\$2,628,310</u></u>	<u><u>\$2,766,643</u></u>	<u><u>\$138,333</u></u>

See accompanying notes to the financial statements.

Fayette County
Job and Family Services Fund
Budgetary Comparison Schedule - Cash Basis
For the Year Ended December 31, 2006

	Budgeted Amount		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
Beginning Budgetary Fund Balance	\$64,094	\$64,094	\$64,094	\$0
Resources (Inflows):				
Charges for services	111,159	124,051	124,051	0
Intergovernmental	3,188,942	4,140,501	4,140,501	0
Amounts available for appropriation	<u>3,364,195</u>	<u>4,328,646</u>	<u>4,328,646</u>	<u>0</u>
Charges to Appropriations (Outflows):				
Human Services	3,278,087	3,880,287	3,850,356	29,931
Total Charges to Appropriations	<u>3,278,087</u>	<u>3,880,287</u>	<u>3,850,356</u>	<u>29,931</u>
Ending budgetary Fund Balance	<u>\$86,108</u>	<u>\$448,359</u>	<u>\$478,290</u>	<u>\$29,931</u>

See accompanying notes to the financial statements.

Fayette County
Motor Vehicle Gas Tax Fund
Budgetary Comparison Schedule - Cash Basis
For the Year Ended December 31, 2006

	Budgeted Amount		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
Beginning Budgetary Fund Balance	\$682,899	\$682,899	\$682,899	\$0
Resources (Inflows):				
Sales Tax	373,000	322,565	322,565	0
Charges for services	155,376	146,454	146,454	0
Intergovernmental	3,711,805	3,611,041	3,611,041	0
Special Assessment		1,956	1,956	
Fines and Forfeitures	28,000	27,709	27,709	0
Other Income		173,991	173,991	0
Interest	28,000	47,113	47,113	0
Other Financing Sources:				
Transfers from other funds	59,000	59,000	59,000	0
Amounts available for appropriation	<u>5,038,080</u>	<u>5,072,728</u>	<u>5,072,728</u>	<u>0</u>
Charges to Appropriations (Outflows):				
Public Works	4,348,108	4,413,108	4,412,465	643
Total Charges to Appropriations	<u>4,348,108</u>	<u>4,413,108</u>	<u>4,412,465</u>	<u>643</u>
Ending budgetary Fund Balance	<u><u>\$689,972</u></u>	<u><u>\$659,620</u></u>	<u><u>\$660,263</u></u>	<u><u>\$643</u></u>

See accompanying notes to the financial statements.

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FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - REPORTING ENTITY

Fayette 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, conservation-recreation services, maintenance of highways and roads, economic development, and urban redevelopment and housing.

Although 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.

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 Fayette County, this includes the Fayette County Board of Mental Retardation and Developmental Disabilities, Fayette County Department of Jobs and Family Services, Fayette County Children Services Board, Fayette County Veterans' Services, Fayette County Commission On Aging, Fayette County Senior Nutrition, Fayette County Memorial Hospital, and all departments and activities that are directly operated by the elected County officials.

Fayette County provides services and/or subsidies to the District Board of Health, and Soil and Water Conservation District. These are separate reporting entities. The County Auditor is the fiscal agent for the District Board of Health and the Soil and Water Conservation District, and the receipts and disbursements of these entities are accounted for in the Agency Funds of the County.

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

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

The Fayette County Board of MR/DD provided the workshop with staff salaries, transportation, equipment, staff to administer and supervise training programs and other funds necessary for the operation of the workshop. Based on the significant services and resources provided by the County to the workshop and the workshop's sole purpose of providing assistance to the mentally and/or physically handicapped adults of Fayette County, the workshop is considered a component unit of Fayette County, however, Fayette Progressive Industries is not presented as a component unit in these financial statements. Separately issued financial statements can be obtained from Fayette Progressive Industries, Inc., 1330 Robinson Road SE, Washington C.H., Ohio 43160.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - REPORTING ENTITY (Continued)

The County is associated with certain organizations which are defined as jointly governed organizations, joint ventures, or Risk Sharing Pools. These organizations are:

Paint Valley Board of Alcohol, Drug Addiction and Mental Health Services (ADAMHS)
South Central Regional Juvenile Detention Center
Fayette County Emergency Management Agency
RPHF Joint Solid Waste District
Fayette-Clinton-Fairfield-Ross-Pickaway Job Training Partnership Act (JTPA)
Travel and Tourism Bureau
West Central Ohio Port Authority
County Risk Sharing Authority, Inc.
County Commissioners' Association of Ohio Workers' Compensation Group Rating
Program

Paint Valley ADAMHS – The Paint Valley Board of Alcohol, Drug Addition and Mental Health Services (ADAMHS) of Pike, Fayette, Highland, Pickaway and Ross Counties is a jointly governed organization that is responsible for developing, coordinating, modernizing, funding, monitoring and evaluating a community-based mental health and substance abuse program. The Board consists of eighteen members. Four members are appointed by the Director of the Ohio Department of Mental Health and four members are appointed by Director of the Ohio Department of Alcohol and Drug Addiction Services. The remaining members are appointed by the County Commissioners of Pike, Fayette, Highland, Pickaway and Ross Counties in the same proportion as each County's population bears to the total population of the five counties combined. The Board received revenue from the participating counties and received federal and state funding through grant monies which are applied for and received by the Board of Trustees. Fayette County contributed \$285,645 to Paint Valley ADAMHS in 2006.

Fayette County cannot significantly influence operations of the Board, who has sole budgetary authority and controls surpluses and deficits. Fayette County has no ongoing financial interest or responsibility. Complete financial statements can be obtained from the Paint Valley ADAMHS Board, June Frey who serves as Finance Director, 1394 Chestnut Street, Chillicothe, Ohio 45601.

South Central Regional Juvenile Detention Center – The South Central Regional Juvenile Detention Center is a jointly governed organization. It was created as a holding place for juvenile offenders waiting for disposition by the respective Juvenile Courts of the member counties. The current members include Fayette, Pike, Pickaway, Ross, Jackson, Hocking, Athens, Vinton and Highland Counties. The Center's Board consists of one member from each participating county that is appointed by the Juvenile Court Judge or a County Commissioner from each county. The joint Board selects the superintendent as the Center's administrator.

The Center's revenue is from per diem charges for inmates to the respective counties and a percent of the county tax base to the total base. Ross County is the fiscal officer of the Center. Fayette County does not have any financial interest or responsibility. During 2006, Fayette County contributed \$175,795 to the Center.

Fayette County Emergency Management Agency – Fayette County Emergency Management Agency (EMA) is a joint venture between the County, Townships and Villages. The executive committee consists of a county commissioner, seven chief executives from municipalities and ten 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.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - REPORTING ENTITY (Continued)

RPHF Joint Solid Waste District – The RPHF Joint Solid Waste District is a jointly governed organization among Pickaway, Ross, Highland and Fayette Counties. Each of these governments supports the District. The County made no contribution during 2006. The degree of control exercised by any participating County is limited to its representation on the Board. The Board of Directors consists of twelve members, the three County Commissioners of each of the four counties. The District does not have any outstanding debt. The District is self-sufficient, operating entirely on collected fees.

Fayette-Clinton-Fairfield-Ross-Pickaway Job Training Partnership Act (JTPA) – JTPA is a jointly governed organization among five counties in Ohio. The consortium conducts an employment and training administration program under the provisions of JTPA of 1982 and the Job Training Reform Amendments of 1992. The three County Commissioners from each of the four counties comprise the Consortium Board of Governors. The consortium has no outstanding debt. No contributions were made by the County in 2006.

Travel and Tourism Bureau – The Travel and Tourism Bureau (The Bureau) is a jointly governed organization among the County, two townships and two villages and one city. The Board is made up of six trustees, one from each of the following entities: Fayette County, Village of Jeffersonville, Jefferson Township, City of Washington Court House, Union Township and Octa Village. Trustees are elected on a self-nomination basis. Revenues to operate the Bureau are derived solely from the hotel/motel tax. There is currently no outstanding debt.

West Central Ohio Port Authority – The West Central Ohio Port Authority is a jointly governed organization. It was established under Section 4582.21 of the Ohio Revised Code. Under the Revised Code, the Port Authority is a legally separate entity. The Board of the authority is comprised of seven members: two members from Champaign County, three from Clark County, and two from Fayette County. The members are appointed by the County Commissioners of each respective county. Fayette County does not approve its budget, nor is it responsible for the Authority's debt. During 2006, the County did not contribute any money to the Authority.

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

Each member county has one vote on all matters requiring a vote, to be cast by a designated representative. The affairs of CORSA are managed by an elected board of not more than nine trustees. Only County Commissioners of member 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 no equity interest in CORSA. The County's payment for insurance to CORSA in 2006 was \$134,851. Financial statements may be obtained by contacting the County Commissioners Association of Ohio in Columbus, Ohio.

County Commissioners' Association of 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'

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - REPORTING ENTITY (Continued)

Association of Ohio (CCAO) is a group purchasing pool. A group executive committee is responsible for calculating annual rate contributions and rebates; approving the selection of a third party administrator; reviewing and approving proposed third party fees; fees for risk management services, and general management fees; determining ongoing responsibility of each participant; and performing any other acts and functions which may be delegated to it by the participating employers. The group executive committee consists of seven members. Two members are the president and the treasurer of the CCAOSC; the remaining five members are elected for ensuing year by the participants at a meeting held in the month of December each 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.

Management believes the financial statements included in this report represent all of the funds and activities for which the County is financially accountable, except for Fayette Progressive Industries, Inc and Fayette Memorial Hospital.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2A, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The County does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the County's accounting policies.

A. 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 the basis of cash receipts and disbursements. The cash receipts and disbursements basis is a comprehensive basis of accounting other than generally accepted accounting principles (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.

B. 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.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the cash balance, of the governmental and business-type activities of the County at year end. The statement of activities compares disbursements and program receipts for each program or function of the County's governmental activities and business-type 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 or business activity is self-financing on a 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 and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from non-operating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as non-operating.

C. Fund Accounting

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

County Board of Mental Retardation and 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.

**FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jobs 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.

Motor Vehicle Gas Tax 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.

Capital Improvement Bond Retirement Fund – This fund accounts for money received as taxes and is designated for retirement of General Obligation Debt.

Proprietary: Certain County funds operate similar to business enterprises, where user charges (i.e. charges for services) provide significant resources for the activity. The County classifies these as enterprise funds. The County's had no major enterprise fund in 2006.

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:

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

D. Budgetary Process

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.

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. Equity in Pooled Cash - Cash balances of the County's funds, except cash held by an escrow or fiscal agent and cash in segregated accounts, are pooled and invested in short-term investments in order to provide improved cash management.

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

Interest is distributed to the General Fund and Special Revenue Funds based upon the Ohio Revised Code.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 cash basis of accounting.

I. Inter-fund Receivables/Payables – The County reports advances-in and advances-out for inter-fund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

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

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

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.

The County first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Fund Balance Designations and Reserves - The County reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Fund balance designations have been established for EPA projects. Unreserved and undesignated fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

N. Inter-fund Activity - Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchasing funds. Non-exchange flows of cash from one fund to another are reported as interfund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the financial statements.

NOTE 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 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.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 3 – COMPLIANCE (Continued)

The County did not certify the availability of funds for certain commitments as required by Ohio Rev. Code Section 5705.41(D).

NOTE 4 - EQUITY IN POOLED CASH

Monies held by the County are classified by State statute into two categories. Active monies are public monies determined to be necessary to meet current demands upon the County treasury. Active monies must be maintained either as cash in the County treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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.

**FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 4 - EQUITY IN POOLED CASH (continued)

At year end, the County had \$5,000 in undeposited cash on hand which is included as part of "Equity in Pooled Cash".

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, \$12,193,777 of the County's bank balance of \$12,967,181 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.

The County has no deposit policy for custodial risk beyond the requirements of State statute. 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.

Investments

The County had no investments during 2006.

NOTE 5 – LONG-TERM DEBT

Long-Term debt and other obligations of the County at December 31, 2006 were as follows:

Governmental Activities General Obligation Bonds:

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Balance 12/31/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2006</u>
Water Systems						
Bonds YUSA	8.00%	2009	\$55,000	\$ 0	\$10,000	\$45,000
Co. Administration	4.75%	2019	244,000	0	12,000	232,000
SR 41/Carr Road	5.70%	2007	95,000	0	45,000	50,000
Co. Building Impr.	4.20%	2021	1,680,000	0	75,000	1,605,000
Commission on Aging	6.00%	2023	207,000	0	9,000	198,000
W. Lancaster Road	6.00%	2023	374,000	0	13,000	361,000
USDA Sheriff Vehicles	4.375%	2011	0	223,000	0	223,000
Total G.O. Bonds			<u>2,655,000</u>	<u>223,000</u>	<u>164,000</u>	<u>2,714,000</u>

Governmental Activities Special Assessment Bonds:

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Balance 12/31/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2006</u>
Route 35/I 71 Water	5.90%	2013	\$160,000	\$0	\$20,000	\$140,000
Clinton Ave. Phase I	5.60%	2016	106,000	0	7,000	99,000
Clinton Ave. Phase II	4.75%	2019	56,000	0	3,000	53,000
Total Special Assmts.			<u>322,000</u>	<u>0</u>	<u>30,000</u>	<u>292,000</u>
Total General Long Term Obligations			<u>\$2,977,000</u>	<u>223,000</u>	<u>\$194,000</u>	<u>\$3,006,000</u>

**FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 5 – LONG-TERM DEBT (Continued)

Enterprise Bonds

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Balance 12/31/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2006</u>
Rattlesnake Treatment Plant Sewer District	7.75%	2009	\$75,000	\$0	\$15,000	\$60,000
R.S. Sewer WWTP	4.75%	2024	<u>1,865,000</u>	<u>0</u>	<u>60,000</u>	<u>1,805,000</u>
Total Enterprise			<u>\$1,940,000</u>	<u>0</u>	<u>\$75,000</u>	<u>\$1,865,000</u>

The annual requirements to amortize all long term debt outstanding as of December 31, 2006, including interest payments of \$1,138,112 are as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	<u>Special Assessment Bonds</u>	<u>Totals (Memorandum Only)</u>
2007	346,328	46,711	393,039
2008	293,564	44,991	338,555
2009	298,250	45,267	343,517
2010	278,184	43,429	321,613
2011	276,448	42,587	319,035
2012-2016	1,133,051	140,887	1,273,938
2017-2021	1,086,452	17,857	1,104,309
2022-2024	<u>98,603</u>	<u>0</u>	<u>98,603</u>
Total Requirement	3,810,880	381,729	4,192,609
Less Interest	<u>1,096,880</u>	<u>89,729</u>	<u>1,186,609</u>
Total Principal	<u>\$2,714,000</u>	<u>\$ 292,000</u>	<u>\$3,006,000</u>

<u>Enterprise Fund Obligations</u>	<u>General Obligation Bonds</u>
2007	\$184,683
2008	185,163
2009	185,330
2010	160,950
2011	162,275
2012-2016	818,501
2017-2021	807,726
2022-2024	<u>486,184</u>
Total Requirement	2,990,812
Less Interest	<u>1,125,812</u>
Total Principal	<u>\$1,865,000</u>

**FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 5 – LONG-TERM DEBT (Continued)

Note Transactions

A summary of the note transactions for the year ended December 31, 2006, follows:

	<u>Interest Rate</u>	<u>Outstanding 12-31-05</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 12-31-06</u>
<u>Capital Project Funds:</u>	4.00%	\$ 348,699	\$ 753,490	\$ 197,224	\$ 904,965
Ohio Public Works <u>Commission Loans:</u>	0%	97,500	0	5,000	92,500
Ohio Water and Sewer <u>Rotary Commission Loans:</u>	0%	433,784	0	46,181	387,603
Ohio Water Development <u>Authority Loan:</u>	4.75%	0	129,947	0	129,947

Three of the Capital Project notes are eight year notes with sixteen level, semi-annual payments, one is a ten year note with twenty level, semi-annual payments, one is a twenty year note with forty semi-annual payments with level principal and decreasing interest. The other three Capital Project notes are notes that are being extended until the project is completed. Also included are three loans from the Ohio Rotary Commission. One of the Ohio Rotary Commission Loans was paid out during 2006 leaving two loans at year-end. The issued portion is interest which is added to the outstanding principal as renewal dates occur. All of the notes are backed by the full faith and credit of Fayette County.

NOTE 6 – CAPITAL LEASES

During the year, and in prior years, the County has entered into capitalized leases for photocopiers and emergency medical services equipment. Each lease meets the criteria of a capital lease as defined by *Statement of Financial Accounting Standards No. 13 "Accounting for Leases,"* which defines a capital lease as one which transfers benefits and risks of ownership to the lessee.

As of December 31, 2006 the County has outstanding capital lease payments of \$44,378.

	Governmental Activities Capital Lease Obligations
2007	\$ 35,143
2008	<u>9,235</u>
Total Principal and Interest	44,378
Less: Amount Representing Interest	<u>(1,542)</u>
Total Principal	<u>\$ 42,836</u>

NOTE 7 - PROPERTY TAX

Real property taxes are levied on assessed values which equal 35% of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last reappraisal was completed for tax year 2006.

**FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 7 – PROPERTY TAX (Continued)

Real property taxes become a lien on all non-exempt real property located in the County on January 1. Real property taxes are payable annually or 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.

The full tax rate applied to real property for the fiscal year ended December 31, 2006 was \$9.75 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$7.09 per \$1,000 of assessed valuation of real property classified as residential/agricultural and \$7.43 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.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2006 was \$9.75 per \$1,000 of assessed valuation.

Real Property – 2006 Valuation	
Residential/Agricultural	\$490,995,120
Commercial/Industrial	
Public Utilities	31,908,470
Tangible Personal Property – 2006 Valuation	
General	<u>53,600,440</u>
 Total Valuation	 \$576,504,030

The Fayette County Treasurer collects property tax on behalf of all taxing districts within the County. The Fayette 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.

NOTE 8 - 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.

Under the CORSA program for general liability, auto liability, error and omission for public officials, and law enforcement liability, the County has \$5,000,000 of total liability coverage. The limit applies to any

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 8 - RISK MANAGEMENT (Continued)

one occurrence of loss, with 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, and depositor's forgery are covered in the amount of \$1,000,000 aggregate.

Worker's Compensation benefits are provided through the Ohio Bureau of Workers' Compensation. In 2005, 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 which 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 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 four years following the last year of participation.

NOTE 9 – DEFINED BENEFIT RETIREMENT PLANS

Ohio Public Employees Retirement System

The County participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% 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

**FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 9 – DEFINED BENEFIT RETIREMENT PLANS (Continued)

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 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9.0 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary. The County's contribution rate for pension benefits for 2006 was 13.70 percent, except for those plan members in law enforcement or public safety. For those classifications, the County's pension contributions were 16.93 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The County's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$1,330,103, \$1,281,081, and \$1,264,731, respectively. The full amount has been contributed for 2006, 2005, and 2004.

State Teachers Retirement System

Certified teachers, employed by the school for Mental Retardation and Developmental Disabilities, participate in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit Plan (DB), a Defined Contribution Plan (DC), and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DC Plan allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The Combined Plan offers features of both the DB Plan and DC Plan. In the Combined Plan, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the year ended December 31, 2006, plan members were required to contribute 10 percent of their annual covered salary and the County was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The County's required contributions for pension obligations for the DB Plan for the years ended December 31, 2006, 2005, and 2004 were \$24,678, \$23,124.39, and \$25,576, respectively. 100 percent has been contributed for 2006, 2005, and 2004.

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 10– POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans. 1. The Traditional Pension Plan – a cost sharing, multiple-employer defined benefit pension plan. 2. The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employers contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions, plus any investment earnings. 3. The Combined Plan – a cost sharing, multiple-employer defined benefit pension plan. Under the combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. 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 13.70 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.

Benefits are advance-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 premiums were assumed to increase 4.00 percent annually.

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 market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,214 active contributing participants as of December 31, 2006. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$379,038. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, OPERS has taken additional action to Improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, 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.

State Teachers Retirement System

The County provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the

FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 10- POSTEMPLOYMENT BENEFITS (Continued)

obligations to contribute are established by the System based on authority granted by State statute. The system is on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended December 31, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the County, this amount equaled \$1,873 for 2006.

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

NOTE 11 - COUNTY SALES TAX

The County Commissioners, by resolution, imposed a one percent 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. Vendor collections of the tax are paid to the State Treasurer by the Twenty-third day of the month following collection. The State Tax Commissioner certifies to the State Auditor the amount of the tax to be returned to the County. The Tax Commissioner's certification must be made within forty-five days after the end of each month. The State Auditor then has five days in which to draw the warrant payable to the County.

Proceeds of the tax are credited to the General Fund and the Motor Vehicle and Gas Tax Special Revenue Fund. Permissive Sales and Use tax revenue for 2006 amounted to \$4,625,548.

NOTE 12 - 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.

NOTE 13 - 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 under the basis of accounting the County uses.

NOTE 14 - LANDFILL CLOSURE AND POST CLOSURE CARE

During 1993, the County stopped receiving refuse in its public landfill. State and federal laws and regulations require the County to perform certain maintenance and monitoring functions at the site for thirty years after closure. The Ohio Environmental Protection Agency officially certified the closure of the landfill in 1993. Any remaining costs associated with the closure of the landfill were paid during 1995.

State and Federal laws and regulations require the County to provide financial assurance for the landfill closure and post closure care costs. The County has complied with requirement by issuing a \$400,000 Landfill Improvement bond in May of 1996 to construct certain landfill improvements associated with post-closure activity. These proceeds have been receipted into the Sanitary Revenue Waste Enterprise Fund.

**FAYETTE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 14 - LANDFILL CLOSURE AND POST CLOSURE CARE (Continued)

Currently, the County contracts with a private collection service to handle the solid waste collection and disposal activities for the County at another landfill site.

NOTE 15 – INTERFUND TRANSFERS

Inter-fund cash transfers for the year ended December 31, 2006, were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
MAJOR FUNDS:		
General	\$ 120,000	\$ 733,169
MVGT	59,000	0
 NONMAJOR FUNDS:		
Special Revenue	610,239	120,000
Debt Service	62,402	0
Capital Projects	1,528	0
Enterprise	<u>0</u>	<u>0</u>
 Total	 <u>\$853,169</u>	 <u>\$853,169</u>

NOTE 16- RESTATEMENT OF BEGINNING BALANCES

The beginning balance in the Other Governmental Funds was reduced by \$29,701 and the beginning balance in the Agency Funds was increased by \$29,701. The beginning balances were restated to account for Family and Children First Funds as Agency Funds instead of as Other Governmental Funds as stated in the prior audit.

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FAYETTE COUNTY

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

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Program Number	Expenditures
<u>U.S. Department of Agriculture</u>			
<i>Passed Through Ohio Rural Development</i>			
Community Facilities Loans and Grants	10.766	41-024-0316000096	223,000
Total U.S. Department of Agriculture			223,000
<u>U.S. Department of Housing and Urban Development</u>			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grant			
Small Cities Program Grant (Formula)	14.228	B-F-06-023-1	33,000
Small Cities Program Grant (Formula)	14.228	B-F-05-023-1	62,000
Community Housing Improvement Program	14.228	B-C-05-023-1	88,319
Home Investment Partnership Program	14.239	B-C-05-023-2	229,435
Total U.S. Department of Housing and Urban Development			412,754
<u>U.S. Department of Justice</u>			
<i>Passed Through Ohio Office of Criminal Justice Services</i>			
Truancy Prevention Through Mediation	16.540	2004-JJ-D11-0063	2,616
Byrne Memorial Formula Grant	16.579	2004-DG-D02-7360	12,697
Victim -Witness/VOCA	16.588	2007VAGENE240	68,438
Victim -Witness/SVAA	16.588	2007SAGENE240	6,144
Victim -Witness/VAWA	16.588	2005-WF-VA-8411	22,447
Victim -Witness/VAWA	16.588	2003-WF-VA5-8411A	1,250
Byrne Memorial Justice Assistance Grant	16.738	2005-JG-D01-6300	10,704
<i>Passed through the Bureau of Justice Division</i>			
Live Scan Procurement Program	16.710	2003-CK-WX-0166	39,928
Total U.S. Department of Justice			164,224
<u>U.S. Department of Labor</u>			
<i>Passed Through Area Agency 7</i>			
Workforce Investment Act Cluster:			
Workforce Investment Act - Adult			25,893
Workforce Investment Act - Adult Administration			866
Workforce Investment Act - Adult Total	17.258	n/a	26,759
Workforce Investment Act - Youth			35,613
Workforce Investment Act - Youth Administration			1,192
Workforce Investment Act - Youth Total	17.259	n/a	36,805
Workforce Investment Act - Dislocated Workers			45,298
Workforce Investment Act - Dislocated Workers Administration			1,516
Workforce Investment Act - Rapid Response			75,000
Workforce Investment Act - Dislocated Workers Total	17.260	n/a	121,814
Workforce Investment Act - VSTP	17.802	n/a	2,133
Total U. S. Department of Labor			187,510
<u>Federal Highway Administration</u>			
<i>Passed Through Ohio Department of Transportation</i>			
Highway Planning and Construction Cluster			
Highway Planning and Construction - Clemens Road Pavement Striping Project	20.205	FAY-TR/43-0-60	149,111
	20.205	FAY-PMFY07-0-00	133,190
Total Federal Highway Administration			282,301

(Continued)

FAYETTE COUNTY

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

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Program Number	Expenditures
<u>U.S. Department of Transportation</u>			
<i>Passed Through Federal Aviation Administration</i>			
Airport Improvement Project	20.106	3-39-0086-0204	31,556
<i>Passed Through Federal Highway Administration</i>			
Recreational Trails Project, Tri-County Triangle Trail	20.219	30324-TR-680-20219	<u>37,142</u>
Total U.S. Department of Transportation			68,698
<u>U.S. Department of Education</u>			
<i>Passed Through Ohio Department of Education</i>			
Special Education - Part B, IDEA	84.027	71100-6B-SF-2006	11,514
Special Education - Preschool Grant	84.173	71100-PG-S1-2005	<u>12,637</u>
Total Special Education Cluster			24,151
Innovative Programs, Title V	84.298		<u>157</u>
Total U. S. Department of Education			24,308
<u>The General Services Administration on behalf of the Election Assistance Commission</u>			
<i>Passed Through Ohio Secretary of State</i>			
Help America Vote Act of 2002	90.401	E06-0020-24	<u>10,159</u>
Total General Services Administration			10,159
<u>U.S. Department of Health and Human Services</u>			
<i>Passed Through Ohio Department of Aging</i>			
Special Programs for the Aging - Nutrition - Title III-B	93.044	n/a	36,012
Special Programs for the Aging - Nutrition - Title III-C	93.045	n/a	<u>68,175</u>
Total Aging Cluster			104,187
Nutrition Services Incentive Program - NSIP	93.053	n/a	36,235
Low-Income Home Energy Assistance Program - HEAP	93.568	n/a	1,900
<i>Passed Through the Administration for Children and Families</i>			
Voting Access for Individuals with Disabilities	93.617	06-SOS-HHHS-24	1,020
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>			
Medical Assistance Program - Title XIX:			
Community Alternative Funding System (CAFS)	93.778	n/a	198,323
Targeted Case Management	93.778	n/a	124,682
Waiver	93.778	n/a	<u>218,956</u>
Total Title XIX			541,961
State Children's Insurance Program	93.767	n/a	2,703
Social Service Block Grant - Title XX	93.667	n/a	<u>23,531</u>
Total U.S. Department of Health and Human Services			711,537
<u>U.S. Department of Homeland Security</u>			
<i>Passed Through Ohio Department of Public Safety</i>			
Emergency Management Assistance Performance Grants	97.042	n/a	16,125
State Homeland Security Program	97.073	FY-2005 SHSP5	<u>49,174</u>
Total U. S. Department of Homeland Security			65,299
Total Federal Financial Award Expenditures			<u><u>\$2,149,790</u></u>

The Notes to the Schedule of Federal Award Expenditures are an integral part of this schedule.

FAYETTE COUNTY

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE 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 – MATCHING REQUIREMENTS

Certain Federal programs require that the County contribute non-Federal funds (matching funds) to support the Federally-funded programs. The County has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

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Mary Taylor, CPA

Auditor of State

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

Fayette County
133 South Main Street
Washington Court House, Ohio 43160

To the Board of County Commissioners:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fayette 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 September 24, 2007, wherein we noted the County 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 cash basis financial statements do not include amounts related to the Fayette County Memorial 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 funds or business type activities for the County as of December 31, 2006 or the changes in its cash basis financial position for the year then ended. We also noted that the County financial statements do not include financial position for the year then ended. We also noted that the County financial statements do not include financial data from the legally separate component unit, Fayette Progressive Industries, Inc. 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: 2006-001, 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. We believe none of the significant deficiencies described above are material weaknesses.

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

Compliance and Other Matters

As part of reasonably assuring whether the County's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001, 2006-002 and 2006-005.

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

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



Mary Taylor, CPA
Auditor of State

September 24, 2007



Mary Taylor, CPA

Auditor of State

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

Fayette County
133 South Main Street
Washington Court House, Ohio 43160

To the Board of County Commissioners:

Compliance

We have audited the compliance of Fayette County, Ohio (the County), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended December 31, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the County's major federal programs. The County's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, the County complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2006. The results of our tests disclosed an instance of noncompliance that is described in the accompanying schedule of findings as item 2006-005. In a separate letter to the County's management dated September 24, 2007, we reported another matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

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

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

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

September 24, 2007

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control 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 weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(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):	Home- CFDA #14.239 Medicaid – CFDA #93.778 Highway Planning and Construction – CFDA#20.205 Small Cities CDBG Program- CFDA #14.228
(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/Significant Deficiency

Ohio Rev. Code, Section 5705.41 (D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board can authorize the drawing of a warrant for the payment of the amount due. The Board has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$100 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Board.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Board may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Thirty-two percent (32%) of the purchases tested were initiated without obtaining the prior certification of the County Auditor and were not subsequently approved by the County Commissioners within the aforementioned 30 day time period.

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

During our search for unrecorded liabilities, we found that the County had not always obtained purchase orders and encumbered for services provided at the end of the year audited. Failure to properly encumber could result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the County's fund exceeding budgetary spending limitations, we recommend that the Auditor certify that the funds are or will be available prior to obligation by the County. When prior certification is not possible, "then and now" certification should be used.

The most convenient certification method is to use purchase orders that include the certification language 5705.41 (D) requires to authorize disbursements. The Auditor should sign the certification at the time the County incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Auditor should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials Response

We did not receive a response from Officials to this finding.

FINDING NUMBER 2006-002

Noncompliance Finding

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

Ohio Administrative Code, Section 117-2-03(B), requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. The County, with the exception of the Fayette Memorial Hospital, prepares its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP). There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the County can be fined and various other administrative remedies may be taken against the County for failure to timely file a financial report.

We recommend the County take the necessary steps to ensure that the financial report is prepared in accordance with generally accepted accounting principles.

Officials Response

We did not receive a response from Officials to this finding.

FINDING NUMBER 2006-003

Significant Deficiency

Fayette County operates a Senior Citizen Center for the benefit of citizens of the County over the age of 55. The Senior Citizen Center is housed in a County-owned building, and is operated by County employees. The Fayette County Commissioners are named as the “grantee” on all grant funds received by the Senior Citizen Center. During 2006, the County received \$228,165 in grants used exclusively for the Senior Citizen Center. For 2006, the County recorded a portion of the financial activity of the Senior Citizen Center activity in two separate special revenue funds, and the remainder of the financial activity in separate checking and savings accounts totaling \$35,696 that were reported on the County financial statements as agency funds (see description of accounts in the following paragraph).

The Fayette County Commission on Aging (Commission) was incorporated as a not-for-profit corporation on December 30, 1976. The County Commission on Aging is structured as follows:

- Commission board members are self appointed.
- The Commission operates out of the Senior Citizen Center.
- As the Commission does not have any of its own employees, all Commission functions are carried out by County employees.
- A portion of the Commission’s Senior Citizen Center financial activity is accounted for through a savings account, a checking account, a “foundation account”, a “van fund”, a “trip account”, and a “senior nutrition” checking account. These accounts are separate checking accounts and are not subject to the budgetary and control procedures of County funds. The account balances are reported as agency funds in the County financial report.

Because the Commission operates as a department of the County through the Senior Citizen Center, certain financial resources of the Commission related to the Senior Citizen Center should be accounted for through the County financial and budgetary systems.

We recommend that the County Commissioners, the Commission on Aging, and the County’s legal counsel review the financial activity in each account related to the Senior Citizen Center activity to determine which entity is responsible for the activity and financially responsible for the related funds. All public funds should be accounted for by the County. We also recommend that each entity’s responsibilities be documented in written agreements. Special attention should be placed on the administration of the Passport Services Grants. If it is determined that the Commission on Aging is to administer the grants, we recommend that the County execute a written contract with the Commission.

Officials Response

We did not receive a response from Officials to this finding.

FINDING NUMBER 2006-004

Significant Deficiency

The Clerk of Court implemented a new computer accounting system in January, 2006. Accurate and timely accounting and reconciliation procedures, and segregation of duties, are key components of an effective accounting system and internal controls required to enable the Clerk of Courts to properly classify transactions, maintain accountability for funds, distribute funds accurately, and detect fraud and errors in a timely manner.

We noted the following deficiencies for the 2006 audit period over the Clerk of Courts:

- Monthly reconciliations were not performed for the Clerk of Courts' accounts for all of 2006. The balance in the Clerk of Courts' accounts could not be determined due to the lack of reconciliations and the significant activity in the accounts. Without reconciling monthly, the controls over the Court are greatly diminished and the controls of the accuracy of the accounting records are weakened.
- The Court did not utilize a cashbook; however, they did maintain receipt records and a check register. Although timely, the Court's provided receipt and disbursement reports were utilized to test individual transactions and to provide summaries of activity. Without utilizing a cashbook, it is difficult to summarize the Court's accounting activity and makes centralizing all activity into one report difficult. We recommend that the Clerk of Courts contact their IT support to determine if their system can create and maintain a cash book.
- The open items list contains several cases that are nearly fifteen years old and several expungements. The open items list should be used as part of the reconciling process of the Clerk of Courts. An inaccurate open items report prevents the Court from reconciling accurately. The Clerk of Courts should reconcile their accounting records and review and monitor their open items list for accuracy.
- The deputy clerk is the only one who balances the cash drawer. When only one individual performs an accounting function and there is no review, the controls are weakened. We recommend that the segregation of duties over the Clerk of Courts be reviewed and that monitoring controls be established so that one person is not completing all of the accounting functions.
- Several errors were noted during testing and several requested reports could not be available until the Court contacted their IT support.
 - The June 2006 fees collected that should have been sent to the County were not distributed.
 - The Court was unable to access the on-line docket report for the year. While testing receipts, it was noted that a receipt had not been properly posted to the docket. It was determined that a box must be clicked during the posting process to send the entry to the on-line docket. By not following through with this procedure, the receipt was not posted to the docket.
 - There were variances in the amount of the checks disbursed to the county and the amount listed on the cash ledger reports. All checks written to the County were for more than the ledger report showed. Due to several errors made throughout the year, it was difficult to determine what made up the variances. The Clerk had to have IT support make the corrections to the system.
 - The Clerk of Courts did not set up the correct calculation on their computer system for dividing the \$11.00 fee for Domestic violence cases for divorce/dissolution cases. The Clerk of Courts retained \$1.30 for the County and should have only retained 33 cents for these particular cases.

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

Without adequate reconciliations and accounting procedures, the Court may not maintain accurate records, may make unintentional errors, and may not know what pertinent reports are available; These factors increase the risk that theft, fraud or errors may occur and not be detected in a timely manner. We recommend that the Clerk of Courts seek additional training to ensure that the appropriate controls and procedures are implemented.

Officials Response

We did not receive a response from Officials to this finding

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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FINDING NUMBER 2006-005

Noncompliance Finding

OMB Circular A-133, Subpart C, Section .320(a), states in part, the audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. (However, for fiscal years beginning on or before June 30, 1998, the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or 13 months after the end of the audit period.) Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

The County did not send the completed data collection form within the required time period and did not receive an extension from the oversight agency.

Officials Response

We did not receive a response from Officials to this finding.

FAYETTE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END 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	Failure to certify the availability of funds.	No	Repeated as finding 2006-001.
2005-002	Failure to prepare annual report in accordance with generally accepted accounting principles.	No	Repeated as finding 2006-002.
2005-003	Determine responsibility for activities and financial information of the Senior Citizen Center	No	Repeated as finding 2006-003.
2005-004	Failure to file the Data Collection Form	No	Repeated as finding 2006-004



Mary Taylor, CPA
Auditor of State

FINANCIAL CONDITION

FAYETTE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 8, 2007**