

HENRY COUNTY, OHIO

***BASIC
FINANCIAL STATEMENTS***

***FOR THE YEAR ENDED
DECEMBER 31, 2006***

HONORABLE KEVIN NYE, AUDITOR



Mary Taylor, CPA

Auditor of State

Board of Commissioners
Henry County
660 N. Perry St.
Napoleon, OH 43545

We have reviewed the *Independent Auditor's Report* of Henry County prepared by Julian and Grube, Inc., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. Henry County is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 8, 2007

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HENRY COUNTY

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Board of Commissioners
Henry County
660 North Perry Street
Napoleon, Ohio 43545

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henry County, Ohio, (the "County"), as of and for the year ended December 31, 2006, which collectively comprise Henry County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Henry County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henry County, Ohio, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, Country View Haven, Motor Vehicle and Gas Tax, County Board of MRDD and Public Assistance funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2007 on our consideration of Henry County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Henry County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
September 4, 2007

HENRY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)

The management's discussion and analysis of Henry County's (the "County") financial performance provides an overall review of the County's financial activities for the 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 the basic financial statements and the notes to the basic financial statements to enhance their understanding of the County's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- The total net assets of the County increased \$2,266,026. Net assets of governmental activities increased \$2,021,146, which represents a 4.31% increase from fiscal year 2005. Net assets of business-type activities increased \$244,880, which represents a 42.51% increase from fiscal year 2005.
- General revenues accounted for \$14,825,217 or 55.86% of total governmental activities revenue. Program specific revenues accounted for \$11,713,787 or 44.14% of total governmental activities revenue. In addition, the County had a special item for \$1,038,927 in proceeds received from Henry County Hospital, Inc. for the retirement hospital bonds.
- The County had \$25,441,785 in expenses related to governmental activities and transfers out of \$115,000; \$11,713,787 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$14,825,217 were adequate to provide for these programs.
- The County's major funds are the General fund, Country View Haven, Motor Vehicle and Gas Tax fund, County Board of Mental Retardation and Developmentally Disabled (MRDD), Public Assistance and Courthouse Project fund. The General fund, the County's largest major fund, had revenues of \$7,769,906 in 2006, an increase of \$746,807 or 10.63% from 2005 revenues. The General fund had expenditures and other financing uses of \$6,248,965 in 2006, a decrease of \$1,408,528 or 18.39% from 2005. The increase in revenues, due to an increase in sales tax collections in 2006, and decrease in expenditures, due to cuts made to reduce spending, contributed to the General fund balance increase of \$1,520,941 or 86.26% from 2005 to 2006.
- The Country View Haven, a County major fund, had revenues of \$1,760,335 in 2006. The Country View Haven had expenditures of \$1,501,819 in 2006. The Country View Haven fund balance increased \$258,516 or 12.92% from 2005 to 2006.
- The Motor Vehicle and Gas Tax fund, a County major fund, had revenues of \$4,282,352 in 2006. The Motor Vehicle and Gas Tax fund had expenditures of \$4,452,423 in 2006. The Motor Vehicle and Gas Tax fund balance decreased \$170,071 or 11.90% from 2005 to 2006.
- The County Board of MRDD fund, a County major fund, had revenues of \$6,750,654 in 2006. The County Board of MRDD fund had expenditures of \$6,262,266 in 2006. The County Board of MRDD fund balance increased \$488,388 or 26.39% from 2005 to 2006.
- The Public Assistance fund, a County major fund, had revenues of \$2,186,106 in 2006. The Public Assistance fund had expenditures of \$2,171,006 in 2006. The Public Assistance fund balance increased \$15,100 or 4.28% from 2005 to 2006.
- The Courthouse Project fund, a County major fund, had revenues and other financing sources of \$3,815,468 in 2006, including \$3,145,000 for the issuance of notes. The Courthouse Project fund had expenditures of \$3,858,486 in 2006. The Courthouse Project fund balance decreased \$43,018 or 19.97% from 2005 to 2006.

HENRY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)

- Net assets for the business-type activities, which include the Sanitary Landfill, Tower, Hahn Center and Monroe Township Landfill Fees enterprise funds, increased in 2006 by \$244,880 or 42.51%.

Using these Basic Financial Statements (BFS)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the County as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole County, presenting both an aggregate view of the County's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the County's most significant funds with all other nonmajor funds presented in total in one column. In the case of the County, there are six major governmental funds. The General fund is the largest major fund.

Reporting the County as a Whole

Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities answer the question, "How did we do financially during 2006?" These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the County's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the County as a whole, the financial position of the County has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the County's property tax base, current property tax laws, facility conditions and other factors.

In the Statement of Net Assets and the Statement of Activities, the County is divided into two distinct kinds of activities:

Governmental Activities - Most of the County's programs and services are reported here including human services, health, public safety, public works and general government. These services are funded primarily by taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Business-Type Activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided.

The County's statement of net assets and statement of activities can be found on pages 15-17 of this report.

Reporting the County's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

HENRY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)

Fund financial reports provide detailed information about the County's major funds. The County uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the County's most significant funds. The County's major governmental funds are the General Fund, Country View Haven, Motor Vehicle and Gas Tax, County Board of Mental Retardation and Developmentally Disabled (MRDD), Public Assistance and Courthouse Project Fund. The analysis of the County's major governmental and proprietary funds begins on page 10.

Governmental Funds

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

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

The County maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the major funds, which were identified earlier. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental financial statements can be found on pages 18-28 of this report.

Proprietary Funds

The County maintains proprietary funds. 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 landfill, tower, Hahn center and Monroe Township landfill fees operations. The sanitary landfill is the County's only major enterprise fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County has no internal service funds. The basic proprietary fund financial statements can be found on pages 29-31 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statement can be found on page 32 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 33-67 of this report.

HENRY COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

Government-Wide Financial Analysis

The Statement of Net Assets provides the perspective of the County as a whole. The table below provides a summary of the County's net assets for 2006 and 2005.

	Net Assets					
	Governmental	Business-type	Governmental	Business-type	2006	2005
	Activities <u>2006</u>	Activities <u>2006</u>	Activities <u>2005</u>	Activities <u>2005</u>	<u>Total</u>	<u>Total</u>
<u>Assets</u>						
Current and other assets	\$ 24,988,093	\$ 1,659,991	\$ 26,398,438	\$ 1,838,508	\$ 26,648,084	\$ 28,236,946
Capital assets, net	<u>36,388,952</u>	<u>462,658</u>	<u>36,824,821</u>	<u>468,793</u>	<u>36,851,610</u>	<u>37,293,614</u>
Total assets	<u>61,377,045</u>	<u>2,122,649</u>	<u>63,223,259</u>	<u>2,307,301</u>	<u>63,499,694</u>	<u>65,530,560</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	5,807,023	2,410,387	8,211,415	2,227,567	8,217,410	10,438,982
Other liabilities	<u>6,677,288</u>	<u>43,490</u>	<u>8,140,256</u>	<u>655,842</u>	<u>6,720,778</u>	<u>8,796,098</u>
Total liabilities	<u>12,484,311</u>	<u>2,453,877</u>	<u>16,351,671</u>	<u>2,883,409</u>	<u>14,938,188</u>	<u>19,235,080</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	32,232,550	462,658	30,371,684	468,793	32,695,208	30,840,477
Restricted	13,422,991	-	14,801,507	-	13,422,991	14,801,507
Unrestricted (deficit)	<u>3,237,193</u>	<u>(793,886)</u>	<u>1,698,397</u>	<u>(1,044,901)</u>	<u>2,443,307</u>	<u>653,496</u>
Total net assets (deficit)	<u>\$ 48,892,734</u>	<u>\$ (331,228)</u>	<u>\$ 46,871,588</u>	<u>\$ (576,108)</u>	<u>\$ 48,561,506</u>	<u>\$ 46,295,480</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the County's assets exceeded liabilities by \$48,561,506. This amounts to \$48,892,734 in governmental activities and a deficit of \$331,228 in business-type activities.

Capital assets reported on the government-wide statements represent the largest portion of the County's net assets. At year-end, capital assets represented 58.03% of total governmental and business-type assets. Capital assets include land, buildings and improvements, equipment, vehicles, construction in progress and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2006, were \$32,695,208. These capital assets are used to provide services to citizens and are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. Capital assets are discussed further on page 13.

As of December 31, 2006, the County is able to report positive balances in all categories of net assets, for its governmental activities.

A portion of the County's governmental activities net assets, \$13,422,991 or 27.45%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of governmental activities unrestricted net assets is \$3,237,193.

HENRY COUNTY, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

The table below shows the changes in net assets for governmental and business-type activities for 2006 and 2005:

	Change in Net Assets					
	Governmental		Business-type		2006	2005
	Activities	Activities	Activities	Activities	Total	Total
	2006	2006	2005	2005		
Revenues						
Program revenues:						
Charges for services and sales	\$ 4,520,195	\$ 1,188,054	\$ 4,432,754	\$ 1,143,386	\$ 5,708,249	\$ 5,576,140
Operating grants and contributions	6,760,376	-	7,789,043	-	6,760,376	7,789,043
Capital grants and contributions	433,216	-	557,247	-	433,216	557,247
Total program revenues	11,713,787	1,188,054	12,779,044	1,143,386	12,901,841	13,922,430
General revenues:						
Property taxes	6,158,130	-	5,582,843	-	6,158,130	5,582,843
Sales tax	5,509,972	-	4,696,846	-	5,509,972	4,696,846
Unrestricted grants	1,231,330	-	1,363,095	-	1,231,330	1,363,095
Investment earnings	980,387	54,751	613,750	36,369	1,035,138	650,119
Miscellaneous	945,398	15,400	1,197,646	35,444	960,798	1,233,090
Total general revenues	14,825,217	70,151	13,454,180	71,813	14,895,368	13,525,993
Total revenues	26,539,004	1,258,205	26,233,224	1,215,199	27,797,209	27,448,423
Expenses						
Program Expenses:						
General government	4,144,354	-	4,854,758	-	4,144,354	4,854,758
Public safety	2,351,850	-	2,436,536	-	2,351,850	2,436,536
Public works	4,598,851	-	4,608,870	-	4,598,851	4,608,870
Health	1,702,137	-	2,123,428	-	1,702,137	2,123,428
Human services	11,090,500	-	11,208,919	-	11,090,500	11,208,919
Economic development	543,114	-	427,009	-	543,114	427,009
Transportation	361,159	-	225,544	-	361,159	225,544
Other	409,224	-	767,573	-	409,224	767,573
Interest and fiscal charges	240,596	-	230,133	-	240,596	230,133
Sanitary landfill	-	1,011,075	-	1,176,248	1,011,075	1,176,248
Nonmajor enterprise funds:						
Tower fund	-	77,864	-	37,520	77,864	37,520
Hahn Center	-	31,844	-	57,975	31,844	57,975
Monroe Township Landfill Fees	-	7,542	-	9,255	7,542	9,255
Total expenses	25,441,785	1,128,325	26,882,770	1,280,998	26,570,110	28,163,768
Excess revenue over (under) expenses	1,097,219	129,880	(649,546)	(65,799)	1,227,099	(715,345)
Special items						
Transfers	1,038,927	-	-	-	1,038,927	-
	(115,000)	115,000	(2,871)	2,871	-	-
Change in net assets	2,021,146	244,880	(652,417)	(62,928)	2,266,026	(715,345)
Net assets (deficit) at beginning of year	46,871,588	(576,108)	47,524,005	(513,180)	46,295,480	47,010,825
Net assets (deficit) at end of year	\$ 48,892,734	\$ (331,228)	\$ 46,871,588	\$ (576,108)	\$ 48,561,506	\$ 46,295,480

HENRY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)

Governmental Activities

Governmental assets increased by \$2,021,146 in 2006 from 2005. This increase is due to slightly increasing revenues and a decrease in expenses.

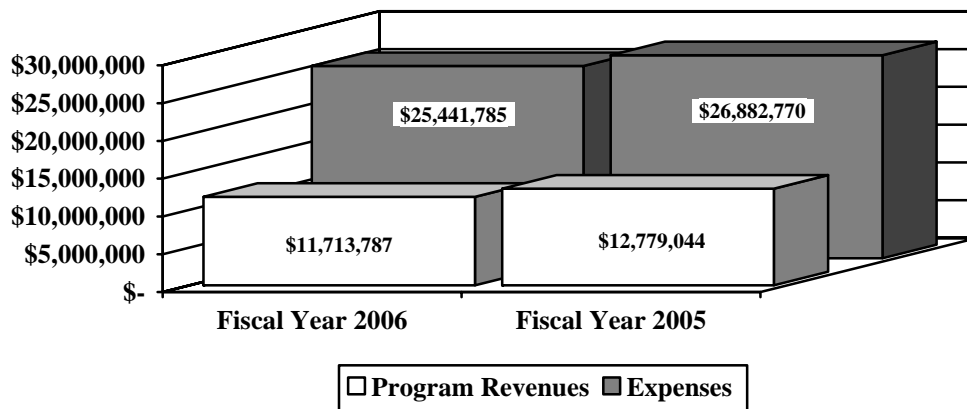
Human services, which supports the operations of the Country View Haven, County Board of MRDD and Public Assistance, accounts for \$11,090,500 of expenses, or 43.59% of total governmental expenses of the County. These expenses were funded by \$902,624 in charges to users of services and \$4,927,580 in operating grants in 2006. General government expenses which includes legislative and executive and judicial programs, totaled \$4,144,354 or 16.29% of total governmental expenses. General government expenses were covered by \$1,580,513 of direct charges to users in 2006.

The state and federal government contributed to the County revenues of \$6,760,376 in operating grants and contributions and \$433,216 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions \$4,927,580, or 72.89%, subsidized human services programs.

General revenues totaled \$14,825,217, and amounted to 55.86% of total revenues. These revenues primarily consist of property and sales tax revenue of \$11,668,102 or 78.70% of total general revenues in 2006. The other primary source of general revenues is grants and entitlements not restricted to specific programs of \$1,231,330.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. As can be seen in the graph below, the County is reliant upon general revenues to finance operations as program revenues are not sufficient to cover total expenses.

Governmental Activities – Program Revenues vs. Total Expenses



HENRY COUNTY, OHIO

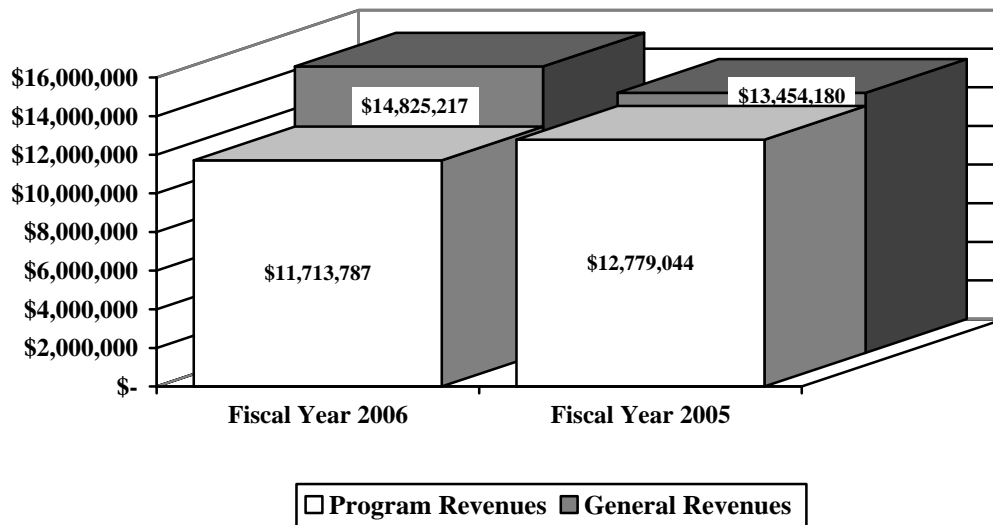
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

The following table shows, for governmental activities, the total cost of services and the net cost of services for 2006 and 2005. That is, it identifies the cost of these services supported by general revenues (such as tax revenue and unrestricted state grants and entitlements).

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
Program Expenses:				
General government	\$ 4,144,354	\$ 2,447,501	\$ 4,854,758	\$ 2,854,458
Public safety	2,351,850	1,969,132	2,436,536	2,090,482
Public works	4,598,851	2,331,449	4,608,870	2,589,903
Health	1,702,137	803,724	2,123,428	1,118,963
Human services	11,090,500	5,260,296	11,208,919	4,425,254
Economic development and assistance	543,114	175,679	427,009	30,497
Transportation	361,159	93,997	225,544	63
Other	409,224	409,224	767,573	767,573
Interest and fiscal charges	<u>240,596</u>	<u>236,996</u>	<u>230,133</u>	<u>226,533</u>
Total	<u>\$ 25,441,785</u>	<u>\$ 13,727,998</u>	<u>\$ 26,882,770</u>	<u>\$ 14,103,726</u>

The dependence upon general revenues for governmental activities is apparent, with 53.96% of expenses supported through taxes and other general revenues during 2006. The graph below illustrates the County's reliance upon general revenues.

Governmental Activities – General and Program Revenues



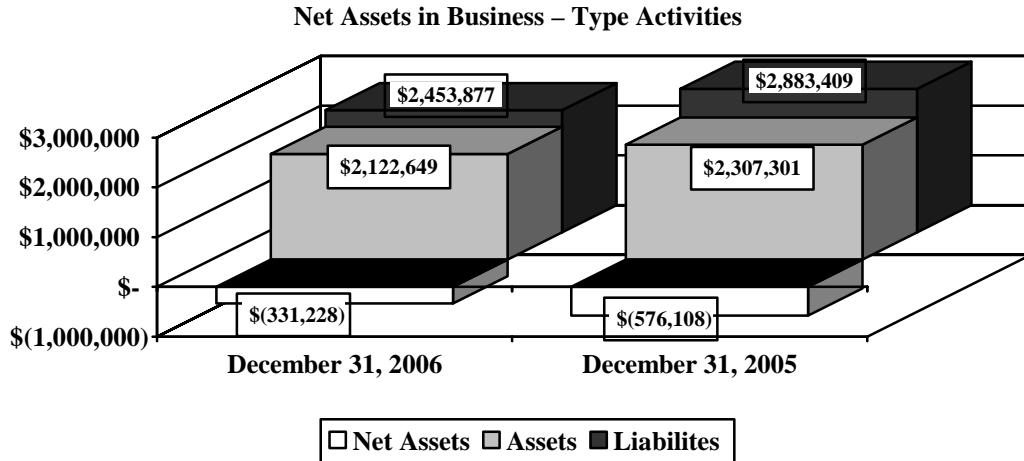
Business-Type Activities

The Sanitary Landfill, Tower Fund, Hahn Center and Monroe Township Landfill Fees are the County's enterprise funds. These programs had revenues of \$1,258,205, expenses of \$1,128,325 and transfers in of \$115,000 for fiscal year 2006. The business-type activities net assets increased \$244,880 or 42.51% during fiscal year 2006.

HENRY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)

The following graph illustrates the assets, liabilities and net assets of the County's business-type activities at December 31, 2006 and 2005:



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The County's governmental funds (as presented on the balance sheet on pages 18-19) reported a combined fund balance of \$14,277,587, which is \$845,616 higher than last year's total of \$13,431,971. The schedule below indicates the fund balance and the total change in fund balance as of December 31, 2006 for all major and nonmajor governmental funds.

	<u>Fund Balance</u> <u>December 31, 2006</u>	<u>Fund Balance</u> <u>December 31, 2005</u>	<u>Increase</u> <u>(Decrease)</u>
Major Funds:			
General	\$ 3,284,067	\$ 1,763,126	\$ 1,520,941
Country View Haven Fund	2,258,688	2,000,172	258,516
Motor Vehicle and Gas Tax	1,258,714	1,428,785	(170,071)
County Board of MRDD	2,338,721	1,850,333	488,388
Public Assistance	368,199	353,099	15,100
Courthouse Project	172,347	215,365	(43,018)
Other Nonmajor Governmental Funds	<u>4,596,851</u>	<u>5,821,091</u>	<u>(1,224,240)</u>
Total	<u>\$ 14,277,587</u>	<u>\$ 13,431,971</u>	<u>\$ 845,616</u>

HENRY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)

General Fund

The general fund, the County's largest major fund, had revenues of \$7,769,906 in 2006, which represents a \$746,807 increase from 2005 revenues. The general fund had expenditures and other financing uses of \$6,248,965 in 2006, a decrease of \$1,408,528 or 18.39% from 2005. The increase in revenues and decrease in expenditures contributed to the general fund balance increase of \$1,520,941 or 86.26% from 2005 to 2006.

The table that follows assists in illustrating the revenues of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 5,043,301	\$ 4,435,485	13.70 %
Charges for services	824,568	829,902	(0.64) %
Licenses and permits	2,252	2,716	(17.08) %
Fines and forfeitures	86,481	76,095	13.65 %
Intergovernmental	949,905	983,689	(3.43) %
Investment income	739,173	480,927	53.70 %
Other	<u>124,226</u>	<u>214,285</u>	(42.03) %
Total	<u>\$ 7,769,906</u>	<u>\$ 7,023,099</u>	10.63 %

Tax revenue represents 64.91% of all general fund revenue. Tax revenue increased by 13.70% over prior year, primarily due to an increase in sale tax revenue collections. The increase in investment income is due to increasing interest rates throughout the year. All other revenue remained comparable to 2005.

The table that follows assists in illustrating the expenditures of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government			
Legislative and executive	\$ 2,045,137	\$ 2,408,291	(15.08) %
Judicial	883,880	994,956	(11.16) %
Public safety	1,916,108	2,115,274	(9.42) %
Public works	85,405	213,001	(59.90) %
Health	46,314	15,676	195.45 %
Human services	240,321	322,941	(25.58) %
Economic development and assistance	1,783	-	100.00 %
Other	379,849	757,622	(49.86) %
Capital outlay	<u>2,400</u>	<u>48,710</u>	(95.07) %
Total	<u>\$ 5,601,197</u>	<u>\$ 6,876,471</u>	(18.55) %

Expenditures have decreased in nearly all areas in the general fund due to budget cuts made by the County. Budget cuts were necessary in part because the repealed sales tax which was passed in November 2005. Fortunately the sales tax was passed by voters in November 2006, and collection will begin in April 2007. The only increases in expenditures occurred in the health and economic development line items, however these amounts were not significant overall.

HENRY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)

Country View Haven Fund

The Country View Haven, a County major fund, had revenues of \$1,760,335 in 2006. The Country View Haven had expenditures of \$1,501,819 in 2006. The Country View Haven fund balance increased \$258,516 or 12.92% from 2005 to 2006.

Motor Vehicle and Gas Tax Fund

The Motor Vehicle and Gas Tax fund, a County major fund, had revenues of \$4,282,352 in 2006. The Motor Vehicle and Gas Tax fund had expenditures of \$4,452,423 in 2006. The Motor Vehicle and Gas Tax fund balance decreased \$170,071 or 11.90% from 2005 to 2006.

County Board of Mental Retardation and Developmental Disabled (MRDD)

The County Board of MRDD fund, a County major fund, had revenues of \$6,750,654 in 2006. The County Board of MRDD fund had expenditures of \$6,262,266 in 2006. The County Board of MRDD fund balance increased \$488,388 or 26.39% from 2005 to 2006.

Public Assistance Fund

The Public Assistance fund, a County major fund, had revenues of \$2,186,106 in 2006. The Public Assistance fund had expenditures of \$2,171,006 in 2006. The Public Assistance fund balance increased \$15,100 or 4.28% from 2005 to 2006.

Courthouse Project Fund

The Courthouse Project fund, a County major fund, had revenues and transfers of \$670,468 in 2006. The Courthouse Project fund had expenditures of \$3,858,486 in 2006. The Courthouse Project fund had proceeds from notes of \$3,145,000 in 2006. The Courthouse Project fund balance decreased \$43,018 or 19.97% from 2005 to 2006.

Budgeting Highlights

The County's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the County's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the County's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the General fund, Country View Haven, Motor Vehicle and Gas Tax, County Board of MRDD and Public Assistance. In the General fund, there were no significant changes between the original and final budget. Actual revenues of \$8,149,191 were more than final budgeted revenues by \$1,104,038 or 15.67%. The difference between the final budget and actual expenditures was \$864,845 or 11.40% decrease in expenditures. Actual expenditures being lower than final budgeted expenditures are a result of the County's conservative budgeting practices and cuts made to decrease spending during 2006.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are internal balances due to governmental activities.

HENRY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)

The only interfund activity reported in the government wide statements are those between business-type activities and governmental activities (reported as internal balances and transfers) whereas interfund amounts between various enterprise funds are reported in the proprietary fund statements. Activity within the City's major fund is described below:

Sanitary Landfill Fund

The Sanitary Landfill fund, a major proprietary fund, had operating revenues of \$1,116,836 in 2006, an increase of \$29,534 or 2.72% from 2005 revenues. The Sanitary Landfill fund had operating expenses of \$1,007,258 in 2006, a decrease of \$155,206 or 13.35% from 2005. The net change in operating revenues and expenses contributed to the increase in net assets of \$160,512 during 2006.

Capital Assets and Debt Administration

Capital Assets

At the end of 2006, the County had \$36,851,610 (net of accumulated depreciation) invested in land, buildings and improvements, equipment, vehicles, construction in progress and infrastructure. Of this total, \$36,388,952 was reported in governmental activities and \$462,658 was reported in business-type activities. The following table shows fiscal 2006 balances compared to 2005:

Capital Assets at December 31 (Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 1,762,289	\$ 1,762,289	\$ 277,435	\$ 277,435	\$ 2,039,724	\$ 2,039,724
Building and improvements	12,282,119	12,996,903	14,949	16,444	12,297,068	13,013,347
Equipment	443,714	515,902	54,713	33,327	498,427	549,229
Vehicles	2,048,744	2,251,255	115,561	141,587	2,164,305	2,392,842
Infrastructure	19,852,086	18,995,426	-	-	19,852,086	18,995,426
Construction in progress	-	303,046	-	-	-	303,046
Total	<u>\$ 36,388,952</u>	<u>\$ 36,824,821</u>	<u>\$ 462,658</u>	<u>\$ 468,793</u>	<u>\$ 36,851,610</u>	<u>\$ 37,293,614</u>

See Note 10 to the basic financial statements for detail on governmental activities and business-type activities capital assets.

Debt Administration

At December 31, 2006 the County had \$8,217,410 in general obligation bonds, special assessment bonds, revenue bonds, OWDA loans, mortgage loan, capital leases, notes payable, estimated liability for landfill/post closure and compensated absences payable outstanding. Of this total \$4,014,260 is due within one year and \$4,203,150 is due in greater than one year. The following table summarizes the outstanding debt at year end.

HENRY COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)

Outstanding Debt, at Year End

	Governmental Activities <u>2006</u>	Business-type Activities <u>2006</u>	Total <u>2006</u>
Long-Term Obligations			
General obligation bonds	\$ 25,000	\$ -	\$ 25,000
Special assessment bonds	208,255	-	208,255
OWDA loans	606,033	-	606,033
Mortgage loan	77,223	-	77,223
Capital lease	12,114	-	12,114
Notes payable	3,305,000	-	3,305,000
Estimated liability for landfill closure/post closure	-	2,388,709	2,388,709
Compensated absences payable	<u>1,573,398</u>	<u>21,678</u>	<u>1,595,076</u>
Total	<u>\$ 5,807,023</u>	<u>\$ 2,410,387</u>	<u>\$ 8,217,410</u>

At December 31, 2006 the County's overall legal debt margin was \$11,866,656. See Note 13 to the basic financial statements for detail on governmental activities and business-type activities long term debt.

Economic Factors and Next Year's Budgets and Rates

The following economic factors were taken into consideration in preparing the budget for fiscal year 2007.

The county's unemployment rate is 6.0%, compared to the 5.6% state average and the 4.5% national average.

State funding is expected to decline over the next few years with the enactment of House Bill 66, which reduces and then eliminates the business tangible personal property tax. We are also unsure at this time whether or not the Local Government Funds will stay in tact and what if any effect the new Commercial Activity Tax (CAT) will have on the county.

The sales tax in Henry County was unusually strong in FY2006. We do not see this item continuing to grow though as surrounding counties, especially Defiance County, are getting more retail stores, including but not limited to Wal-Mart and Kohl's that either opened in the second half of FY2006 or will open in the first half of FY2007. The county voters approved a .5% increase in the sales tax in November 2006. This tax will start being collected in April 2007 with the first disbursement expected to the county in July 2007.

With higher interest rates in FY2006, the County investment earnings were pleasantly more than projected. Initial research shows that the rates should remain strong for most of FY2007 and the projected earnings reflect that.

These economic factors were considered in preparing the County's budget for FY 2007. Budgeted revenues and other financing sources in the general fund for fiscal year 2007 is \$7,109,370. With the continuation of conservative budgeting practices and the increase in the local sales tax, the County's financial position should improve in future years.

Contacting the County's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Honorable Kevin Nye, Henry County Auditor, Courthouse, 660 N. Perry Street, P.O. Box 546, Napoleon, Ohio 43545.

**BASIC
FINANCIAL STATEMENTS**

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HENRY COUNTY, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 11,748,905	\$ 399,969	\$ 12,148,874
Cash in segregated accounts	27,466	-	27,466
Receivables (net of allowances for uncollectibles):			
Sales taxes	638,801	-	638,801
Property and other taxes	5,532,672	-	5,532,672
Accounts	167,246	18,877	186,123
Due from other governments	4,792,853	-	4,792,853
Special assessments	436,374	-	436,374
Accrued interest	90,141	9,608	99,749
Loans	1,246,994	-	1,246,994
Prepayments	157,796	-	157,796
Materials and supplies inventory	148,845	112	148,957
Restricted assets:			
Equity in pooled cash and cash equivalents	-	1,231,425	1,231,425
Capital assets:			
Land and construction-in-progress	1,762,289	277,435	2,039,724
Depreciable capital assets, net	34,626,663	185,223	34,811,886
Total capital assets, net	<u>36,388,952</u>	<u>462,658</u>	<u>36,851,610</u>
Total assets	<u>61,377,045</u>	<u>2,122,649</u>	<u>63,499,694</u>
Liabilities:			
Accounts payable	385,825	26,790	412,615
Accrued wages and benefits	290,433	2,517	292,950
Pension obligation payable	125,082	1,704	126,786
Due to other governments	201,512	12,479	213,991
Deferred revenue	5,530,514	-	5,530,514
Deposits held and due to others	27,248	-	27,248
Amounts to be repaid to claimants	5,906	-	5,906
Accrued interest payable	110,768	-	110,768
Long-term liabilities:			
Due within one year	4,010,085	4,175	4,014,260
Due in more than one year	1,796,938	2,406,212	4,203,150
Total liabilities	<u>12,484,311</u>	<u>2,453,877</u>	<u>14,938,188</u>
Net assets:			
Invested in capital assets, net of related debt	32,232,550	462,658	32,695,208
Restricted for:			
Capital projects	504,243	-	504,243
Debt service	418,041	-	418,041
Public safety programs	146,979	-	146,979
Public works projects	2,522,376	-	2,522,376
Human services programs	4,273,944	-	4,273,944
Health programs	2,359,232	-	2,359,232
Economic development programs	1,597,201	-	1,597,201
Other purposes	1,600,975	-	1,600,975
Unrestricted (deficit)	3,237,193	(793,886)	2,443,307
Total net assets (deficit)	<u>\$ 48,892,734</u>	<u>\$ (331,228)</u>	<u>\$ 48,561,506</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Program Revenues			
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:				
General government:				
Legislative and executive	\$ 3,048,607	\$ 1,237,744	\$ 116,340	\$ -
Judicial	1,095,747	342,769	-	-
Public safety	2,351,850	195,600	187,118	-
Public works	4,598,851	1,072,523	761,663	433,216
Health	1,702,137	761,111	137,302	-
Human services	11,090,500	902,624	4,927,580	-
Economic development and assistance	543,114	-	367,435	-
Transportation	361,159	4,224	262,938	-
Other	409,224	-	-	-
Interest and fiscal charges	240,596	3,600	-	-
Total governmental activities	25,441,785	4,520,195	6,760,376	433,216
Business-Type Activities:				
Sanitary Landfill	1,011,075	1,101,436	-	-
Tower Fund	77,864	27,504	-	-
Hahn Center	31,844	51,547	-	-
Monroe Township Landfill Fees	7,542	7,567	-	-
Total business-type activities	1,128,325	1,188,054	-	-
Total primary government	\$ 26,570,110	\$ 5,708,249	\$ 6,760,376	\$ 433,216

General Revenues:

Property taxes levied for:

- General fund
- Human services - County Board of MRDD
- Human services - Country View Haven
- Sales taxes
- Grants and entitlements not restricted to specific programs
- Investment earnings
- Miscellaneous

Total general revenues

Special item - hospital proceeds to retire debt

Transfers

Total general revenues, special item and transfers

Change in net assets

Net assets (deficit) at beginning of year

Net assets (deficit) at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (1,694,523)	\$ -	\$ (1,694,523)
(752,978)	-	(752,978)
(1,969,132)	-	(1,969,132)
(2,331,449)	-	(2,331,449)
(803,724)	-	(803,724)
(5,260,296)	-	(5,260,296)
(175,679)	-	(175,679)
(93,997)	-	(93,997)
(409,224)	-	(409,224)
(236,996)	-	(236,996)
<u>(13,727,998)</u>	<u>-</u>	<u>(13,727,998)</u>
-	90,361	90,361
-	(50,360)	(50,360)
-	19,703	19,703
-	25	25
<u>-</u>	<u>59,729</u>	<u>59,729</u>
<u>(13,727,998)</u>	<u>59,729</u>	<u>(13,668,269)</u>
1,825,552	-	1,825,552
3,484,254	-	3,484,254
848,324	-	848,324
5,509,972	-	5,509,972
1,231,330	-	1,231,330
980,387	54,751	1,035,138
945,398	15,400	960,798
<u>14,825,217</u>	<u>70,151</u>	<u>14,895,368</u>
1,038,927	-	1,038,927
(115,000)	115,000	-
<u>15,749,144</u>	<u>185,151</u>	<u>15,934,295</u>
2,021,146	244,880	2,266,026
<u>46,871,588</u>	<u>(576,108)</u>	<u>46,295,480</u>
<u>\$ 48,892,734</u>	<u>\$ (331,228)</u>	<u>\$ 48,561,506</u>

HENRY COUNTY, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	<u>General</u>	<u>Country View Haven</u>	<u>Motor Vehicle and Gas Tax</u>	<u>County Board of MRDD</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 2,710,886	\$ 2,291,019	\$ 575,073	\$ 2,378,401
Cash in segregated accounts.	-	218	-	-
Receivables (net of allowance for uncollectibles):				
Sales taxes	638,801	-	-	-
Property and other taxes.	2,090,401	-	-	3,442,271
Accounts	17,429	25,752	13,162	85,668
Due from other governments	466,826	-	2,193,589	382,621
Special assessments	-	-	-	-
Accrued interest	73,876	-	3,933	-
Loans	-	-	-	-
Due from other funds	2,043	-	6,418	-
Prepayments.	34,619	9,812	21,820	70,801
Materials and supplies inventory	20,058	-	90,307	29,374
Total assets.	<u>\$ 6,054,939</u>	<u>\$ 2,326,801</u>	<u>\$ 2,904,302</u>	<u>\$ 6,389,136</u>
Liabilities:				
Accounts payable	\$ 31,327	\$ 17,349	\$ 18,686	\$ 125,750
Accrued wages and benefits.	48,133	21,207	21,012	158,957
Compensated absences payable.	6,317	-	-	12,014
Due to other funds	2,596	-	211	1,832
Due to other governments.	50,017	17,093	19,524	69,466
Pension obligation payable.	30,163	12,464	14,228	40,965
Deposits held and due to others.	-	-	-	-
Deferred revenue	2,596,413	-	1,571,927	3,641,431
Amount to be repaid to claimants	5,906	-	-	-
Total liabilities	<u>2,770,872</u>	<u>68,113</u>	<u>1,645,588</u>	<u>4,050,415</u>
Fund Balances:				
Reserved for encumbrances.	58,879	4,177	5,128	3,213
Reserved for prepayments.	34,619	9,812	21,820	70,801
Reserved for materials and supplies inventory	20,058	-	90,307	29,374
Reserved for loans	-	-	-	-
Reserved for unclaimed monies	1,271	-	-	-
Unreserved, undesignated, reported in:				
General fund	3,169,240	-	-	-
Special revenue funds	-	2,244,699	1,141,459	2,235,333
Debt service fund.	-	-	-	-
Capital projects funds	-	-	-	-
Total fund balances	<u>3,284,067</u>	<u>2,258,688</u>	<u>1,258,714</u>	<u>2,338,721</u>
Total liabilities and fund balances.	<u>\$ 6,054,939</u>	<u>\$ 2,326,801</u>	<u>\$ 2,904,302</u>	<u>\$ 6,389,136</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Public Assistance	Courthouse Project	Other Governmental Funds	Total Governmental Funds
\$ 285,540	\$ 172,347	\$ 3,335,639	\$ 11,748,905
-	-	27,248	27,466
-	-	-	638,801
-	-	-	5,532,672
-	-	25,235	167,246
1,071,796	-	678,021	4,792,853
-	-	436,374	436,374
-	-	12,332	90,141
-	-	1,246,994	1,246,994
-	-	490	8,951
11,627	-	9,117	157,796
4,119	-	4,987	148,845
<u>\$ 1,373,082</u>	<u>\$ 172,347</u>	<u>\$ 5,776,437</u>	<u>\$ 24,997,044</u>
\$ 73,785	\$ -	\$ 118,928	\$ 385,825
17,666	-	23,458	290,433
-	-	-	18,331
-	-	4,312	8,951
17,245	-	28,167	201,512
12,139	-	15,123	125,082
-	-	27,248	27,248
884,048	-	962,350	9,656,169
-	-	-	5,906
<u>1,004,883</u>	<u>-</u>	<u>1,179,586</u>	<u>10,719,457</u>
-	-	6,646	78,043
11,627	-	9,117	157,796
4,119	-	4,987	148,845
-	-	1,246,994	1,246,994
-	-	-	1,271
-	-	-	3,169,240
352,453	-	2,908,103	8,882,047
-	-	180,731	180,731
-	172,347	240,273	412,620
<u>368,199</u>	<u>172,347</u>	<u>4,596,851</u>	<u>14,277,587</u>
<u>\$ 1,373,082</u>	<u>\$ 172,347</u>	<u>\$ 5,776,437</u>	<u>\$ 24,997,044</u>

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HENRY COUNTY, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006

Total governmental fund balances		\$ 14,277,587
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		36,388,952
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Special assessments	\$ 436,374	
Sales tax	237,632	
Intergovernmental revenues	<u>3,451,649</u>	
Total		4,125,655
In the statement of activities interest is accrued on outstanding loans, notes and bonds whereas in governmental funds, interest expenditures are reported when due.		(110,768)
Long-term liabilities, including bonds and loans payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(25,000)	
Special assessment bonds	(208,255)	
OWDA loan payable	(606,033)	
Mortgage loan payable	(77,223)	
Notes payable	(3,305,000)	
Compensated absences	(1,555,067)	
Capital leases payable	<u>(12,114)</u>	
Total		<u>(5,788,692)</u>
Net assets of governmental activities		<u>\$ 48,892,734</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>General</u>	<u>Country View Haven</u>	<u>Motor Vehicle and Gas Tax</u>	<u>County Board of MRDD</u>
Revenues:				
Sales taxes	\$ 2,934,324	\$ -	\$ 2,668,105	\$ -
Property and other taxes	2,108,977	848,324	-	3,484,254
Charges for services	824,568	568,725	870,887	294,652
Licenses and permits	2,252	-	-	-
Fines and forfeitures	86,481	-	71,442	-
Intergovernmental	949,905	213,167	544,603	2,529,741
Special assessments	-	-	-	-
Investment income	739,173	-	42,086	-
Rental income	-	91,931	-	-
Other	124,226	38,188	85,229	442,007
Total revenues	<u>7,769,906</u>	<u>1,760,335</u>	<u>4,282,352</u>	<u>6,750,654</u>
Expenditures:				
Current:				
General government:				
Legislative and executive.	2,045,137	-	-	-
Judicial	883,880	-	-	-
Public safety	1,916,108	-	-	-
Public works.	85,405	-	4,449,432	-
Health	46,314	1,501,819	-	-
Human services	240,321	-	-	6,248,196
Economic development and assistance.	1,783	-	-	-
Transportation	-	-	-	-
Other	379,849	-	-	-
Capital outlay	2,400	-	-	-
Debt service:				
Principal retirement	-	-	2,772	11,490
Interest and fiscal charges	-	-	219	2,580
Total expenditures	<u>5,601,197</u>	<u>1,501,819</u>	<u>4,452,423</u>	<u>6,262,266</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>2,168,709</u>	<u>258,516</u>	<u>(170,071)</u>	<u>488,388</u>
Other financing sources (uses):				
Note issuance	-	-	-	-
Loan issuance	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(647,768)	-	-	-
Total other financing sources (uses)	<u>(647,768)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Special item:				
Hospital proceeds to retire debt.	-	-	-	-
Net change in fund balances.	1,520,941	258,516	(170,071)	488,388
Fund balances at beginning of year	<u>1,763,126</u>	<u>2,000,172</u>	<u>1,428,785</u>	<u>1,850,333</u>
Fund balances at end of year	<u>\$ 3,284,067</u>	<u>\$ 2,258,688</u>	<u>\$ 1,258,714</u>	<u>\$ 2,338,721</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Public Assistance	Courthouse Project	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 5,602,429
-	-	-	6,441,555
-	-	1,225,760	3,784,592
-	-	-	2,252
-	-	69,712	227,635
2,183,045	115,000	2,430,054	8,965,515
-	-	208,669	208,669
-	-	262,832	1,044,091
-	-	87,848	179,779
3,061	1,080	226,324	920,115
<u>2,186,106</u>	<u>116,080</u>	<u>4,511,199</u>	<u>27,376,632</u>
-	-	452,805	2,497,942
-	-	196,021	1,079,901
-	-	331,070	2,247,178
-	-	8,833	4,543,670
-	-	97,852	1,645,985
2,171,006	-	2,332,643	10,992,166
-	-	541,331	543,114
-	-	361,159	361,159
-	-	12,853	392,702
-	2,376	459,818	464,594
-	3,735,000	2,026,154	5,775,416
-	121,110	109,777	233,686
<u>2,171,006</u>	<u>3,858,486</u>	<u>6,930,316</u>	<u>30,777,513</u>
<u>15,100</u>	<u>(3,742,406)</u>	<u>(2,419,117)</u>	<u>(3,400,881)</u>
-	3,145,000	160,000	3,305,000
-	-	17,570	17,570
-	554,388	854,406	1,408,794
-	-	(876,026)	(1,523,794)
<u>-</u>	<u>3,699,388</u>	<u>155,950</u>	<u>3,207,570</u>
<u>-</u>	<u>-</u>	<u>1,038,927</u>	<u>1,038,927</u>
15,100	(43,018)	(1,224,240)	845,616
353,099	215,365	5,821,091	13,431,971
<u>\$ 368,199</u>	<u>\$ 172,347</u>	<u>\$ 4,596,851</u>	<u>\$ 14,277,587</u>

HENRY COUNTY, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

Net change in fund balances - total governmental funds	\$	845,616
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		
Capital outlay additions	\$ 1,752,084	
Current year depreciation	<u>(2,081,410)</u>	
Total		(329,326)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(106,543)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Special assessments	(646)	
Sales tax	(92,457)	
Intergovernmental revenues	(633,616)	
Interest revenue	<u>(63,704)</u>	
Total		(790,423)
The issuances of notes and loans are other financing sources in the governmental funds; however, their issuance increases long-term liabilities on the statement of net assets.		
		(3,322,570)
Repayment of bond, loan, note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		5,775,416
In the statement of activities, interest is accrued on outstanding loans, notes and bonds, whereas in governmental funds, an interest expenditure is reported when due.		
		(6,910)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>(44,114)</u>
Change in net assets of governmental activities	\$	<u><u>2,021,146</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Sales taxes	\$ 2,660,364	\$ 2,660,364	\$ 3,077,267	\$ 416,903
Property and other taxes	1,796,911	1,796,911	2,078,503	281,592
Charges for services	716,658	716,658	828,965	112,307
Licenses and permits	1,947	1,947	2,252	305
Fines and forfeitures	73,678	73,678	85,224	11,546
Intergovernmental	821,215	821,215	949,906	128,691
Investment income	597,716	597,716	691,383	93,667
Other	3,081	3,081	3,564	483
Total revenues	<u>6,671,570</u>	<u>6,671,570</u>	<u>7,717,064</u>	<u>1,045,494</u>
Expenditures:				
Current:				
General government:				
Legislative and executive	2,342,636	2,343,236	2,076,098	267,138
Judicial	1,066,672	1,066,945	945,309	121,636
Public safety	2,292,714	2,293,301	2,031,856	261,445
Public works	102,209	102,235	90,580	11,655
Health	47,787	47,799	42,350	5,449
Human services	275,261	275,331	243,942	31,389
Other	710,375	710,557	629,551	81,006
Capital outlay	15,250	15,254	13,515	1,739
Total expenditures	<u>6,852,904</u>	<u>6,854,658</u>	<u>6,073,201</u>	<u>781,457</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(181,334)</u>	<u>(183,088)</u>	<u>1,643,863</u>	<u>1,826,951</u>
Other financing sources (uses):				
Transfers out	(730,931)	(731,156)	(647,768)	83,388
Other financing sources	373,583	373,583	432,127	58,544
Total other financing sources (uses)	<u>(357,348)</u>	<u>(357,573)</u>	<u>(215,641)</u>	<u>141,932</u>
Net change in fund balance	(538,682)	(540,661)	1,428,222	1,968,883
Fund balance at beginning of year	1,065,815	1,065,815	1,065,815	-
Prior year encumbrances appropriated	<u>50,150</u>	<u>50,150</u>	<u>50,150</u>	<u>-</u>
Fund balance at end of year	<u>\$ 577,283</u>	<u>\$ 575,304</u>	<u>\$ 2,544,187</u>	<u>\$ 1,968,883</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 COUNTRY VIEW HAVEN
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property and other taxes	\$ 680,026	\$ 680,026	\$ 871,076	\$ 191,050
Charges for services	423,885	423,885	542,973	119,088
Intergovernmental	166,414	166,414	213,167	46,753
Rental income	71,768	71,768	91,931	20,163
Other	29,754	29,754	38,113	8,359
Total revenues	<u>1,371,847</u>	<u>1,371,847</u>	<u>1,757,260</u>	<u>385,413</u>
Expenditures:				
Current:				
Health	<u>1,583,100</u>	<u>1,583,100</u>	<u>1,531,885</u>	<u>51,215</u>
Total expenditures	<u>1,583,100</u>	<u>1,583,100</u>	<u>1,531,885</u>	<u>51,215</u>
Net change in fund balance.	(211,253)	(211,253)	225,375	436,628
Fund balance at beginning of year	2,031,852	2,031,852	2,031,852	-
Prior year encumbrances appropriated	<u>18,168</u>	<u>18,168</u>	<u>18,168</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 1,838,767</u>	<u>\$ 1,838,767</u>	<u>\$ 2,275,395</u>	<u>\$ 436,628</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 MOTOR VEHICLE AND GAS TAX
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Sales taxes	\$ 2,548,343	\$ 2,548,343	\$ 2,668,105	\$ 119,762
Charges for services	831,291	831,819	870,887	39,068
Fines and forfeitures	53,576	68,924	71,442	2,518
Intergovernmental	552,018	552,018	577,961	25,943
Investment income.	40,874	40,874	42,795	1,921
Other	233,898	218,022	85,694	(132,328)
Total revenues	<u>4,260,000</u>	<u>4,260,000</u>	<u>4,316,884</u>	<u>56,884</u>
Expenditures:				
Current:				
Public works.	<u>4,600,000</u>	<u>4,600,000</u>	<u>4,578,326</u>	<u>21,674</u>
Total expenditures	<u>4,600,000</u>	<u>4,600,000</u>	<u>4,578,326</u>	<u>21,674</u>
Net change in fund balance.	(340,000)	(340,000)	(261,442)	78,558
Fund balance at beginning of year	476,886	476,886	476,886	-
Prior year encumbrances appropriated	<u>338,278</u>	<u>338,278</u>	<u>338,278</u>	<u>-</u>
Fund balance at end of year	<u>\$ 475,164</u>	<u>\$ 475,164</u>	<u>\$ 553,722</u>	<u>\$ 78,558</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 COUNTY BOARD OF MRDD
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property and other taxes	\$ 3,103,133	\$ 3,103,133	\$ 3,426,215	\$ 323,082
Charges for services	266,867	266,867	294,652	27,785
Intergovernmental	2,410,349	2,410,349	2,661,302	250,953
Other	330,151	330,151	364,525	34,374
Total revenues	6,110,500	6,110,500	6,746,694	636,194
Expenditures:				
Current:				
Human services	6,963,766	6,963,766	6,300,952	662,814
Total expenditures	6,963,766	6,963,766	6,300,952	662,814
Net change in fund balance.	(853,266)	(853,266)	445,742	1,299,008
Fund balance at beginning of year	1,705,155	1,705,155	1,705,155	-
Prior year encumbrances appropriated	22,538	22,538	22,538	-
Fund balance at end of year	\$ 874,427	\$ 874,427	\$ 2,173,435	\$ 1,299,008

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 PUBLIC ASSISTANCE
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$ 2,453,390	\$ 2,453,390	\$ 2,202,753	\$ (250,637)
Other	53,754	53,754	48,262	(5,492)
Total revenues	2,507,144	2,507,144	2,251,015	(256,129)
Expenditures:				
Current:				
Human services	2,795,240	2,795,240	2,474,298	320,942
Total expenditures	2,795,240	2,795,240	2,474,298	320,942
Excess (deficiency) of revenues over (under) expenditures	(288,096)	(288,096)	(223,283)	64,813
Other financing sources (uses):				
Transfer in	372,556	372,556	334,496	(38,060)
Transfer out	(84,460)	(84,460)	-	84,460
Total other financing sources (uses).	288,096	288,096	334,496	46,400
Net change in fund balance.	-	-	111,213	111,213
Fund balance at beginning of year	174,327	174,327	174,327	-
Fund balance at end of year.	\$ 174,327	\$ 174,327	\$ 285,540	\$ 111,213

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2006

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Sanitary Landfill</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents.	\$ 313,189	\$ 86,780	\$ 399,969
Receivables (net of allowance for uncollectibles):			
Accounts	16,610	2,267	18,877
Accrued interest	9,608	-	9,608
Restricted assets:			
Equity in pooled cash and cash equivalents	1,231,425	-	1,231,425
Materials and supplies inventory	112	-	112
Total current assets	<u>1,570,944</u>	<u>89,047</u>	<u>1,659,991</u>
Noncurrent assets:			
Capital assets:			
Land	277,435	-	277,435
Depreciable capital assets, net	185,223	-	185,223
Total capital assets, net	<u>462,658</u>	<u>-</u>	<u>462,658</u>
Total noncurrent assets	<u>462,658</u>	<u>-</u>	<u>462,658</u>
Total assets	<u>2,033,602</u>	<u>89,047</u>	<u>2,122,649</u>
Liabilities:			
Current liabilities:			
Accounts payable.	25,689	1,101	26,790
Accrued wages and benefits	2,517	-	2,517
Compensated absences payable.	4,175	-	4,175
Due to other governments	12,479	-	12,479
Pension obligation payable	1,704	-	1,704
Total current liabilities	<u>46,564</u>	<u>1,101</u>	<u>47,665</u>
Long-term liabilities:			
Compensated absences.	17,503	-	17,503
Estimated accrued liability for landfill closure and post closure costs	<u>2,388,709</u>	<u>-</u>	<u>2,388,709</u>
Total long-term liabilities	<u>2,406,212</u>	<u>-</u>	<u>2,406,212</u>
Total liabilities	<u>2,452,776</u>	<u>1,101</u>	<u>2,453,877</u>
Net assets:			
Invested in capital assets, net of related debt	462,658	-	462,658
Unrestricted (deficit)	<u>(881,832)</u>	<u>87,946</u>	<u>(793,886)</u>
Total net assets (deficit)	<u>\$ (419,174)</u>	<u>\$ 87,946</u>	<u>\$ (331,228)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds		
	Sanitary Landfill	Other Enterprise Funds	Total
Operating revenues:			
Charges for services	\$ 1,101,436	\$ 86,618	\$ 1,188,054
Other	15,400	-	15,400
Total operating revenues	<u>1,116,836</u>	<u>86,618</u>	<u>1,203,454</u>
Operating expenses:			
Personal services	185,882	-	185,882
Contract services	82,919	6,005	88,924
Materials and supplies	238,899	2,625	241,524
Depreciation	30,735	-	30,735
Landfill closure and postclosure care costs	182,936	-	182,936
Utilities	4,477	20,712	25,189
Other	281,410	86,984	368,394
Total operating expenses.	<u>1,007,258</u>	<u>116,326</u>	<u>1,123,584</u>
Operating income (loss)	<u>109,578</u>	<u>(29,708)</u>	<u>79,870</u>
Nonoperating revenues (expenses):			
Interest revenue	54,751	-	54,751
Interest expense and fiscal charges	(3,817)	(924)	(4,741)
Total nonoperating revenues (expenses)	<u>50,934</u>	<u>(924)</u>	<u>50,010</u>
Income (loss) before transfers	160,512	(30,632)	129,880
Transfers in.	-	115,000	115,000
Change in net assets	160,512	84,368	244,880
Net assets (deficit) at beginning of year	<u>(579,686)</u>	<u>3,578</u>	<u>(576,108)</u>
Net assets (deficit) at end of year.	<u>\$ (419,174)</u>	<u>\$ 87,946</u>	<u>\$ (331,228)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Sanitary Landfill</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from sales/service charges	\$ 1,085,583	\$ 84,394	\$ 1,169,977
Cash received from other operating revenue	17,291	-	17,291
Cash payments for personal services	(187,210)	-	(187,210)
Cash payments for contract services.	(82,919)	(6,340)	(89,259)
Cash payments for materials and supplies.	(203,172)	(2,315)	(205,487)
Cash payments for utilities	(4,477)	(20,712)	(25,189)
Cash payments for other expenses	(321,557)	(89,218)	(410,775)
Net cash provided by operating activities.	<u>303,539</u>	<u>(34,191)</u>	<u>269,348</u>
Cash flows from noncapital financing activities:			
Transfers in from other funds.	-	115,000	115,000
Net cash provided by (used in) noncapital financing activities.	<u>-</u>	<u>115,000</u>	<u>115,000</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets.	(24,600)	-	(24,600)
Principal retirement on notes	(475,000)	(115,000)	(590,000)
Interest and fiscal charges.	(15,395)	(3,727)	(19,122)
Net cash (used in) capital and related financing activities	<u>(514,995)</u>	<u>(118,727)</u>	<u>(633,722)</u>
Cash flows from investing activities:			
Interest received	52,581	-	52,581
Net cash provided by investing activities	<u>52,581</u>	<u>-</u>	<u>52,581</u>
Net decrease in cash and cash equivalents	(158,875)	(37,918)	(196,793)
Cash and cash equivalents at beginning of year	<u>1,703,489</u>	<u>124,698</u>	<u>1,828,187</u>
Cash and cash equivalents at end of year.	<u>\$ 1,544,614</u>	<u>\$ 86,780</u>	<u>\$ 1,631,394</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 109,578	\$ (29,708)	\$ 79,870
Adjustments:			
Depreciation.	30,735	-	30,735
Changes in assets and liabilities:			
(Increase) in accounts receivable.	(13,962)	(2,224)	(16,186)
Decrease in prepaids	80	-	80
Increase (decrease) in accounts payable	(1,717)	454	(1,263)
(Decrease) in accrued wages and benefits	(350)	-	(350)
(Decrease) in due to other governments	(3,608)	(2,713)	(6,321)
(Decrease) in pension obligation payable.	(37)	-	(37)
Increase in landfill closure and postclosure care liability.	182,936	-	182,936
(Decrease) in compensated absences payable.	(116)	-	(116)
Net cash provided by operating activities	<u>\$ 303,539</u>	<u>\$ (34,191)</u>	<u>\$ 269,348</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

HENRY COUNTY, OHIO

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006**

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 4,482,145
Cash in segregated accounts	130,626
Receivables:	
Real estate and other taxes.	24,319,011
Due from other governments	584,055
Special assessments	398,743
Accounts	<u>135</u>
Total assets	<u>\$ 29,914,715</u>
Liabilities:	
Due to other governments.	\$ 28,803,238
Accounts payable	32,633
Deposits held and due to others	<u>1,078,844</u>
Total liabilities	<u>\$ 29,914,715</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 - DESCRIPTION OF THE COUNTY

Henry County, Ohio (the "County"), is governed by a board of three commissioners elected by the voters of the County. Other officials elected by the voters of the County that manage various segments of the County's operations are the Auditor, Treasurer, Recorder, Clerk of Courts, Coroner, Engineer, Prosecuting Attorney, Sheriff, and a Common Pleas/Probate/Juvenile Court Judge. Although the elected officials manage the internal operations of their respective departments, the County Commissioners authorize expenditures as well as serve as the budget and taxing authority, contracting body, and the chief administrators of public services for the entire County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the County have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The County also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its government activities, business-type activities and enterprise funds provided they do not conflict with or contradict GASB pronouncements. The County has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The County has elected not to apply these FASB Statements and Interpretations.

The most significant of the County's accounting policies are described below.

A. Reporting Entity

The County's reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB statement No. 39 "Determining Whether Certain Organizations are Component Units". The basic financial statements include all funds, agencies, boards, commissions, and component units for which the County and the County Commissioners are "accountable". Accountability as defined in GASB Statements No. 14 and No. 39 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the County and whether exclusion would cause the County's basic financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of the PCU's board; fiscal dependency and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the County.

Based on the foregoing criteria, the County has no component units. The following organizations are described due to their relationship to the County:

JOINTLY GOVERNED ORGANIZATIONS

Maumee Valley Planning Organization - The County is a member of the Maumee Valley Planning Organization (MVPO) which is a jointly governed organization between Defiance, Fulton, Henry, Paulding, and Williams Counties and the respective townships and municipalities in each of those counties. The purpose of MVPO is to act as a joint regional planning commission to write and administer Community Development Block Grant (CDBG) grants and help with housing rehabilitation in the area.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

MVPO is governed by a Board consisting of fifteen members. The Board is made up of one County Commissioner from each member county as well as one township representative and one municipal representative for each of the five member counties. The main sources of revenue are fees charged by MVPO to administer CDBG grants and a per capita amount from each county. In 2006, the County paid administrative fees of \$16,500 and per capita charges of \$123,054 to MVPO.

Fulton-Henry Counties Council - The County is a member of the Fulton-Henry Counties Council (the "Council") which is a jointly governed organization between Fulton and Henry Counties. The Council was formed under Ohio Revised Code Section 167.04 as a regional council of governments. The purpose of the Council is to foster cooperation among the two member counties in all areas of services. Total expenditures made by the County to the Council in 2006 were \$1,531,326. Sky Insurance currently administers the Council's activities.

JOINT VENTURES - WITHOUT EQUITY INTEREST

Northwest Ohio Correctional Center - Henry County is a member of Northwest Ohio's Multicounty - Municipal Correctional Center, which is a joint venture between Defiance, Fulton, Henry, Lucas and Williams counties and the City of Toledo. The purpose of the center is to provide additional jail space for convicted criminals in the 5 counties and the City of Toledo, and to provide a correctional center for the inmates. The Corrections Commission joint venture was created in 1986 and construction was finished and occupancy was taken December 31, 1991.

The Corrections Commission is governed by a Commission Team made up of 18 members. These members consist of one judge, one chief law enforcement officer, and one county commissioner or administrative official from each entity. Sources of revenue include operating costs and capital costs contributed by Members and rental revenue. The County does not have an explicit, measurable right to the net resources of the Commission. Total expenditures made by the County to the Corrections Commission in 2006 were \$857,937. Complete financial statements for the Corrections Commission can be obtained from the Corrections Commission's administrative office on County Road 24 in Stryker, Ohio.

Four County ADAMHS Board - The Four County Board of Alcohol, Drug Addiction and Mental Health Services (ADAMHS Board) is a joint venture between Fulton, Defiance, Henry and Williams counties. The purpose of this board is to provide alcohol, drug addiction, and mental health services to individuals in the four counties.

The Four County ADAMHS Board is governed by a board consisting of 18 members. The breakdown is as follows: 4 members are appointed by the Ohio Director of Alcohol and Drug Addiction Services, 4 are appointed by the Ohio Director of Mental Health Services, 3 each are appointed by the Defiance and Fulton County Commissioners, and 2 each are appointed by the Henry and Williams County Commissioners.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

The main sources of revenue for the Board are state and federal grants, and a property tax levy covering the entire four county area. Outside agencies are contracted by the Board to provide services for the Board. The Board operates autonomously from the County and the County has no financial responsibility for the operations of the Board. The County does have indirect access to the net resources of the Board. In the event the County withdrew from the Board, it would be entitled to a share of state and federal grants that is currently being received by the Board. This access to the net resources of the Board has not been explicitly defined, nor is it currently measurable. Total expenditures made by the County to the ADAMHS Board in 2006 were \$609,214. Complete financial statements for the Board can be obtained from the Board at its offices located at State Routes 34 and 66, Archbold, Ohio.

Quadco Rehabilitation Center, Administrative Board - The County is a participant with Defiance, Fulton and Williams Counties in a joint venture to operate Quadco Rehabilitation Center, Administrative Board (Quadco). Quadco, a nonprofit corporation, provides services and facilities for training physically and mentally disabled persons. Quadco is responsible for contracting with various agencies to obtain funding to operate the organization.

Quadco is governed by an eight-member board composed of two appointees made by each of the four County Boards of Mental Retardation and Developmental Disabilities (County Boards of MR/DD). This Board, in conjunction with the County Boards of MR/DD assess the need of the adult mentally retarded and developmentally disabled residents in each County and set priorities based on available funds. The County provides subsidies to the Board based on units of service provided to it. For the year ended December 31, 2006, the County remitted \$459,166 to Quadco to supplement its operations.

The Board operates autonomously from the County and the County has no financial responsibility for the operations of the Board. Should Quadco dissolve, the property and equipment of the corporation would revert back to the four counties. This access to the net resources of the Board has not been explicitly defined, nor is it currently measurable. Complete financial statements can be obtained from Quadco's administrative office at 427 N. Defiance Street, Stryker, Ohio.

Northwest Ohio Juvenile Detention, Training, and Rehabilitation District - The County is a participant with Defiance, Fulton, and Williams Counties in a joint venture to operate the Northwest Ohio Juvenile Detention, Training, and Rehabilitation District (NWOJDD), established to operate both detention and training and rehabilitation facilities for juveniles.

NWOJDD is governed and operated by a thirteen member board of trustees consisting of three trustees from each county and one at large member. Revenue sources are from member counties and rental revenue. The County has no ongoing financial responsibility for NWOJDD. Total expenditures made by the County to NWOJDD in 2006 were \$193,921. Defiance County acts as the fiscal agent for NWOJDD.

RELATED ORGANIZATIONS

Henry County Metropolitan Housing Authority - The Henry County Metropolitan Housing Authority (the "Housing Authority") is a related organization of the County. The County appoints a majority of the five members of the Housing Authority. The Housing Authority adopts its own budget and operates autonomously from the County.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

B. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the County that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the enterprise fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the County and for each function or program of the County's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the County. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the County.

Fund Financial Statements - Fund financial statements report detailed information about the County. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the County finances and meets the cash flow needs of its enterprise activities.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the County's proprietary funds are charges for sales and services. Operating expenses for the enterprise funds include personnel and other expenses related to the operations of the enterprise activity. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

Agency funds do not report a measurement focus as they do not report operations.

C. Fund Accounting

The County uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the County's major governmental funds:

General Fund - The general fund is used to account for all activities of the County not required to be included in another fund. The general fund balance is available to the County for any purpose provided it is expended or transferred according to the general laws of Ohio.

Country View Haven - This fund accounts for taxes and state grants, as well as charges for services and related expenditures of the Country View Haven.

Motor Vehicle and Gas Tax - This fund accounts for revenues derived from motor vehicle licenses, and gasoline taxes. Expenditures are restricted by state law to County road and bridge repair and maintenance programs.

County Board of Mental Retardation and Developmentally Disabled (MRDD) - This fund accounts for the operation of a school and the costs of administering a workshop for the mentally retarded and developmentally disabled. Revenue sources include a countywide property tax levy and federal and state grants.

Public Assistance - 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 for medical assistance, and for certain public social services.

Courthouse Project - This fund is to account for activity related to the courthouse improvement project, including proceeds of notes and construction expenditures.

Other governmental funds of the County are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; (b) for the accumulation of resources for, and the repayment of, general long-term debt principal, interest and related costs and (c) for grants and other resources, the use of which is restricted to a particular purpose.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the County's ongoing activities which are similar to those found in the private sector. The following is the County's only proprietary fund type:

Enterprise Funds - The enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises. The intent of the County is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The County has presented the following major enterprise fund:

Sanitary Landfill - This fund accounts for user charges and related expenses, as well as the estimated liability for closure and post closure costs.

Other enterprise funds of the County are used to account for the provision of radio tower charges, Hahn Center operations and Monroe Township landfill fees. These funds are nonmajor funds whose activity has been aggregated and presented in a single column in the BFS.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the County under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the County's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The County's only fiduciary funds are agency funds which account for monies held for other governments and undistributed assets. The County uses agency funds to account for assets held in a purely custodial capacity as fiscal agent for other entities, and for various taxes, state-shared revenues, and fines and forfeitures collected on behalf of and distributed to other local governments. Agency fund transactions typically involve only the receipt, temporary investment and distribution of these resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. Government-wide financial statements are prepared using the full accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the full accrual basis of accounting. Differences in the full accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the full accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the County, available means expected to be received within sixty days of year-end.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

Nonexchange transactions, in which the County receives value without directly giving equal value in return, include sales taxes, property taxes, grants, entitlements and donations. On a full accrual basis, revenue from sales taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the County must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the County on a reimbursement basis. On a modified accrual basis, revenue from all other nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: sales tax (see Note 7), interest, federal and state grants and subsidies, state-levied locally shared taxes (including motor vehicle license fees and gasoline taxes), fees and rentals.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met also are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

Expense/Expenditures - On the full accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

Outlined below are the procedures followed by the County to establish the annual operating budget and budgetary data reported in the financial statements:

1. Following submission of requests by various offices and departments, the Board of County Commissioners holds budget hearings during the fall with respective officeholders and department heads.
2. Shortly after the beginning of the fiscal year, the County Commissioners pass an Appropriation Resolution which legally authorizes the expenditure of funds for respective officeholders and department heads.
3. The County is accorded discretion in its method of appropriating federal funds. Appropriations are provided in the amounts of approved grants by the Board of County Commissioners.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

4. The revised budget figures reflected in the budgetary statements include the prior year appropriations carried over for liquidations against prior year encumbrances, and any amendments to the original Appropriation Resolution.
5. The Commissioners appropriate at the fund, department and line item. For funds which are directly appropriated by the Commissioners, the transfer of appropriations at the fund, department and line item requires a resolution signed by at least two Commissioners.
6. Supplemental appropriations are made when needed, subject to approval by at least two Commissioners. Supplemental appropriations were made during 2006.
7. Unencumbered appropriations lapse at year-end. Contracts and purchase-type encumbrances outstanding at year-end carry their appropriations with them into the next year. Contracts and purchase-type encumbrances outstanding at year-end are recorded as expenditures on the budget basis of accounting.
8. The budgetary procedures described herein apply to all funds except the trust and agency funds.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the appropriated governmental and proprietary funds. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures on the modified accrual basis of accounting. Encumbrances outstanding at year-end are reported as expenditures on the budgetary basis of accounting.

F. Cash and Investments

To improve cash management, cash received by the County other than cash in segregated accounts is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the County's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" (both unrestricted and restricted) on the financial statements.

During fiscal year 2006, investments were limited to repurchase agreements and nonnegotiable certificates of deposit. Nonparticipating investment contracts, such as repurchase agreements and certificates of deposit, are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$739,173 which includes \$628,259 assigned from other County funds.

The County has segregated bank accounts for monies held separately from the County's central bank account. These interest-bearing depository accounts are presented on the financial statements as "Cash in Segregated Accounts" since they are not required to be deposited into the County treasury.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the County are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the County's investment account at year-end is provided in Note 4.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

G. Inventories of Materials and Supplies

On the government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On the governmental fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

H. Capital Assets

Governmental capital assets are those assets not specifically related to activities reported in the enterprise funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The County maintains a capitalization threshold of \$5,000. The County's infrastructure consists of roads, bridges and culverts. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is not capitalized for the governmental activities.

All reported capital assets are depreciated except for land and construction in process. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the County's historical records of necessary improvements and replacements. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings and improvements	15 - 100 years	20 - 40 years
Machinery and equipment	5 - 25 years	10 - 25 years
Vehicles	4 - 20 years	10 years
Infrastructure	20 - 50 years	-

Interest is capitalized on enterprise fund assets acquired with tax-exempt debt. The County's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from temporary investment of the debt proceeds over the same period.

For proprietary funds, capitalized interest is amortized on the straight-line method over the estimated useful life of the asset. For 2006, the net interest expense incurred on proprietary fund construction projects was not material.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

I. Compensated Absences

Compensated absences of the County consist of vacation leave and sick leave to the extent that payment to the employee for these absences is attributable to services already rendered and is not contingent on a specific event that is outside the control of the County and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is based on the sick leave accumulated at December 31, 2006, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. Sick leave benefits are accrued using the "Vesting" method.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at December 31, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments.

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the accounts "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

J. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2006, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. At year-end, because payments are not available to finance future governmental fund expenditures the fund balance is reserved by an amount equal to carrying value of the asset.

K. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported in the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability in the fund financial statements when due.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

L. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

During the normal course of operations, the County has numerous transactions between funds.

Transfers represent movement of resources from a fund receiving revenue to a fund through which those resources will be expended and are recorded as other financing sources (uses) in governmental funds and as transfers in proprietary funds. Interfund transactions that would be treated as revenues and expenditures/expenses if they involved organizations external to the County are treated similarly when involving other funds of the County.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivable/interfund payable" for the current portion of interfund loans or advances to/from other funds for the non-current portion of interfund loans. All other outstanding balances between funds are reported as "due to/from other funds." These amounts are eliminated in the statement of net assets, except for any residual balances outstanding between the governmental activities and business-type activities, which are reported in the government-wide financial statements as "internal balances". The County had only amounts "due to/from other funds" at December 31, 2006.

M. Fund Balance Reserves

Reserved or designated fund balances indicate that a portion of fund equity is not available for current appropriation or use. The unreserved or undesignated portions of fund equity reflected in the governmental fund financial statements are available for use within the specific purposes of the funds.

The County reports amounts representing encumbrances outstanding, prepayments, materials and supplies inventories, unclaimed monies, and loans receivable as reservations of fund balance in the governmental fund financial statements.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

HENRY COUNTY, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

O. Restricted Assets

Restricted assets in the business-type activities and on the enterprise fund financial statements represent investments required to be set aside by state and federal laws and regulations to finance closure and postclosure care costs of the County's landfill.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the County, these revenues are charges for services for the Sanitary Landfill, Hahn Center purchase and Tower lease programs (both nonmajor enterprise funds). Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of County Administration and that are either unusual in nature or infrequent in occurrence. During fiscal year 2006, the County received \$1,038,927 in funds from the Henry County Hospital for the purpose of retiring the Series 1989 and Series 1992 revenue bonds. These bonds were reported as a component on the County general long-term obligations. This receipt of the monies from the Henry County Hospital, Incorporated has been recorded as a special item.

R. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the County has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the County as previously reported at December 31, 2005.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances/Net Assets

	<u>Deficit</u>
<u>Major Enterprise Fund</u>	
Sanitary Landfill	\$ 419,174
<u>Nonmajor Governmental Fund</u>	
Litter	21

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit net asset balance in the Sanitary Landfill fund was due to the recording of a liability for closure and post closure costs associated with the landfill. The deficit fund balances in the nonmajor governmental fund resulted from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such 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.

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

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

Protection of County's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the County;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's Asset Reserve of Ohio Investment Pool (STAR Ohio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;
9. High grade commercial paper for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the County's total average portfolio; and
10. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the County's total average portfolio.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the County, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

A. Cash on Hand

At year-end, the County had \$2,920 in undeposited cash on hand, of which \$520 is included on the financials statements as “Cash in Segregated Accounts” and \$2,400 is included on the financial statements of the County as part of “Equity in pooled cash and cash equivalents

B. Cash in Segregated Accounts

At year-end, the County had \$157,572 cash and cash equivalents deposited separate from the County’s internal investment pool. This amount is included in the amount of “deposits with fiscal institutions” below.

C. Restricted Assets

The County had \$1,231,425 in restricted assets associated with the County landfill. This amount is included in the amount of “deposits with financial institutions” below.

D. Deposits with Financial Institutions

At December 31, 2006, the carrying amount of all County deposits was \$16,092,616, exclusive of the \$1,925,000 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2006, \$16,203,712 of the County’s bank balance of \$16,747,950 was exposed to custodial risk as discussed below, while \$544,238 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk 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. As permitted by Ohio Revised Code, the County’s deposits are collateralized by a pool of eligible securities deposited with Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the depository bank and pledged as a pool of collateral against all public deposits held by the depository. The County has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the County to a successful claim by the FDIC.

E. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase Agreement	<u>\$ 1,925,000</u>	<u>\$ 1,925,000</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the County’s investment policy limits investment portfolio maturities to five years or less.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The County has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payments for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee. The County's investment in repurchase agreements is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the County. Ohio law requires the market value of the securities subject to a repurchase agreement must exceed the principal value of securities subject to a repurchase agreement by 2%.

Concentration of Credit Risk: The County places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the County at December 31, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreement	<u>\$ 1,925,000</u>	<u>100.00%</u>

F. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 16,092,616
Investments	1,925,000
Cash on hand	<u>2,920</u>
Total	<u>\$ 18,020,536</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 11,776,371
Business type activities	1,631,394
Agency funds	<u>4,612,771</u>
Total	<u>\$ 18,020,536</u>

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended December 31, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to nonmajor governmental funds from:	
General fund	\$ 647,768
Nonmajor governmental funds	<u>206,638</u>
Total transfers to nonmajor governmental funds	<u>854,406</u>
Transfers to Courthouse Project fund from:	
Nonmajor governmental fund	<u>554,388</u>
Transfers to nonmajor enterprise fund from:	
Nonmajor governmental fund	<u>115,000</u>
Total transfers	<u><u>\$ 1,523,794</u></u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The County's transfers were in compliance with Ohio Revised Code 5705.14, 5705.15 and 5705.16.

The County made a \$704,388 residual equity transfer in 2006 to close the Courthouse Improvement debt service fund (a nonmajor governmental fund). The debt service fund transferred \$115,000 to the Hahn Center Purchase fund, \$554,388 to the capital projects fund and \$35,000 to Road Project Rt. 6 fund. These transfers are reflected in the schedule above.

Transfers between governmental activities are eliminated on the government-wide statements. Transfers between governmental and business-type activities appear on the statement of activities.

- B.** Due from/to other funds consisted of the following at December 31, 2006, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Motor Vehicle and Gas Tax	\$ 211
General	MRDD	1,832
Motor Vehicle and Gas Tax	General	2,596
Motor Vehicle and Gas Tax	Nonmajor governmental funds	3,822
Nonmajor governmental funds	Nonmajor governmental funds	<u>490</u>
Total due to/due from other funds		<u><u>\$ 8,951</u></u>

Amounts due from/to other funds represent amounts owed between funds for goods or services provided. The balances resulted from the time lag between the dates that payments between the funds are made. Due to/from other funds between governmental activities are eliminated on the statement of net assets.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the County. Real property taxes and public utility taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by state law at 35% of appraised market value. Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at 88% of true value for taxable transmission and distribution property and 25% of true value for all other taxable property.

Tangible personal property tax revenues received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of January 1, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the County due to the phasing out of the tax. In calendar years 2006-2010, the County will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The full tax rate for all County operations applied to real property for fiscal year ended December 31, 2006, was \$11.70 per \$1,000 of assessed valuation. The full tax rate for debt service is \$1.40 per \$1,000 of assessed valuation. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

<u>Real Property</u>	
Agricultural	\$ 71,781,500
Residential	330,206,160
Commercial/Industrial/Mineral	59,998,310
Tangible personal property	43,051,090
<u>Public Utility</u>	
Real	398,690
Personal	<u>23,001,250</u>
Total assessed value	<u>\$ 528,437,000</u>

Real property taxes are payable annually or semi-annually. If paid annually, payment is due March 1. If paid semi-annually, the first payment is due March 1 and the remainder payable July 15. Under certain circumstances, State statute permits earlier or later payment dates to be established.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6 - PROPERTY TAXES - (Continued)

The County Treasurer collects property tax on behalf of all taxing districts within the County. The 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. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. The first \$10,000 of taxable value is exempt from taxation for each business by state law.

The lien date is either December 31 or the end of their fiscal year (for incorporated businesses in operation more than one year). Since each business must file a return to the County Auditor, the tangible personal taxes are not known until all the returns are received.

"Property and other taxes" receivable represents delinquent real and tangible personal property and public utility taxes outstanding as of December 31 (net of allowances for estimated uncollectibles) and real and public utility taxes which were measurable as of the year end.

Since the current levy is not intended to finance 2006 operations, the receivable is offset by a credit to "deferred revenue". The delinquent real, public utility and tangible personal property taxes that will become available to the County within the first 60 days of 2007 are shown as 2006 revenue; the remainder is shown as "deferred revenue". The eventual collection of significantly all real and public utility property taxes (both current and delinquent) is reasonably assured due to the County's ability to force foreclosure of the properties on which the taxes are levied.

NOTE 7 - PERMISSIVE SALES AND USE TAX

In November 2006, the voters approved a .5% tax on sales, with collection to begin on April 1, 2007. In 1987, the County Commissioners by resolution imposed a 1% 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 the month of collection. 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 Motor Vehicle and Gas Tax fund. A receivable is recognized at year-end for amounts that will be received from sales which occurred during 2006 and amounts that are measurable and available at year-end are accrued as revenue. Amounts received outside the available period are recorded as deferred revenue on the fund financial statements and as revenue on the government-wide financial statements. Sales and use tax for 2006 amounted to \$5,602,429 as reported on the fund financial statements.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 8 - RECEIVABLES

Receivables at December 31, 2006, consisted of taxes, accrued interest, loans, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements and shared revenue. All intergovernmental receivables have been classified as “Due from other governments” on the financial statements. All interfund transactions related to charges for goods and services rendered have been classified as “Due from other funds” on the fund financial statements which are eliminated on the government-wide statements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds.

A summary of the principal items of receivables as reported on the statement of net assets follows:

	<u>Amount</u>
<u>Governmental Activities:</u>	
Sales taxes	\$ 638,801
Property taxes	5,532,672
Accounts	167,246
Due from other governments	4,792,853
Special assessments	436,374
Accrued interest	90,141
Loans	1,246,994
<u>Business-Type Activities:</u>	
Accounts	18,877
Accrued interest	9,608

Receivables have been disaggregated on the face of the financial statements. The only receivables not expected to be collected within the subsequent year are the special assessments and the loans. The special assessments are collected over the term of the assessment and the loans receivable which will be collected annually through 2020 (see Note 9).

NOTE 9 - LOANS RECEIVABLE

The County maintains a revolving loan program for local businesses to encourage business development in the County. A summary of the County’s loan activity for 2006 is as follows:

	Balance 12/31/05	Issued	Received	Balance 12/31/06
Revolving Loans	<u>\$ 952,413</u>	<u>\$ 562,600</u>	<u>\$ (268,019)</u>	<u>\$ 1,246,994</u>

The loans are reported in the nonmajor governmental funds as “Loans receivable”. Fund balance has been reserved for the outstanding balance due at year-end on the fund financial statements.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended December 31, 2006, was as follows:

	Balance 12/31/05	Additions	Disposals	Balance 12/31/06
<u>Governmental Activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,762,289	\$ -	\$ -	\$ 1,762,289
Construction in progress	303,046	411,092	(714,138)	-
Total capital assets, not being depreciated	2,065,335	411,092	(714,138)	1,762,289
<i>Capital assets, being depreciated:</i>				
Building and improvements	24,345,431	-	(6,729)	24,338,702
Machinery and equipment	1,377,813	27,296	(54,953)	1,350,156
Vehicles	4,495,208	143,674	(228,679)	4,410,203
Infrastructure	29,619,899	1,884,160	-	31,504,059
Total capital assets, being depreciated	59,838,351	2,055,130	(290,361)	61,603,120
<i>Less: accumulated depreciation:</i>				
Building and improvements	(11,348,528)	(714,157)	6,102	(12,056,583)
Machinery and equipment	(861,911)	(79,620)	35,089	(906,442)
Vehicles	(2,243,953)	(260,133)	142,627	(2,361,459)
Infrastructure	(10,624,473)	(1,027,500)	-	(11,651,973)
Total accumulated depreciation	(25,078,865)	(2,081,410)	183,818	(26,976,457)
Total capital assets being depreciated, net	34,759,486	(26,280)	(106,543)	34,626,663
Governmental activities capital assets, net	\$ 36,824,821	\$ 384,812	\$ (820,681)	\$ 36,388,952

Depreciation expense was charged to functions/programs of the County as follows:

Governmental Activities:	
General government:	
Legislative and executive	\$ 552,982
Judicial	23,944
Public safety	91,999
Public works	1,172,908
Health	55,246
Human services	167,809
Miscellaneous	16,522
Total depreciation expense - governmental activities	\$ 2,081,410

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 - CAPITAL ASSETS - (Continued)

<u>Business-Type Activities:</u>	Balance 12/31/05	Additions	Deductions	Balance 12/31/06
<i>Capital assets, not being depreciated:</i>				
Land	\$ 277,435	\$ -	\$ -	\$ 277,435
Total capital assets, not being depreciated	<u>277,435</u>	<u>-</u>	<u>-</u>	<u>277,435</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	74,745	-	-	74,745
Machinery and equipment	52,183	24,600	-	76,783
Vehicles	795,299	-	-	795,299
Total capital assets, being depreciated	<u>922,227</u>	<u>24,600</u>	<u>-</u>	<u>946,827</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(58,301)	(1,495)	-	(59,796)
Machinery and equipment	(18,856)	(3,214)	-	(22,070)
Vehicles	(653,712)	(26,026)	-	(679,738)
Total accumulated depreciation	<u>(730,869)</u>	<u>(30,735)</u>	<u>-</u>	<u>(761,604)</u>
Total capital assets, being depreciated net	<u>191,358</u>	<u>(6,135)</u>	<u>-</u>	<u>185,223</u>
Business-type activities capital assets, net	<u>\$ 468,793</u>	<u>\$ (6,135)</u>	<u>\$ -</u>	<u>\$ 462,658</u>

Depreciation expense was charged to the enterprise funds of the County as follows:

Business-Type Activities:	
Sanitary Landfill	\$ 30,735

NOTE 11 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the County entered into a capital lease obligations for acquisition of survey equipment and copier equipment. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. At inception, on the governmental fund financial statements, capital lease transactions are accounted for as capital outlay expenditure and an other financing source in the appropriate fund. On the government-wide financial statements, a corresponding liability has been recorded for the present value of the future minimum lease payments in the amount of \$12,114. At December 31, 2006, the copier equipment has been capitalized in the amount of \$26,716 with a total of \$13,358 in accumulated depreciation leaving a book value of \$13,358. At December 31, 2006, the survey equipment has been capitalized in the amount of \$6,653 with a total of \$970 in accumulated depreciation leaving a book value of \$5,683.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

Principal payments in 2006 totaled \$5,379 in the County Board of MRDD fund and \$2,772 in the Motor Vehicle and Gas Tax fund. Capital lease payments have been reclassified on the fund financial statements to reflect debt principal and interest payments. These payments are reported as program expenditures on the budgetary statement and as a reduction to the liability of the government-wide financial statements.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of December 31, 2006.

<u>Year Ending December 31,</u>	<u>Copier Equipment</u>	<u>Survey Equipment</u>	<u>Total</u>
2007	\$ 6,348	\$ 1,247	\$ 7,595
2008	<u>5,290</u>	<u>-</u>	<u>5,290</u>
Total future minimum lease payments	11,638	1,247	12,885
Less: amount representing interest	<u>(746)</u>	<u>(25)</u>	<u>(771)</u>
Present value of net minimum lease payments	<u>\$ 10,892</u>	<u>\$ 1,222</u>	<u>\$ 12,114</u>

NOTE 12 - COMPENSATED ABSENCES

Vacation leave is earned at rates which vary depending upon length of service and standard workweek. County employees earn vacation at varying rates ranging from two to five weeks per year. Current policies credit vacation leave on a pay period basis except for new employees who are required to complete one year of service prior to their accrual becoming available. Employees may also accrue compensatory time for hours worked in excess of forty per week. County employees are paid for earned, unused vacation leave and compensatory time upon termination of employment. Accumulated vacation cannot exceed three times the annual accumulation rate for an employee.

Sick leave is accumulated at the rate of 4.6 hours per 80 hours worked and is accumulated on an hours worked basis. Sick leave is vested upon eligibility for retirement.

Each employee of the County with ten or more years of service with any Ohio local government or the State of Ohio is paid 25% of his or her accumulated unused sick leave, up to a maximum of 240 hours upon retirement from the County. Each employee of the County Board of Mental Retardation and Developmental Disabilities with ten or more years of service with any Ohio local government or the State of Ohio is paid 25% of his or her accumulated unused sick leave, up to a maximum of 360 hours upon retirement from the County.

At December 31, 2006, vested benefits for vacation leave for governmental activities employees totaled \$591,932 and vested benefits for sick leave totaled \$266,037. In addition, the County has recorded a liability in the governmental funds in the amount of \$18,331 for employees who have notified the County by December 31, 2006 of their intent to retire. These amounts represent the total vested benefits and are reported in the government-wide financial statements. For business-type activities, vested benefits for vacation leave totaled \$4,175. These amounts represent the total portion of the vested benefits and are reported as a liability of the fund from which the employee is paid. In accordance with GASB Statement No. 16, an additional liability of \$697,098 for governmental activities employees and \$17,503 for business-type activities employees was accrued to record termination (severance) payments for employees expected to become eligible to retire in the future.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 13 - LONG-TERM OBLIGATIONS

A. Governmental Activities Long-Term Obligations

During the fiscal year 2006, the following changes occurred in the County's governmental long-term obligations:

	Original Amount <u>Issued</u>	Balance <u>12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/06</u>	Amount Due in <u>One Year</u>
<u>General Obligation Bonds:</u>						
2003 - 5% Grelton waterline bond	\$ 27,000	\$ 25,000	\$ -	\$ -	\$ 25,000	\$ 2,000
Total general obligation bonds	<u>27,000</u>	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>2,000</u>
<u>OWDA Loans:</u>						
1990 - 2% Texas Waterline Project	291,706	115,455	-	(12,600)	102,855	12,852
2002 - 3% Silgan Can Waterline	398,038	398,038	-	-	398,038	37,191
2002 - 5.64% Water and Sewer District	<u>87,570</u>	<u>87,570</u>	<u>17,570</u>	<u>-</u>	<u>105,140</u>	<u>-</u>
Total OWDA loans	<u>777,314</u>	<u>601,063</u>	<u>17,570</u>	<u>(12,600)</u>	<u>606,033</u>	<u>50,043</u>
<u>Special Assessment Bonds with Governmental Commitment:</u>						
1995 - 6.15% to 9.9%	345,000	85,000	-	(25,000)	60,000	20,000
1998 - 4.75%	<u>211,925</u>	<u>157,809</u>	<u>-</u>	<u>(9,554)</u>	<u>148,255</u>	<u>9,554</u>
Total special assessment bonds	<u>556,925</u>	<u>242,809</u>	<u>-</u>	<u>(34,554)</u>	<u>208,255</u>	<u>29,554</u>
<u>Revenue Bonds:</u>						
1989 - 5% Hospital Addition	375,000	241,000	-	(241,000)	-	-
1992 - 5% Hospital Improvement	<u>4,025,000</u>	<u>1,538,000</u>	<u>-</u>	<u>(1,538,000)</u>	<u>-</u>	<u>-</u>
Total revenue bonds	<u>4,400,000</u>	<u>1,779,000</u>	<u>-</u>	<u>(1,779,000)</u>	<u>-</u>	<u>-</u>
<u>Notes Payable:</u>						
Courthouse Project - 4.25%	3,145,000	-	3,145,000	-	3,145,000	3,145,000
Certificate of Title Building - 4.25%	45,000	-	45,000	-	45,000	45,000
Ridgeville Turn Lane - 4.25%	115,000	-	115,000	-	115,000	115,000
Courthouse Project - 3.25%	3,735,000	3,735,000	-	(3,735,000)	-	-
Certificate of Title Building - 3.25%	50,000	50,000	-	(50,000)	-	-
Ridgeville Turn Lane - 3.25%	<u>150,000</u>	<u>150,000</u>	<u>-</u>	<u>(150,000)</u>	<u>-</u>	<u>-</u>
Total notes payable	<u>7,240,000</u>	<u>3,935,000</u>	<u>3,305,000</u>	<u>(3,935,000)</u>	<u>3,305,000</u>	<u>3,305,000</u>
<u>Other Obligations:</u>						
Compensated absences	N/A	1,524,944	600,132	(551,678)	1,573,398	610,263
Mortgage Loan - 2%	100,000	83,334	-	(6,111)	77,223	6,235
Capital lease obligations	<u>26,716</u>	<u>20,265</u>	<u>-</u>	<u>(8,151)</u>	<u>12,114</u>	<u>6,990</u>
Total other obligations	<u>126,716</u>	<u>1,628,543</u>	<u>600,132</u>	<u>(565,940)</u>	<u>1,662,735</u>	<u>623,488</u>
Total governmental activities long-term obligations	<u>\$ 13,127,955</u>	<u>\$ 8,211,415</u>	<u>\$ 3,922,702</u>	<u>\$ (6,327,094)</u>	<u>\$ 5,807,023</u>	<u>\$ 4,010,085</u>

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

General Obligation Bonds

The 1996 bonds were issued to provide resources for building renovations and improvements including energy conservation measures to the County Courthouse. Principal and interest are being paid from the Courthouse improvement debt service fund (a nonmajor governmental fund). During 2003, the County issued \$27,000 in bonds to repay notes for the Grelton waterline extension project. Principal and interest are being paid from the Grelton Waterline Extension debt service fund (a nonmajor governmental fund). The general obligation bonds are supported by the full faith and credit of the County.

Special Assessment Bonds

During 1998, the County issued \$211,925 in special assessment bonds to finance a Grelton waterline project. These bonds are payable from special assessments levied against property owners who benefit from the project. During 1995, the County issued \$345,000 in special assessment bonds to finance three waterline projects; Country View Haven, Okolona and Texas waterline extensions. These bonds are payable from special assessments levied against property owners who benefit from the projects. In the event that special assessments are not sufficient to pay the annual principal and interest payments, the County is responsible for providing the resources to meet the payments as the full faith and credit of the County has been pledged for repayment.

Ohio Water Development Authority Loans - 2002 Series

During 2002, the County entered into a loan agreement with the Ohio Water Development Authority (OWDA) as an incentive for the location of a new waterline for the Silgan Can Company. Repayment of this loan will be funded through tax increment financing (TIF) payments made by Silgan Can Company. Beginning July 1, 2007, semi-annual TIF payments will be made to the County and subsequently remitted to the OWDA. The loan is amortized over a period of ten years. Also, during 2002, the County also entered into a loan agreement with the OWDA for the formation of a water and sewer district. Repayment of this loan will be funded by user charges collected by the County. The project was not completed during 2006, however, the County will be required to make a balloon payment in 2008 which is included in the future debt service requirement schedule below.

Mortgage Loan

During 2003, County Board of MRDD fund received a mortgage loan from HARC and is required to make monthly payments over the next fifteen years to repay the \$100,000 loan which has an interest rate of 2%. Principal and interest payments are being made from the County Board of MRDD fund.

Revenue Bonds

The revenue bonds are supported by rental income charged to leases of the hospital building. The bonds were issued to finance an addition to the hospital and for various improvements to the hospital building. These bonds bear a 5% interest rate and mature in 2012 and 2019. During 2006, the hospital reissued the bonds and retired the bonds held by the County. The receipt for the amount provided to the County to retire the bonds has been recorded as a special item on the financial statements.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

Notes Payable

During 2005, the County issued \$3,735,000 of bond anticipation notes at 3.25% to finance the purchase and renovation of a courthouse building at Oakwood Commons. These notes were retired during 2006, and reissued for \$3,145,000 at 4.25%. The proceeds of the new note issue and the retirement of the previous note issue has been recorded in the Courthouse Project fund.

During 2005, the County issued \$50,000 of bond anticipation notes at 3.25% to finance improvements of the Certificate of Title building. These notes were retired during 2006, and reissued for \$45,000 at 4.25%. The proceeds of the new note issue and the retirement of the previous note issue has been recorded in the nonmajor governmental funds.

During 2005, the County issued \$150,000 in notes at 3.25% to finance improvements of the Ridgedale Turn Lane. These notes were retired during 2006, and reissued for \$115,000 at 4.25%. The proceeds of the new note issue and the retirement of the previous note issue has been recorded in the nonmajor governmental funds.

These notes have been recorded as long-term in accordance with FASB Statement No. 6 “Classification of Short-Term Obligations Expect to be Refinanced”, since the bond anticipation notes have been refinanced on a long-term basis prior to the issuance of the financial statements. See Note 24 for details regarding the reissuance of notes.

Compensated Absences

Compensated absences will be paid from the funds from which the employees’ salaries are paid, which are primarily the General, County Board of MRDD and Motor Vehicle and Gas Tax funds.

Capital Leases Payable

Capital lease principal and interest payments are being made from the County Board of MRDD fund and the Motor Vehicle and Gas Tax fund. See Note 11 for further detail on the capital lease obligations.

Future Debt Service Requirements

The following is a summary of the County's future annual debt service principal and interest requirements for general long-term obligations:

Fiscal Year Ended	General Obligation Bonds			Special Assessment Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 2,000	\$ 204	\$ 2,204	\$ 29,554	\$ 10,834	\$ 40,388
2008	1,000	96	1,096	24,554	9,584	34,138
2009	2,000	92	2,092	26,554	8,646	35,200
2010	2,000	83	2,083	15,050	5,089	20,139
2011	2,000	75	2,075	14,050	4,901	18,951
2012 - 2016	10,000	250	10,250	62,888	19,619	82,507
2017 - 2019	6,000	50	6,050	35,605	1,544	37,149
Total	<u>\$ 25,000</u>	<u>\$ 850</u>	<u>\$ 25,850</u>	<u>\$ 208,255</u>	<u>\$ 60,217</u>	<u>\$ 268,472</u>

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

Fiscal Year Ended	OWDA Loans			Mortgage Loan		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 50,043	\$ 8,028	\$ 58,071	\$ 6,235	\$ 1,487	\$ 7,722
2008	194,311	12,059	206,370	6,360	1,362	7,722
2009	91,732	9,498	101,230	6,489	1,233	7,722
2010	94,369	6,862	101,231	6,620	1,102	7,722
2011	97,082	4,149	101,231	6,753	969	7,722
2012 - 2016	78,496	1,935	80,431	35,868	2,842	38,710
2017 - 2019	-	-	-	8,898	111	9,009
Total	<u>\$ 606,033</u>	<u>\$ 42,531</u>	<u>\$ 648,564</u>	<u>\$ 77,223</u>	<u>\$ 9,106</u>	<u>\$ 86,329</u>

B. Business-Type Long-Term Obligations

During fiscal year 2006, the following changes occurred in the County's business-type long-term obligations:

	Balance 12/31/05	Additions	Reductions	Balance 12/31/06	Due in One Year
Landfill closure and postclosure care liability	\$ 2,205,773	\$ 182,936	\$ -	\$ 2,388,709	\$ -
Compensated absences	21,794	-	(116)	21,678	4,175
Total	<u>\$ 2,227,567</u>	<u>\$ 182,936</u>	<u>\$ (116)</u>	<u>\$ 2,410,387</u>	<u>\$ 4,175</u>

Landfill Closure and Postclosure Care Liability

See Note 23 for information on this liability.

Compensated Absences

Compensated absences will be paid from the Landfill fund.

- C. The Ohio Revised Code provides that the net general obligation debt of the County, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed one percent of the total assessed valuation of the County.

The Code further provides that the total voted and unvoted net debt of the County, less the same exempt debt, shall never exceed a sum equal to three percent of the first \$100,000,000 of the assessed valuation, plus one and one-half percent of such valuation in excess of \$100,000,000 and net in excess of \$300,000,000, plus two and one-half percent of such valuation in excess of \$300,000,000. Based on this calculation, the County's legal debt margin was \$11,866,656 as of December 31, 2006.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 14 - NOTES PAYABLE

The County had the following enterprise fund bond anticipation notes outstanding at December 31, 2006:

	Issue Date	Balance 12/31/05	Additions	Reductions	Balance 12/31/06
Bond Anticipation Notes:					
<u>Enterprise Funds</u>					
County Facilities - 5.5%	03/26/05	\$ 115,000	\$ -	\$ (115,000)	\$ -
Landfill Improvement - 5.5%	03/26/05	475,000	-	(475,000)	-
Total enterprise funds-bond anticipation notes		<u>\$ 590,000</u>	<u>\$ -</u>	<u>\$ (590,000)</u>	<u>\$ -</u>

Bond Anticipation Notes - During 2006, the County repaid \$590,000 in bond anticipation notes in the enterprise funds. The debt service payments have been recorded in the Sanitary Landfill fund and Hahn Center fund (a nonmajor enterprise fund).

NOTE 15 - RISK MANAGEMENT

A. Property and Liability Insurance

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During 2006, the County contracted with the County Risk Sharing Authority, Inc. (CORSA) for liability, property, automotive, and crime insurance. The CORSA program has a \$2,500 deductible. Coverage provided by CORSA is as follows:

	<u>Amount</u>
General Liability (per occurrence)	\$ 1,000,000
Law Enforcement Liability (per occurrence)	3,000,000
Automobile Liability and Physical Damage Liability (per occurrence)	3,000,000
Medical Payments	
Per Person	5,000
Per Occurrence	50,000
Uninsured Motorist (per person)	250,000
Physical Damage	Actual Cost

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 15 - RISK MANAGEMENT - (Continued)

Flood and Earthquake (pool limit)	\$ 100,000,000
Other Property Insurance:	
Extra Expense	1,000,000
EDP Media	Replacement Cost
Contractors' Equipment	Actual Cash Value
Valuable Papers and Records	1,000,000
Inland Marine	Actual Cash Value
Automatic Acquisition	3,000,000
Motor Truck Cargo	100,000
Crime Insurance:	
Faithful Performance	1,000,000
Money and Securities (inside and outside)	1,000,000
Depositor's Forgery	1,000,000
Money Orders and Counterfeit Paper Currency	1,000,000
Boiler and Machinery	100,000,000
Public Officials (per occurrence)	1,000,000
Umbrella (per occurrence)	5,000,000

There has been no significant reduction in insurance coverage from the prior year, and settled claims have not exceeded this coverage in the past three years. The County pays all elected officials' bonds by statute.

B. Fulton-Henry Counties Employee Insurance Benefits Program

The County participates in the Fulton-Henry Counties Employee Insurance Benefits Program (the "Program"), a public entity shared risk pool consisting of Fulton and Henry Counties. The purpose of the plan is for its members to pool funds or resources to purchase health and dental insurance products and enhance the wellness opportunities for employees.

Each member pays a monthly premium amount, which is established annually by the Board, to Reliance Financial Services ("Reliance"). Reliance is the fiscal agent for the Council and has a trust agreement with the Council to account for all Council finances and assets. The Program is governed by a Board consisting of one representative from each member County's Board of Commissioners. The degree of control exercised by any participating member is limited to its representation on the Board. Upon withdrawal from the Program, a program agreement shall govern the disposition of any contributions by the withdrawing member to each program of the Council in excess of that member's share of the costs of that program.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 16 - PENSION PLANS

A. 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 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) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The County's contribution rate for pension benefits for 2006 was 9.20%, except for those plan members in law enforcement and public safety. For those classifications, the County's pension contributions were 12.43% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The County's contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$710,513, \$863,992, and \$781,410, respectively; 91% has been contributed for 2006 and 100% for 2005 and 2004. The unpaid contribution to fund pension obligations for 2006, in the amount of \$62,886, is recorded as a liability. Contributions to the member-directed plan for 2006 were \$331 made by the County and \$217 made by plan members.

B. State Teachers Retirement System of Ohio

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 administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries.

Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 16 - PENSION PLANS - (Continued)

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP 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 Ohio funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5% 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 CP offers features of both the DBP and DCP. In the CP, 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 DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP 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 DCP 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% of their annual covered salary and the County was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The County's required contribution for pension obligations for the DBP for the years ended December 31, 2006, 2005, and 2004 was \$133,429, \$143,921, and \$143,985, respectively; 100% has been contributed for fiscal years 2006, 2005 and 2004. There were no contributions for the DCP and CP for the year ended December 31, 2006.

NOTE 17 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

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, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". 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% of covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Benefits are advance-funded using the entry age 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%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus and an additional factor ranging from .50% to 6.00% for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4.00%.

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

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The County's actual employer contributions for 2006 which were used to fund postemployment benefits were \$333,471. 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. At December 31, 2005 (the latest information available), 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, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

B. State Teachers Retirement System of Ohio

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended December 31, 2006, the Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the County, this amount was \$10,264.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.5 billion at June 30, 2006. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were \$282.743 million, and STRS had 119,184 eligible benefit recipients.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund and major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as payables (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund and major special revenue funds are as follows:

Net Change in Fund Balances

	Major Governmental Funds				
	<u>General</u>	<u>Country View Haven</u>	<u>Motor Vehicle and Gas Tax</u>	<u>County Board of MRDD</u>	<u>Public Assistance</u>
Budget basis	\$ 1,428,222	\$ 225,375	\$ (261,442)	\$ 445,742	\$ 111,213
Net adjustment for revenue accruals	52,842	3,075	(34,532)	3,960	(64,909)
Net adjustment for expenditure accruals	394,505	14,442	104,552	(19,354)	303,292
Net adjustment for other financing sources/(uses) accruals	(432,127)	-	-	-	(334,496)
Encumbrances (budget basis)	<u>77,499</u>	<u>15,624</u>	<u>21,351</u>	<u>58,040</u>	<u>-</u>
GAAP basis	<u>\$ 1,520,941</u>	<u>\$ 258,516</u>	<u>\$ (170,071)</u>	<u>\$ 488,388</u>	<u>\$ 15,100</u>

NOTE 19 - CONTINGENCIES

A. Grants

The County has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the County Commissioners believe such disallowance, if any, will be immaterial.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 19 - CONTINGENCIES - (Continued)

B. Litigation

The County is not party to any legal proceedings which, in the opinion of management, would have a material impact upon the financial statements.

NOTE 20 - PUBLIC ENTITY RISK POOL

The County Risk Sharing Authority, Inc., (CORSA) is a public entity risk sharing pool among forty-one 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 officials' 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 the Corporation 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. 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 County does not have an equity interest in CORSA. The County's payment for insurance to CORSA in 2006 was \$156,689.

NOTE 21 - CONDUIT DEBT OBLIGATIONS

To provide funds to finance the cost of acquiring, construction, equipping, and furnishing a 40 unit assisted living facility at the Lutheran Orphans' and Old Folks Home Society in Napoleon, Ohio, the County has issued health care facility revenue bonds, series 1999. These bonds are special limited obligations of the County, payable solely from and secured by a trust estate including payments under the GNMA securities, the special funds and pledged receipts. The bonds do not constitute a debt or pledge of the faith and credit of the County and, accordingly, have not been reported in the accompanying financial statements.

At December 31, 2006, health care facility revenue bonds outstanding aggregated \$2,201,250.

To provide for the acquisition, construction, installation, equipping of certain improvements at the Henry County Hospital and to refund prior bonds, the County has issued a series of Multi-Mode Variable Rate Demand Facilities Improvement Revenue Bonds, Series 2006 on March 1, 2006. These bonds are limited facility improvement obligation bonds of the County, payable solely out of rentals, revenues, and other income, charges and money realized from the use, lease, sale of other disposition of the 2006 Series bonds mentioned in the sublease and sub-sublease. These bonds do not constitute a debt or pledge of the faith and credit of the County or the State, and accordingly, have not been reported in the accompanying financial statements.

At December 31, 2006, Facilities Improvement Revenue Bonds outstanding aggregated \$10 million.

HENRY COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 22 - CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require that the County place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$2,388,709 as of December 31, 2006, which is based on 86.60% usage (filled) of the landfill. It is estimated that an additional \$369,535 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity (2012). The estimated total current cost of \$2,758,244 for landfill closure and postclosure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2006. However, the actual costs of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

The County is required by state and federal laws and regulations to make annual contributions to finance closure and postclosure care. The County is in compliance with these requirements, and at December 31, 2006, cash and cash equivalents of \$1,231,425 are held for these purposes. These investments are held and managed by the County and are presented on the County's financial statements as "Restricted Assets: Equity in pooled cash and cash equivalents". It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

NOTE 23 - SIGNIFICANT SUBSEQUENT EVENTS

On March 22, 2007, the County retired the \$45,000 Certificate of Title Building notes and reissued new notes in the amount of \$40,000 at 4.5%.

On March 22, 2007, the County retired the \$3,145,000 Courthouse Project at Oakmeadows notes and reissued new notes in the amount of \$2,410,000 at 4.5%.

On March 22, 2007, the County retired the \$115,000 Ridgeville Turn Lane notes and reissued new notes in the amount of \$110,000 at 4.5%.

SUPPLEMENTAL DATA

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

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(C) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:				
(A) Food Donation	10.550	N/A	\$ -	\$ 3,285
(B) National School Lunch Program	10.555	06635-LLPH-2006	21,509	-
Total U.S. Department of Agriculture			21,509	3,285
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASSED THROUGH THE OHIO DEPARTMENT OF DEVELOPMENT OFFICE OF HOUSING AND COMMUNITY PARTNERSHIP:				
(F) Community Development Block Grants/State's Program	14.228	B-C-04-032-1	110,646	-
(F) Community Development Block Grants/State's Program	14.228	B-F-05-032-1	25,060	-
(F) Community Development Block Grants/State's Program	14.228	B-F-04-032-1	103,300	-
Total Community Development Block Grant			239,006	-
HOME Investment Partnerships Program	14.239	B-C-04-032-2	98,589	-
Total U.S. Department of Housing and Urban Development			337,595	-
U.S. DEPARTMENT OF JUSTICE PASSED THROUGH THE OHIO DEPARTMENT OF YOUTH SERVICES:				
Juvenile Accountability Incentive Block Grants, Out of Home Placement	16.523	2005-JB-015-B047	9,100	-
Total U.S. Department of Justice			9,100	-
U.S. DEPARTMENT OF LABOR PASSED THROUGH THE OHIO DEPARTMENT OF JOBS AND FAMILY SERVICES:				
(E) WIA Adult Program	17.258	N/A	95,637	-
(E) WIA Adult Program - Adult Administration	17.258	N/A	8,133	-
Total Workforce Investment Act - Adult			103,770	-
(E) WIA Youth Activities	17.259	N/A	78,579	-
(E) WIA Youth Activities - Youth Settlement Funds	17.259	N/A	3,537	-
Total Workforce Investment Act - Youth Activities			82,116	-
(E) WIA Dislocated Workers	17.260	N/A	125,284	-
(E) WIA Dislocated Workers - Dislocated Workers Administration	17.260	N/A	13,423	-
Total Workforce Investment Act - Dislocated Workers			138,707	-
Total Workforce Investment Cluster			324,593	-
Total U.S. Department of Labor			324,593	-
OHIO DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:				
Special Education Cluster:				
(D) Special Education- Grants to States	84.027	066365-6B-SF-05P	44,576	-
(D) Special Education- Grants to States	84.027	066365-6B-SF-05P	32,694	-
Total Special Education-Grants to States			77,270	-
(D) Special Education- Preschool Grants	84.173	066365-PG-S1-07P	21,332	-
(D) Special Education- Preschool Grants	84.173	066365-PG-S1-06P	34,182	-
Total Special Education- Preschool Grants			55,514	-
Total Special Education Cluster			132,784	-
Total U.S. Department of Education			132,784	-

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

- Continued from Pg. 68

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(C) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE AREA OFFICE OF AGING:				
Special Programs for the Aging-Title III, Part B- Grants for Supportive Services and Senior Centers	93.044	N/A	29,241	-
PASSED THROUGH QUADCO REHABILITATION CENTER:				
Social Services Block Grant	93.667	N/A	5,897	-
PASSED THROUGH THE OHIO DEVELOPMENT OF MENTAL RETARDATION AND DEVELOPMENT DISABILITIES:				
Medical Assistance Program - Medicaid Title XIX	93.778	N/A	1,264,906	-
Total U.S. Department of Health and Human Services			1,300,044	-
U.S. DEPARTMENT OF FEDERAL EMERGENCY MANAGEMENT DISASTER ASSISTANCE PASSED THROUGH THE OHIO DEPARTMENT OF EMERGENCY MANAGEMENT DISASTER ASSISTANCE:				
State Domestic Preparedness Equipment Support Program	97.004	2004-GE-T4-0025	41,977	-
Emergency Management Performance Grants	97.042	2005-EM-T5-0001	13,055	-
Citizens Corp Program Grant	97.053	2005-GC-T5-0001	16,350	-
State Homeland Security Program	97.073	2005-GE-T5-0001	84,895	-
Total U.S. Department of Homeland Security			156,277	-
Total Federal Financial Assistance			\$ 2,281,902	\$ 3,285

(A) The Food Distribution Program is a noncash, federal grant.

(B) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.

(C) This schedule was prepared on the cash basis of accounting.

(D) Included as part of the "Special Education Grant Cluster" in determining major programs.

(E) Included as part of the Workforce Investment Act Cluster and prepared on the accrual basis of accounting.

(F) The County has established a revolving loan program to provide low-interest loans to businesses that are creating jobs and meet the other program requirements. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the County passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Expenditures of Federal Awards (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule. These loans are collateralized by mortgages on the property. At December 31, 2006, the gross amount of loans outstanding under this program were \$1,246,994. Of this amount \$562,600 was new revolving loans issued from previously issued and collected revolving loan funds during the year ended December 31, 2006.



Julian & Grube, Inc.

Serving Ohio Local Governments

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Commissioners
Henry County
660 North Perry Street
Napoleon, Ohio 43545

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henry County, as of and for the year ended December 31, 2006, which collectively comprise Henry County's basic financial statements and have issued our report thereon dated September 4, 2007. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Henry County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Henry County's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Henry County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 Henry County's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Henry County's financial statements that is more than inconsequential will not be prevented or detected by Henry County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Henry County's internal control.

Board of Commissioners
Henry County

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Henry County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as 2006-HC-001.

We noted certain matters that we reported to the management of Henry County in a separate letter dated September 4, 2007.

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

This report is intended solely for the information and use of the management of Henry County, federal awarding agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
September 4, 2007



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Compliance With Requirements Applicable to Each
Major Program and on Internal Control Over
Compliance in Accordance With *OMB Circular A-133***

Board of Commissioners
Henry County
660 North Perry Street
Napoleon, Ohio 43545

Compliance

We have audited the compliance of Henry County with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. Henry County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Henry County's management. Our responsibility is to express an opinion on Henry 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, Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Henry County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Henry County's compliance with those requirements.

In our opinion, Henry County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

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

Board of Commissioners
Henry County

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over compliance, which we have reported to the management of Henry County in a separate letter dated September 4, 2007.

This report is intended solely for the information and use of the management of Henry County, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
September 4, 2007

HENRY COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2006

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for the major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs:	Medicaid Title XIX, CFDA #93.778; Workforce Investment Act (WIA) Cluster: WIA-Adult CFDA #17.258, WIA-Youth CFDA #17.259, WIA-Dislocated Workers CFDA #17.260
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

HENRY COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

OMB CIRCULAR A-133 § .505

DECEMBER 31, 2006

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

Finding Number	2006-HC-001
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Ohio Revised Code 5705.39 in part states that no appropriation measure is effective until Henry County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

Henry County Auditor did not issue its taxing districts the required certificates upon request noting appropriation modifications.

Non-issuance of this certificate may cause the taxing districts to be non-compliant with this section as well as hinder their appropriation and spending limits.

We recommend Henry County Auditor maintain a ledger and tracking system to monitor requests from its taxing districts for the certificate and ensure all supporting documentation is maintained to support certificates issued.

Client Response: Effective late December 2006, the new County Auditor has been issuing to its taxing districts the required certificate.

3. FINDINGS FOR FEDERAL AWARDS

None

HENRY COUNTY

STATUS OF PRIOR AUDIT FINDINGS

OMB CIRCULAR A-133 § .315(b)

DECEMBER 31, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer <u>Valid</u>; Explain:
2005-HC-001	Ohio Revised Code Section 5705.39 requires that no subdivision is to appropriate more monies than estimated resources.	Yes	N/A
2005-HC-002	Henry County over collected approximately \$700,000 on the Courthouse Improvement Levy. This was the result of the County Auditor not reducing the millage as the principal was being paid down throughout the years. In addition, the County Auditor did not inform the Henry County Budget Commission the need to remove the levy from the assessed taxes.	Yes	N/A
2005-HC-003	Ohio Revised Code Section 5705.41(B) requires in part that no subdivision is to expend monies unless it has been appropriated	Yes	N/A



Mary Taylor, CPA
Auditor of State

FINANCIAL CONDITION

HENRY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 18, 2007**