



**Auditor of State
Betty Montgomery**

BROWN COUNTY
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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Brown County
800 Mount Orab Pike
Georgetown, Ohio 45121

To the Board of County Commissioners:

We have audited the accompanying financial statements of the governmental activities, each major governmental fund, and the aggregate remaining fund information of Brown County, Ohio (the County), as of and for the year ended December 31, 2004, which collectively comprise the basic financial statements of Brown County's primary government, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Brown County General Hospital for the years ended December 31, 2004 and 2003. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the accompanying financial statements, insofar as it relates to the amounts included for the Brown County General Hospital, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

The Brown County General Hospital financial statements are presented as stand alone statements. In our opinion, based on the report of the other auditors, the Brown County General Hospital's stand alone financial statements present fairly, in all material respects, its financial position as of December 31, 2004 and 2003 and its changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As a result, the County did not include proprietary fund statements for the Hospital in its modified cash basis statements. In addition, the County omitted Business-type Activities from the entity-wide statements. Therefore in our opinion, the County's financial statements do not present fairly the financial position of the Business-Type Activities and proprietary funds of the County as of December 31, 2004 or the changes in its modified cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 2.

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The financial statements do not include financial data for the County's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the County's primary government unless the County also issues financial statements for the reporting entity that include the component unit's financial data. The County has not issued reporting entity financial statements. We cannot determine the amount of assets, net assets, revenues and expenses that the accompanying statements should present for the omitted discretely-presented component units. In our opinion, because of the omission of the discretely-presented component unit, as discussed above, the financial statements referred to above do not present fairly, the modified cash basis financial position of the reporting entity of the County as of December 31, 2004 and the changes in its modified cash basis financial position, for the year ended in conformity with the basis of accounting described in Note 2.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects the respective modified cash basis financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of Brown County, Ohio, as of December 31, 2004, and the respective changes in modified cash basis financial position thereof and the respective budgetary comparison for the General, Job and Family Services, Auto and Gas Tax, and Mental Retardation and Developmental Disabilities Funds, thereof for the year then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2006, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Betty Montgomery
Auditor of State

February 28, 2006

BROWN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 (Unaudited)

As Management of Brown County, we offer readers of Brown County's financial statements this narrative overview and analysis of the financial activities of Brown County for the fiscal year ended December 31, 2004. The intent of this discussion and analysis is to look at the County's financial performance as a whole; readers should also review notes to the financial statements to enhance their understanding of the County's performance.

- Net cash assets of governmental activities increase of \$1,586,190.
- At the close of the current fiscal year, Brown County's governmental funds reported a combined ending fund balance of \$12,379,663. Approximately 9%, \$1,098,383 is available for spending at the County's discretion.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The County has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the County's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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

BROWN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 (Unaudited) (Continued)

Reporting the Government as a Whole

The statement of net assets and the statement of activities reflect how the County did financially during 2004, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the County at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the County's general receipts.

These statements report the County's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the County's financial health. Over time, increases or decreases in the County's cash position is one indicator of whether the County's financial health is improving or deteriorating. When evaluating the County's financial condition, you should also consider other nonfinancial factors as well such as the County's property tax base, the condition of the County's capital assets and infrastructure, the extent of the County's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

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

Reporting the County's Most Significant Funds

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

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

The cash basis governmental fund financial statements can be found on page 15-16 of this report.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the County's programs.

BROWN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Unaudited)
(Continued)

The basic fiduciary fund financial statement can be found on page 17 of this report.

Budgetary Comparison Schedules. The County's budgetary process accounts for certain transactions on a cash basis. The budgetary comparison schedule for the General fund and all annually budgeted major Special Revenue funds are presented to demonstrate the County's compliance with annually adopted budgets. The budgetary fund financial statements can be found on pages 18-21 in this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-57 of this report.

Government-Wide Financial Analysis

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

The Government as a Whole

Table 1 provides a summary of the County's net assets for 2004 compared to 2003 on a modified cash basis:

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

	2004	2003
Equity in Pooled Cash and Investments	\$ 12,379,663	\$ 10,793,473
TOTAL ASSETS	\$ 12,379,663	\$ 10,793,473
Restricted for:		
Special Revenue	10,604,287	9,499,074
Capital Projects	189,511	72,895
Debt Service	487,482	415,123
Unrestricted	1,098,383	806,381
TOTAL NET ASSETS	\$ 12,379,663	\$ 10,793,473

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

Net assets of government activities increased \$1,586,190 or 14.7% during 2004. The primary increase in cash balances is due to an increase in property tax revenue. This increase is attributed to an increase in tax rates and a triennial update of property values. As a result of tax rates and the triennial update, as well as an increase in operating grants, total governmental receipts increased by \$2,092,672 or 9%. Total disbursements decreased by \$4,969,701 or (17%) as a result of decreased public works expenditures during 2004, due to the completion of a large building project.

Governmental activities. Governmental activities increased Brown County's net cash assets by \$1,586,190. Continued strict budget restraints have been put in place to ensure the financial future of the county. Table 2 reflects the changes in net assets in 2004 and 2003.

BROWN COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Unaudited)
(Continued)**

Changes in Net Assets

Table 2 Governmental Activities

	<u>2004</u>	<u>2003</u>
Program Receipts:		
Charges for Services	\$ 3,656,743	\$ 3,688,929
Operating Grants and Contributions	12,929,492	11,781,540
Capital Grants and Contributions	193,285	170,336
General Receipts:		
Property Taxes	2,915,152	2,500,974
Sales Taxes	3,188,801	2,963,922
Unrestricted Grants	660,229	231,952
Other	<u>2,087,554</u>	<u>2,200,931</u>
Total Receipts	<u>25,631,256</u>	<u>23,538,584</u>
Program Disbursements:		
General Government:		
Legislative and Executive	4,552,747	4,867,265
Judicial	1,922,163	1,728,700
Public Safety	3,509,318	3,413,642
Public Works	3,348,314	8,788,113
Health	4,968,682	4,440,330
Human Services	4,460,593	4,536,415
Economic Development and Assistance	441,660	269,370
Debt Service:		
Principal Retirement	635,000	728,799
Interest and Fiscal Charges	<u>206,589</u>	<u>242,133</u>
Total Disbursements	<u>24,045,066</u>	<u>29,014,767</u>
Increase/(Decrease) in Net Assets	<u>\$ 1,586,190</u>	<u>\$ (5,476,183)</u>

Financial Analysis of the Government's Funds

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

Program receipts represent only 66 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits and inspection fees and charges to nearby governments for police services provided under contract.

General receipts represent 34 percent of the County's total receipts, and of this amount, over 33 percent are local taxes. State and federal grants and entitlements make up the balance of the County's general receipts 6 percent. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the County and the support services provided for the other County activities. These include the costs of the commissioners,

BROWN COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Unaudited)
(Continued)**

and the auditor, and treasurer, County departments, as well as internal services such as payroll and purchasing.

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

Governmental Activities

If you look at the Statement of Activities on page 14, you will see that the first column lists the major services provided by the County. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for health and human services, which account for 21 and 19 percent of all governmental disbursements, respectively. General government also represents a significant cost, about 19 percent. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the County that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement.

(Table 3)

Governmental Activities

	Total Cost Of Services 2004	Total Cost Of Services 2003	Net Cost of Services 2004	Net Cost of Services 2003
General Government	\$6,474,910	\$ 6,595,965	\$4,142,933	\$ 4,023,323
Public Safety	3,509,318	3,413,642	1,970,770	2,047,532
Public Works	3,348,314	8,788,113	(889,178)	4,960,751
Health	4,968,682	4,440,330	762,747	536,741
Human Services	4,460,593	4,536,415	663,950	836,685
Economic Development and Assistance	441,660	269,370	(283,255)	(2,002)
Principal Retirement	635,000	728,799	635,000	728,799
Interest and Fiscal Charges	206,589	242,133	206,589	242,133
Total Expenses	<u>\$24,045,066</u>	<u>\$ 29,014,767</u>	<u>\$7,209,556</u>	<u>\$ 13,373,962</u>

The dependence upon property receipts is apparent as over 38 percent of governmental activities are supported through these general receipts.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year Brown County's governmental funds reported combined ending fund cash basis balances of \$12,379,663, an increase of 13% in comparison with the prior year.

BROWN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 (Unaudited) (Continued)

Approximately \$1,098,383 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of Brown County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$935,095 with receipts of \$8,495,359 and disbursements of \$8,795,161. Budget restraints have been put into place to solidify the future of the general fund. State budget cuts have some impact on the general fund of Brown County and further countywide budget cuts will be implemented as needed. The general fund balance decreased by \$299,802 during the current fiscal year.

The Job and Family Services fund reported a net change in fund balance of \$71,534. This resulted from disbursements made on reimbursable program costs.

The Auto and Gas fund received \$3,872,153 from state gasoline tax and motor vehicle registration fees. This fund reported a net change in fund balance of \$1,322,036.

The Mental Retardation/Developmental Disabilities fund reported a net change in fund balance of (\$12,962). This resulted from disbursements made on reimbursable program costs.

General Fund Budgetary Highlights

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

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

For the year ended December 31, 2004, General Fund disbursements were \$152,540 less than final appropriations, while actual resources available for appropriation were \$671,887 above the final budgeted amount.

Economic Factors and Next Year's Budgets and Rates

- . The state reduced funding to the County in areas such as local government funds and local government revenue assistance. Interest on investments was also less than the previous year.
- . The vacancy rate of the County's general business districts is not tracked; however, much of the district is utilized by service entities such as government offices, banks, insurance offices, restaurants, etc. There are only a few retail stores located in the county. Sales tax revenue during the past three years has remained basically the same.

Each of these factors was considered in preparing Brown County's budget for the 2004 year.

Capital Assets and Debt Administration

Capital Assets

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

BROWN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 (Unaudited) (Continued)

County Debt Administration

At the end of 2004, the County had general obligation debt outstanding of \$3,130,000, backed by the full faith and credit of the County. The County's general obligation debt decreased by \$635,000 or 18% during the 2004 fiscal year.

State statute limits the total amount of debt a governmental entity may issue. The current unvoted debt margin for the County is \$515,463. In addition to the bonded debt, the County's long-term obligations include a Forgivable Debt with the Ohio Department of Mental Health. Additional information on the County's long-term debt can be found in note 13 of this report. Interest and fiscal charges for 2004, were \$206,589 or 1% of total governmental activities.

Request for information

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

Brown County General Hospital

This section of Brown County General Hospital's (the Hospital) annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance during the year ended December 31, 2004. This MD& A includes a discussion and analysis of the activities and results of the Hospital.

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

FINANCIAL HIGHLIGHTS

- The Hospital's net assets decreased by approximately \$581,000 mainly due to a loss from operations for 2004 of \$757,000.
- During the year, the Hospital's net operating revenues increased 12.0% to \$35.6 million while expenses increased 17.8% to \$36.3 million. The result is a loss from operations of \$757,000 compared to an income from operations in 2003 of \$904,000.
- During the year, the Hospital made the following significant capital acquisitions and improvements:
 - Land and Office Building in Fayetteville/Mt. Orab
 - PACS System
 - Adult Ventilators
 - Phacoemulsification Eye Machine
 - Anesthesia Machine
 - Storage Archive Network System

BROWN COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Unaudited)
(Continued)**

The primary source of funding for these projects was cash flow from funds reserved for capital acquisitions.

FINANCIAL STATEMENTS

The financial statements of the Hospital present information about the Hospital using financial reporting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information. The statements of Net Assets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the financial results of the Hospital's operations and present revenue earned and expenses incurred. The final financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash flow from operating activities, capital and related financing activities, and investing activities, and provides information on the sources and uses of cash during the year. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided. The notes to the financial statements can be found on pages 47 through 57 of this report.

FINANCIAL ANALYSIS

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

A summary of the Hospital's Statements of Net Assets as of December 31, 2004 and 2003 is presented below (in thousands):

	<u>2004</u>	<u>2003</u>	<u>\$ Change</u>	<u>% Change</u>
Cash and Cash Equivalents	\$1,379	\$4,544	(\$3,165)	-69.7%
Property, Plant and Equipment, Net	13,178	11,944	1,234	10.3
Patient Accounts Receivable, Net	5,073	4,660	413	8.9
Other Assets	2,599	2,535	64	2.5
Total Assets	<u>\$22,229</u>	<u>\$23,683</u>	<u>(\$1,454)</u>	
Current Portion of Long-Term Liabilities	\$837	\$609	\$228	37.4
Other Current Liabilities	2,862	3,353	(491)	(14.6)
Long-Term Liabilities	407	1,017	(610)	(60.0)
Total Liabilities	<u>4,106</u>	<u>4,979</u>	<u>(873)</u>	
Net Assets	18,123	18,704	(581)	3.1%
Total Liabilities and Net Assets	<u>\$22,229</u>	<u>\$23,683</u>	<u>(\$1,454)</u>	

A summary of the Hospital's Revenues, Expenses and Changes in Net Assets for the years ended December 31, 2004 and 2003 is presented below (in thousands):

BROWN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 (Unaudited) (Continued)

	<u>2004</u>	<u>2003</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues				
Net Patient Service Revenues	\$35,095	\$31,354	\$3,741	
Other Revenues	476	400	76	
Total Revenues	<u>\$35,571</u>	<u>\$31,754</u>	<u>\$3,817</u>	12.0%
Expenses				
Salaries and Benefits	\$18,977	\$15,253	\$3,724	
Professional Fees	3,449	2,636	813	
Provision for Bad Debts	2,906	2,521	385	
Supplies and Other	10,996	10,440	556	
Total Expenses	<u>\$36,328</u>	<u>\$30,850</u>	<u>\$5,478</u>	17.8%
(Loss) Income from Operations	<u>(757)</u>	<u>904</u>	<u>(1,661)</u>	
(Expenses)	<u>62</u>	<u>(106)</u>	<u>168</u>	
Changes in Net Assets	<u>(695)</u>	<u>798</u>	<u>(1,493)</u>	

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

Sources of Revenues

During 2004, the Hospital derived substantially all of its revenues from patient services and other related activities. Revenues include, among other items, revenues from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

Payer Mix

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

OPERATING AND FINANCIAL PERFORMANCE

The Hospital generated significantly more gross revenues from patients in 2004, but sustained a loss from operations due to an increase in expenses (see below) and an increase in its contractual allowances. This section will discuss highlights of 2004 operations and changes in activity.

Revenues

Net patient service revenue increased \$3.7 million in 2004 primarily due to volume a 'charge-per-episode' increase, and an increase in outpatient services.

Expenses

Total operating expenses increased \$5.5 million in 2004 which was attributed to an increase in personnel costs, costs for other services, costs for supplies and drugs, utilities and bad debt expense.

BROWN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 (Unaudited) (Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year-end, the Hospital had \$13.2 million invested in property, plant and equipment. This amount represents a net increase (including additions and deletions) of \$1.2 million, or 10.3%, over last year. See page 10 of the MD & A for a description of the significant capital acquisitions during 2004 and the notes to the basic financial statements for a detailed presentation of the acquisitions and deletions for the year.

Debt Administration

At year-end, the Hospital had \$932,743 in outstanding debt (including capital lease obligations) versus \$1.3 million last year, a decrease of 30%. Interest rates varied from 2.75% to 12.6%. For a breakdown of the interest payment schedule, and a detailed presentation of debt acquisitions and retirements for the year, refer to the notes to the basic financial statements.

ECONOMIC FACTORS AND 2005 BUDGET

The Hospital's Board and management considered many factors when setting the 2005 budget. Of primary importance in setting the budget was the status of the economy, which takes into account market focus and other environmental factors such as the following:

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

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

BROWN COUNTY

**STATEMENT OF NET ASSETS-MODIFIED CASH BASIS
DECEMBER 31, 2004**

	<u>Governmental Activities</u>
ASSETS	
Equity in Pooled Cash and Investments	\$ 12,379,663
TOTAL ASSETS	<u>\$ 12,379,663</u>
NET ASSETS	
Restricted for:	
Special Revenue	\$ 10,604,287
Capital Projects	189,511
Debt Service	487,482
Unrestricted	<u>1,098,383</u>
TOTAL NET ASSETS	<u>\$ 12,379,663</u>

See accompanying notes to the financial statements

BROWN COUNTY

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDING DECEMBER 31, 2004**

	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions, and Interest	Net (Disbursements) Receipts and Changes in Net Assets Governmental Activities
Governmental activities:					
General Government:					
Executive and Legislative	\$ (4,552,747)	\$ 952,790	\$ 393,070	\$ -	\$ (3,206,887)
Judicial	(1,922,163)	952,404	140,212	-	(829,547)
Public Safety	(3,509,318)	736,294	720,716	-	(2,052,308)
Public Works	(3,348,314)	93,025	3,888,279	193,285	826,275
Health	(4,968,682)	744,487	3,453,043	-	(771,152)
Human Services	(4,460,593)	167,373	3,619,944	-	(673,276)
Economic Development and Assistance	(441,660)	10,370	714,228	-	282,938
Debt Service:					
Principal Retirement	(635,000)	-	-	-	(635,000)
Interest and Fiscal Charges	(206,589)	-	-	-	(206,589)
Total Governmental Activities	\$ (24,045,066)	\$ 3,656,743	\$ 12,929,492	\$ 193,285	\$ (7,265,546)
 General Receipts:					
Taxes					
Property					2,915,152
Sales					3,188,801
State Local Government					660,229
Earnings on Investments					314,039
Miscellaneous					810,616
Proceeds from Bonds					250,000
Other Financing Sources/Uses (Net)					712,899
Total General Receipts					8,851,736
 Increase in net assets					1,586,190
 Net assets - beginning of year (Restated)					10,793,473
 Net assets - end of year					\$ 12,379,663

See accompanying notes to the financial statements

BROWN COUNTY

**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
DECEMBER 31, 2004**

	<u>General Fund</u>	<u>Job & Family Services Fund</u>	<u>Auto & Gas Fund</u>	<u>MRDD Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Equity in Pooled Cash and Investments	\$ 1,098,383	\$ 253,812	\$ 4,182,874	\$ 483,194	\$ 6,361,400	\$ 12,379,663
TOTAL ASSETS	<u><u>\$ 1,098,383</u></u>	<u><u>\$ 253,812</u></u>	<u><u>\$ 4,182,874</u></u>	<u><u>\$ 483,194</u></u>	<u><u>\$ 6,361,400</u></u>	<u><u>\$ 12,379,663</u></u>
FUND BALANCE						
Reserved for Encumbrances	\$ 163,288	\$ 108,897	\$ 463,360	\$ 41,240	\$ 971,151	\$ 1,747,936
Unreserved, Undesignated	935,095	144,915	3,719,514	441,954	5,390,249	10,631,727
TOTAL FUND BALANCE	<u><u>\$ 1,098,383</u></u>	<u><u>\$ 253,812</u></u>	<u><u>\$ 4,182,874</u></u>	<u><u>\$ 483,194</u></u>	<u><u>\$ 6,361,400</u></u>	<u><u>\$ 12,379,663</u></u>

See accompanying notes to the financial statements

BROWN COUNTY

STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCE AND
CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCES - GOVERNMENTAL FUNDS
AS OF THE YEAR ENDED DECEMBER 31, 2004

	General Fund	Job & Family Services Fund	Auto & Gas Fund	MRDD Funds	Other Governmental Funds	Total Governmental Funds
RECEIPTS						
Taxes						
Property	\$ 2,035,216	\$ -	\$ -	\$ 587,758	\$ 292,178	\$ 2,915,152
Sales (Permissive Sales Tax)	2,550,992	-	-	-	637,809	3,188,801
Charges for Services	1,502,369	-	2,432	13,340	1,438,672	2,956,813
Intergovernmental	1,349,827	2,545,943	3,872,153	769,185	5,245,898	13,783,006
Fines and Forfeitures	398,612	-	18,604	-	266,564	683,780
Licenses and Permits	4,500	-	11,650	-	-	16,150
Gifts and Donations	-	11,286	-	-	-	11,286
Other	112,987	341,754	-	21,337	323,252	799,330
Interest	250,741	-	63,298	-	-	314,039
TOTAL RECEIPTS	8,205,244	2,898,983	3,968,137	1,391,620	8,204,373	24,668,357
DISBURSEMENTS						
Legislative and Executive	4,183,360	-	-	-	369,387	4,552,747
Judicial	1,293,003	-	-	-	629,160	1,922,163
Public Safety	2,173,034	-	-	-	1,336,284	3,509,318
Public Works	184,277	-	2,776,414	-	387,623	3,348,314
Health	224,005	-	-	1,408,613	3,336,064	4,968,682
Human Services	248,521	3,049,593	-	-	1,162,479	4,460,593
Economic Development and Assistance	8,439	-	-	-	433,221	441,660
Debt Service	-	-	-	-	-	-
Principal Retirement	-	-	-	-	635,000	635,000
Interest and Fiscal Charges	-	-	-	-	206,589	206,589
TOTAL DISBURSEMENTS	8,314,639	3,049,593	2,776,414	1,408,613	8,495,807	24,045,066
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	(109,395)	(150,610)	1,191,723	(16,993)	(291,434)	623,291
OTHER FINANCING SOURCES (USED)						
Operating Transfer - In					216,896	216,896
Advance - In	286,410				249,550	535,960
Other Financing Sources	3,705	222,144	130,313	4,031	574,850	935,043
Proceeds from Bond					250,000	250,000
Other Financing Uses	(147,052)				(75,092)	(222,144)
Operating Transfer - Out	(83,920)				(132,976)	(216,896)
Advance - Out	(249,550)				(286,410)	(535,960)
TOTAL OTHER FINANCING SOURCES (USED)	(190,407)	222,144	130,313	4,031	796,818	962,899
NET CHANGE IN FUND BALANCE	(299,802)	71,534	1,322,036	(12,962)	505,384	1,586,190
CASH BASIS FUND BALANCE - Beginning of year (Restated)	1,398,185	182,278	2,860,838	496,156	5,856,016	10,793,473
CASH BASIS FUND BALANCE - End of year	\$ 1,098,383	\$ 253,812	\$ 4,182,874	\$ 483,194	\$ 6,361,400	\$ 12,379,663
RESERVED FOR ENCUMBRANCES	\$ 163,288	\$ 108,897	\$ 463,360	\$ 41,240	\$ 971,151	\$ 1,747,936

See accompanying notes to the financial statements

BROWN COUNTY

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
DECEMBER 31, 2004**

	<u>Agency Funds</u>
ASSETS:	
Equity in Pooled Cash and Investments	\$ 2,384,612
Equity in Pooled Cash and Investments in Outside Accounts	<u>1,103,275</u>
TOTAL ASSETS	<u><u>\$ 3,487,887</u></u>
TOTAL NET ASSETS	<u><u>\$ 3,487,887</u></u>

See accompanying notes to the financial statements

BROWN COUNTY

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$1,398,185	\$1,398,185	\$1,398,185	\$0
Resources (Inflows):				
Sales Tax	2,410,000	2,410,000	2,550,992	140,992
Property Tax	2,158,180	2,158,180	2,035,216	(122,964)
Charges for services	1,648,400	1,648,400	1,502,369	(146,031)
Intergovernmental	693,569	711,242	1,349,827	638,585
Licenses	4,025	4,050	4,500	450
Fines and Forfeitures	528,000	528,000	398,612	(129,388)
Other Income	163,600	163,600	112,987	(50,613)
Interest	200,000	200,000	250,741	50,741
Other Financing Sources:				
Other	-	-	3,705	3,705
Advances from other funds	-	-	286,410	286,410
Amounts available for appropriation	<u>9,203,959</u>	<u>9,221,657</u>	<u>9,893,544</u>	<u>671,887</u>
Charges to Appropriations (Outflows):				
Executive/Legislative	4,319,103	4,360,717	4,183,360	177,357
Judicial	1,305,165	1,515,877	1,293,003	222,874
Public Safety	2,254,189	2,304,293	2,263,925	40,368
Public Health	51,212	50,912	50,300	612
Public Works	82,915	93,635	93,386	249
Human Services	281,510	273,071	248,521	24,550
Economic Development & Assistance		8,439	8,439	-
Miscellaneous				-
Other Financing Uses:				
Other	320,757	320,757	320,757	-
Transfers to other funds	20,000	20,000	83,920	(63,920)
Advances to other funds			249,550	(249,550)
Total Charges to Appropriations	<u>8,634,851</u>	<u>8,947,701</u>	<u>8,795,161</u>	<u>152,540</u>
Ending Budgetary Fund Balance	<u>\$569,108</u>	<u>\$273,956</u>	<u>\$1,098,383</u>	<u>\$824,427</u>

See accompanying notes to the financial statements

BROWN COUNTY

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
JOB AND FAMILY SERVICES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$182,278	\$182,278	\$182,278	\$0
Resources (Inflows):				
Intergovernmental	3,308,690	3,308,690	2,545,943	(762,747)
Other Revenue	204,800	204,800	341,754	136,954
Gifts and Donations			11,286	11,286
Other Financing Sources	200,000	200,000	222,144	22,144
Amounts available for appropriation	<u>3,895,768</u>	<u>3,895,768</u>	<u>3,303,405</u>	<u>(592,363)</u>
Charges to Appropriations (Outflows):				
Human Services	3,149,805	3,289,805	3,049,593	240,212
Other Financing Uses				-
Total Charges to Appropriations	<u>3,149,805</u>	<u>3,289,805</u>	<u>3,049,593</u>	<u>240,212</u>
Ending Budgetary Fund Balance	<u>\$745,963</u>	<u>\$605,963</u>	<u>\$253,812</u>	<u>(\$352,151)</u>

See accompanying note to the financial statements

BROWN COUNTY

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 AUTO AND GAS TAX FUND
 FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$2,860,838	\$2,860,838	\$2,860,838	\$0
Resources (Inflows):				
Charges for services			2,432	2,432
Intergovernmental	3,000,000	3,000,000	3,872,153	872,153
Fines and Forfeitures			18,604	18,604
License and Permits	-	-	11,650	11,650
Other Income	108,000	108,000		(108,000)
Interest			63,298	63,298
Other Financing Sources			130,313	130,313
Amounts available for appropriation	<u>5,968,838</u>	<u>5,968,838</u>	<u>6,959,288</u>	<u>990,450</u>
Charges to Appropriations (Outflows):				
Public Works	<u>3,180,000</u>	<u>3,250,000</u>	<u>2,776,414</u>	<u>473,586</u>
Total Charges to Appropriations	<u>3,180,000</u>	<u>3,250,000</u>	<u>2,776,414</u>	<u>473,586</u>
Ending Budgetary Fund Balance	<u><u>\$2,788,838</u></u>	<u><u>\$2,718,838</u></u>	<u><u>\$4,182,874</u></u>	<u><u>\$1,464,036</u></u>

See accompanying notes to the financial statements

BROWN COUNTY

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
MENTAL RETARDATION/DEVELOPMENTAL DISABILITIES FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$496,156	\$496,156	\$496,156	\$0
Resources (Inflows):				
Taxes	575,000	575,000	587,758	12,758
Charge for Services	292,000	292,000	13,340	(278,660)
Intergovernmental	630,000	630,000	769,185	139,185
Other Revenue			21,337	21,337
Other Sources			4,031	4,031
Amounts available for appropriation	<u>1,993,156</u>	<u>1,993,156</u>	<u>1,891,807</u>	<u>(101,349)</u>
Charges to Appropriations (Outflows):				
Public Health	<u>1,497,000</u>	<u>1,548,000</u>	<u>1,408,613</u>	<u>139,387</u>
Total Charges to Appropriations	<u>1,497,000</u>	<u>1,548,000</u>	<u>1,408,613</u>	<u>139,387</u>
Ending Budgetary Fund Balance	<u><u>\$496,156</u></u>	<u><u>\$445,156</u></u>	<u><u>\$483,194</u></u>	<u><u>\$38,038</u></u>

See accompanying notes to the financial statements

**BROWN COUNTY GENERAL HOSPITAL
BROWN COUNTY**

**CONSOLIDATED STATEMENT OF NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2004**

ASSETS

	December 31,	
	2004	2003
Current Assets		
Cash and Cash Equivalents (includes restricted cash of \$89,313 and \$47,673 as of December 1, 2004 and 2003 respectively.)	\$ 680,668	\$ 2,164,968
Patient Accounts Receivable, Less Allowance for Doubtful Accounts and Contractual Adjustments of \$4,285,367 in 2004 and \$4,014,907 in 2003	5,072,566	4,659,681
Notes, Contracts and Grants Receivable	1,048,485	1,225,675
Accounts Receivable - Other	649,809	547,676
Supplies Inventory	257,364	245,095
Prepaid Expenses and Other Assets	642,801	517,973
Total Current Assets	8,351,693	9,361,068
Assets Whose Use is Limited		
By Board for Plant Renewal and Replacement	17,115	1,635,129
By County for Bond Issuance	681,680	743,676
Total Assets Whose Use is Limited	698,795	2,378,805
Property, Plant and Equipment, Net	13,178,324	11,943,563
Total Assets	\$ 22,228,812	\$ 23,683,436

(Continued)

See accompanying notes to the financial statements

**BROWN COUNTY GENERAL HOSPITAL
BROWN COUNTY**

**CONSOLIDATED STATEMENT OF NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2004
(Continued)**

LIABILITIES AND FUND BALANCES

	December 31,	
	2004	2003
Current Liabilities		
Current Portion of Long-Term Debt	836,698	609,051
Accounts Payable	836,623	976,228
Estimated Settlement Amounts Due to Third-Party Payors	120,000	166,033
Deferred Income	34,533	33,119
Accrued Expenses		
Salaries, Wages, Withholdings and Benefits	850,066	1,249,260
Compensated Absences	641,999	564,949
Other	378,785	362,956
	3,698,704	3,961,596
Total Current Liabilities	3,698,704	3,961,596
Long-Term Liabilities		
Accrued Compensated Absences, Less Current Portion	311,073	289,061
Long-Term Debt, Net of Current Portion	96,045	728,131
	407,118	1,017,192
Total Long-Term Liabilities	407,118	1,017,192
Total Liabilities	4,105,822	4,978,788
Net Assets		
Invested in Property, Plant and Equipment, Net of Related Debt	12,245,581	10,606,381
Unrestricted	5,539,863	7,658,965
Restricted	337,546	439,302
	18,122,990	18,704,648
Total Net Assets	18,122,990	18,704,648
Total Liabilities and Net Assets	\$ 22,228,812	\$ 23,683,436

See accompanying notes to the financial statements

**BROWN COUNTY GENERAL HOSPITAL
BROWN COUNTY**

**CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	Year Ended December 31,			
	2004		2003	
	Amount	Percent	Amount	Percent
Net Patient Service Revenues	\$ 35,094,990	98.7 %	\$ 31,354,018	98.7 %
Other Operating Revenues	475,805	1.3	400,395	1.3
Total Operating Revenues	35,570,795	100.0	31,754,413	100.0
Operating Expenses				
Salaries and Wages	14,734,843	41.4	11,986,399	37.7
Employee Benefits	4,241,832	11.9	3,266,128	10.3
Supplies and Other	7,892,566	22.2	7,571,840	23.8
Provision for Bad Debts	2,906,350	8.2	2,520,611	7.9
Depreciation and Amortization	1,758,646	4.9	1,687,363	5.3
Professional Fees	3,449,056	9.7	2,636,220	8.3
Utilities	705,293	2.0	661,392	2.1
Insurance	552,063	1.6	411,388	1.3
Interest	87,746	0.2	108,286	0.3
Total Operating Expenses	36,328,395	102.1	30,849,627	97.2
(Loss) Income from Operations	(757,600)	(2.1)	904,786	2.8
Non-Operating Revenues (Expenses)				
Investment Income	51,905	0.1	82,255	0.3
Gifts, Grants and Other Non-Operating Revenues	14,290	0.0	391,770	1.2
Non-Operating Expenses	(3,765)	0.0	(580,485)	(1.8)
Total Non-Operating (Expenses) Revenues	62,430	0.2	(106,460)	(0.3)
Excess of Revenues Over Expenses	(695,170)	(2.0) %	798,326	2.5 %
Changes in Net Assets				
Net Assets, Beginning of Year	18,704,648		17,745,364	
Donations of Property, Plant, and Equipment	113,512		160,958	
Net Assets, End of Year	\$ 18,122,990		\$ 18,704,648	

See accompanying notes to the financial statements

**BROWN COUNTY GENERAL HOSPITAL
BROWN COUNTY**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

	December 31,	
	2004	2003
Cash Flows from Operating Activities		
Cash Received from Patients	\$ 34,682,105	\$ 30,077,881
Cash Payments to Suppliers for Goods and Services	(15,465,680)	(13,738,724)
Cash Payments to Employees for Services	(19,639,763)	(14,848,618)
Other Operating Revenues	475,805	400,395
Net Cash Provided by Operating Activities	52,467	1,890,934
Cash Flows from Non-Capital Financing Activities		
Investment Income	51,905	82,255
Gifts, Grants and Other Non-Operating Revenue	14,290	391,770
Non-Operating Expenses	(3,765)	(580,485)
Net Cash (Used) Provided by Non-Capital Financing Activities	62,430	(106,460)
Cash Flows from Capital and Related Financing Activities		
Acquisition of Property, Plant and Equipment	(2,879,428)	(1,505,922)
Principal Paid on Long-Term Debt	(1,404,439)	(618,360)
Proceeds from Note Payable	1,000,000	-
Proceeds from Sale of Property, Plant and Equipment	4,660	2,565
Net Cash Used by Capital and Related Financing Activities	(3,279,207)	(2,121,717)
Net Change in Cash and Cash Equivalents	(3,164,310)	(337,243)
Cash and Cash Equivalents at Beginning of Year	4,543,773	4,881,016
Cash and Cash Equivalents at End of Year	\$ 1,379,463	\$ 4,543,773
Recap of Cash and Cash Equivalents		
Undesignated Cash	591,355	2,117,295
Designated Cash	698,795	2,378,805
Restricted Cash	89,313	47,673
Total Cash and Cash Equivalents	1,379,463	4,543,773
Reconciliation of (Loss) Income from Operations to Net Cash Provided by Operating Activities		
(Loss) Income from Operations	\$ (757,600)	\$ 904,786
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation	1,749,754	1,678,471
Amortization	8,892	8,892
Provision for Bad Debts	2,906,350	2,520,611
(Gain) Loss on Disposal of Property, Plant and Equipment	3,765	(3,134)
Changes in		
Patient Accounts Receivable	(3,319,235)	(3,796,748)
Notes, Contracts, Grants and Other Receivables	75,057	112,076
Supplies Inventory	(12,269)	(27,202)
Prepaid Expenses and Other Assets	(133,720)	(153,059)
Accounts Payable	(139,605)	(85,773)
Estimated Settlement Amounts Due to Third-Party Payors	(46,033)	61,033
Deferred Income	1,414	9,740
Accrued Expenses	(284,303)	661,241
Total Adjustments	810,067	986,148
Net Cash Provided by Operating Activities	\$ 52,467	\$ 1,890,934

See accompanying notes to the financial statements

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BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

1. REPORTING ENTITY AND BASIS OF PRESENTATION

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

Although the elected officials manage the internal operations of their respective departments, the County Commissioners authorize expenditures as well as serve as the budget and taxing authority, contracting body and the chief administrators of public services for the entire County.

REPORTING ENTITY

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

The Brown County General Hospital (the Hospital) operates under the authority of Section 339, Ohio Revised Code. It is governed by a Board of Trustees appointed by the County Commissioners, The Probate Judge and the common Pleas Court Judge of Brown County. The Hospital is not considered legally separate from the County and for financial reporting purposes is treated as an Enterprise Fund of the County. The Hospital prepares its financial statements in accordance with a basis of accounting, which is different from that used by the County to report its other activities and consequently the Hospitals financial statements and related notes are presented separately.

As the custodian of public funds, the County Treasurer invests all public monies held on deposit in the County treasury. In the case of separate agencies, boards and commissions listed below the County serves as fiscal agent, but are not financially accountable for their operations. Accordingly, the activity of the following districts and agencies is presented as agency funds within the County's financial statements.

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

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

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

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

The Brown County of MR/DD provides Grow, Inc. with staff salaries, transportation, equipment, staff of administer and subversive ranging programs, and other funds necessary for the operation of Grow, Inc. and Grow's sole purpose of proving assistance to the mentally and/or physically handicapped adult of Brown County. Grow is a component unit of the County, however, Grow is not presented as a component unit in these financial statements. Separately issued financial statements can be obtained from Grow, Inc. 9116 Hamer Road, Georgetown, OH 45121.

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

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

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

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

Each entity contributes \$60 annually; other revenue is from USDA grants. Brown County does not have any ongoing financial interest or responsibilities nor can it significantly influence management.

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

Workforce Investment Board – The Workforce Investment Board is a jointly governed organization of representatives from the private and public sectors of Pike, Scioto, Adams, and Brown Counties appointed by the county commissioners from each county. The forty-eight-member board includes twelve members from each participating county and includes fifty-one percent of its members from the private sector. The remaining members include individuals from education, one-stop partners, juvenile justice centers, labor organizations, local public housing and former participants. The Workforce Investment Board typically meets three to four times per year and is responsible for the five year plan, selecting one stop operators, selecting youth providers and coordinating all activities in association with Workforce Improvement Act funds. This board enables the participating counties to have more local control over the programs, which they assist in overseeing. The Workforce Advisory Board received no contributions from the County during 2004.

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

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

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

CORSA has issued certificates of participation in order to provide adequate cash reserves. The certificates are secured by the member counties' obligations to make coverage payments to CORSA. The participating counties have no responsibility for the payment of the certificates. The Certificates were retired on May 1, 1997. The County has equity interest in CORSA. The County's payment for insurance of CORSA in 2004 was \$158,265. Financial statements may be obtained by contacting the County Commissioners Association of Ohio in Columbus, Ohio.

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

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

As the custodian of public funds, the County Treasurer invests all public monies held on deposit in the County treasury. In the case of separate agencies, boards and commissions listed below the County serves as fiscal agent, but are not financially accountable for their operations. Accordingly, the activity of the following districts and agencies is presented as agency funds within the County's financial statements:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Basis of Presentation

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

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

B. Fund Accounting

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

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

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

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

C. Basis of Accounting

The County's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the County's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the County are described in the appropriate section in this note.

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

D. Budgetary Process

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

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

E. Cash and Investments

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

Investments of the cash management pool are included in "Equity in Pooled Cash and Cash Equivalents".

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

During 2004, the County invested in nonnegotiable certificates of deposit, repurchase agreements, federal agency securities, and STAR Ohio. Investments are reported at cost, except for STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2004.

Interest earnings are allocated to County funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2004 were \$250,741, which includes \$224,713 assigned from other County funds.

F. Inventory and Prepaid Items

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

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets

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

H. Interfund Receivables/Payables

The County reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

I. Accumulated Leave

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

J. Employer Contributions to Cost-Sharing Pension Plans

The County recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-Term Obligations

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

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes primarily include activities involving the upkeep of the County's roads and bridges, various mental health services, child support and welfare services, services for the handicapped and mentally retarded, and activities of the County's courts. The County's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Fund Balance Designations and Reserves – The County reserves those portions of fund equity, which are legally segregated for a specific future, use or which are not available for appropriation or expenditure. Fund equity reserves have been established for encumbrances. The County has established a fund equity designation for capital asset replacement.

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Interfund Transactions

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

3. RESTATEMENT OF FUND EQUITY

A prior period adjustment was made to reclassify Health Department funds from Special Revenue fund type to Agency fund type. A prior period adjustment was also made to include the Sales & Use Tax Fund activity into the General Fund. These reclassifications had the following effects on fund equity of the general fund, nonmajor funds and agency funds of the County as they were previously reported. The effects on net assets of governmental activities are also presented.

	General Fund	Other Governmental Funds	Agency Funds	Governmental Activities
Fund Balance December 31, 2003	\$ 806,381	\$ 6,001,007	\$3,361,529	\$ 10,938,464
Reclassification of Fund	591,804	(144,991)	144,991	(144,991)
Adjusted Fund Balance December 31, 2003	<u>\$1,398,185</u>	<u>\$ 5,856,016</u>	<u>\$3,506,520</u>	<u>\$ 10,793,473</u>

4. COMPLIANCE

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

5. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS

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

Protection of the 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 County Treasurer 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.

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

5. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS (Continued)

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

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

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

At year-end, the County had \$5,000 of undeposited cash on hand, which is included on the statement of net assets sheet of the County as part of "Cash Equivalents."

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

5. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS (Continued)

Deposits – Governments Accounting Standards Board (GASB) Statement No. 3 requires that all deposits be classified as to risk. The following categories are most typically used:

- 1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- 2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- 3) Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name).

At December 31, 2004, the carrying amount of the County's deposits was \$5,729,464. The bank balance of \$6,813,417 for deposits is classified by risks follows:

- 1) \$426,271 was insured by the Federal Depository Insurance Corporation.
- 2) \$6,387,146 was uninsured, but was collateralized by pooled securities.

Although the securities serving as collateral were held by the pledging financial institutions' trust department in the County's name and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the County to a successful claim by the Federal Deposit Insurance Corporation.

Investments – Statutory provisions require that the County Treasurer hold all securities acquired by the County or deposit term with a qualified trustee pursuant to Section 135.18 Revised Code. Securities acquired under a repurchase agreement must be deposited with such a trustee unless the counter party is a designated depository of the County for the current period of designation of depositories, in which case the securities may be held in trust by the depository. At the end of each day, the County Treasurer withdraws surplus funds from the account and invests the monies in an overnight repurchase agreement. The County does not purchase any specific security in this manner, but the investment is collateralized by pledged securities held by a third party in the name of the bank.

GASB Statement No.3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires the County to categorize investments to give an indication of the level of risk assumed by the County at year-end. Category 1 includes investments that are insured or registered for which the County holds the securities. Category 2 includes uninsured and unregistered investments for which the securities are held in the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name. STAROhio investments are not categorized since they are not evidenced by securities that exist in physical or book entry form.

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

5. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS (Continued)

	Category 2	Category 3	Unclassified	Carrying Value	Fair Value
Federal Home Loan Mortgage Bonds		\$ 1,250,000		\$ 1,250,000	\$ 1,228,355
Federal Home Loan Bank Bonds		2,299,687		2,299,687	2,274,814
Federal National Mortgage Association Bonds		1,248,101		1,248,101	1,234,455
Repurchase Agreements	4,080,038			4,080,038	4,080,038
STAR Ohio			1,255,260	1,255,260	1,255,260
Total Investments	<u>\$ 4,080,038</u>	<u>\$ 4,797,788</u>	<u>\$ 1,255,260</u>	<u>\$ 10,133,086</u>	<u>\$ 10,072,922</u>

Cash, cash equivalents and investments are reported as "Equity in Pooled Cash and Investments" in the basic financial statements. A reconciliation between the classifications of cash and investments on the basic financial statements and the classifications per GASB Statement No. 3 is as follows:

	Cash & Cash Equivalents	Investments
Basic Financial Statements	\$ 15,867,550	\$ -
Cash on Hand	(5,000)	-
Federal Home Loan Mortgage Bonds	(1,250,000)	1,250,000
Federal Home Loan Bank Bonds	(2,299,687)	2,299,687
Federal National Mortgage Association Bonds	(1,248,101)	1,248,101
Repurchase Agreements	(4,080,038)	4,080,038
STAR Ohio	(1,255,260)	1,255,260
GASB Statement No. 3	<u>\$ 5,729,464</u>	<u>\$ 10,133,086</u>

6. PERMISSIVE SALES TAX

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

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

The State Tax Commissioner certified to the State Auditor the amount of the tax to be returned to the County. The Tax Commissioner's certification must be made within 45 days after the end of each month. The State Auditor then has five days in which to draw the warrant payable to the County.

Permissive sales tax revenue for 2004 amounted to \$3,188,801.

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

7. PROPERTY TAX

Real property taxes are levied against all real, public utility, and tangible personal property located in the County. Property tax revenue received during 2004 for real and public utility property taxes represents collections of 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2004 taxes.

2004 real property taxes are levied after October 1, 2004 on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35% of appraised market value. 2004 real property taxes are collected and intended to finance 2004.

Public utility tangible personal property currently is assessed at varying parentages of true value: public utility real property is assessed at 35% of true value. 2004 public utility property taxes became a lien December 31, 2003 are levied after October 1, 2004 are collected in 2004 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003 on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25% of true value for capital assets and 24% of true value for inventory.

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

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

The Brown County Treasurer collects property tax on behalf of all taxing districts within the County. The Brown County Auditor periodically remits to the taxing districts their portions of the taxes collected.

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

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

The full tax rate applied to real property for the fiscal year ended December 31, 2004 was \$5.80 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$4.77 per \$1,000 of assessed valuation of real property classified as residential/agricultural and \$4.88 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the County by the State of Ohio.

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

7. PROPERTY TAX (Continued)

	2004	2003
Real Property:		
Residential/Agricultural	\$ 468,010,830	\$ 409,833,380
Commercial/Industrial	50,344,890	46,284,980
Total Real Property	\$ 518,355,720	\$ 456,118,360
Tangible Personal Property:		
Public Utilities	\$ 26,690,370	\$ 26,704,190
General	22,912,265	25,261,294
Total Tangible Property	\$ 49,602,635	\$ 51,965,484
Total All Property	\$ 567,958,355	\$ 508,083,844

The County Auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 2003 and the reappraisal was completed for tax year 2000.

8. RISK MANAGEMENT

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

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

Under the CORSA program for general liability, liability, error and omission for public officials, and law enforcement liability, the county has \$5,000,000 of total liability coverage. The limit applies to any one occurrence of loss, with no annual aggregate except for the Error and Omissions for Public Officials and General Liability on Products and Completed Operations Limit, which both have the same per occurrence and annual aggregate limit. For the General Liability (coverage other than products and completed operations limit), Law Enforcement and Auto Liability, there is no annual aggregate. Property damage is on a replacement cost basis.

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

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

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

8. RISK MANAGEMENT (Continued)

Workers' Compensation benefits are provided through the Ohio Bureau of Workers' Compensation. In 2004, the county participated in the County commissioner's Association of Ohio Workers' Compensation Group Rating Program (CCAO). A workers' compensation group purchasing pool (See Note 1). The intent of the CCAO is to achieve lower workers' compensation rates while establishing safe working conditions and environments for the participants. The workers' compensation experience of the participating counties is calculated as one experience and a common premium rate is applied to all counties in the CCAO. Each participant pays its workers' compensation premium to the State based on the rate for the CCAO rather than its individual rate.

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

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

9. DEFINED BENEFIT PENSION PLAN (OPERS)

Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St Columbus, OH 34215-4642 or by calling 614.222.6705.

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

9. DEFINED BENEFIT PENSION PLAN (OPERS) (Continued)

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The County's contribution rate for 2004 was 13.55 percent of covered payroll, 9.55 percent was the portion used to fund pension obligations. The 2004 employer contribution rate for both the law enforcement and public safety division was 16.7 percent of covered payroll, 12.7 percent was the portion used to fund pension obligations. The Ohio Revised Code provides statutory authority for member and employer contributions.

The County's required contributions for pension obligations to OPERS for the years ended December 31, 2004, 2003, and 2002 were \$796,836, \$781,074, and \$753,041 respectively, 100% has been contributed for the years 2004, 2003, and 2002.

10. POST EMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides post retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and 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 another Post employment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent of covered payroll was the portion that was used to fund health care.

Benefits are advanced-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31 2003, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees). Health Care premiums were assumed to increase 4 percent annually.

All investments are carried a market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized marked appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 that were used to fund post employment benefits were \$456,986. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004 were \$10.5 billion. The actuarially accrued liability and the unfunded actuarially accrued liability were \$26.9 billion and \$16.4 billion, respectively.

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

10. POST EMPLOYMENT BENEFITS (Continued)

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2004, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the resent Plan. The benefit recipient will be free to select the option that best meets their needs Recipients will fund health care costs in excess of their monthly health care benefits. The plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expense, much like a Medical Spending Account.

11. OTHER EMPLOYEE BENEFITS

Insurance Benefits

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

12. CONTINGENT LIABILITIES

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

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

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

13. LONG-TERM DEBT

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

	Principal Outstanding 12/31/03	Additions	Reductions	Principal Outstanding 12/31/04	Amounts Due In One Year
Governmental Activities:					
General Obligation Bonds:					
Human Services Building Bonds	\$ 300,000		\$ 55,000	\$ 245,000	\$ 60,000
Brown County Public Library District Bonds	2,280,000		125,000	2,155,000	\$ 135,000
General Hospital Project Bonds	935,000		455,000	480,000	\$ 480,000
Mental Health Project Bonds	0	\$ 250,000	0	250,000	\$ 5,362
Total General Obligation Bonds	<u>3,515,000</u>	<u>250,000</u>	<u>635,000</u>	<u>3,130,000</u>	<u>\$ 680,362</u>
Other Long-Term Obligations:					
Forgivable Debt (Mental Health)	<u>272,708</u>		<u>8,750</u>	<u>263,958</u>	<u>\$ 8,750</u>
Total Other Long-Term Obligations	<u>272,708</u>		<u>8,750</u>	<u>263,958</u>	<u>\$ 8,750</u>
Total General and Other:					
Long-Term Obligations	<u>\$ 3,787,708</u>	<u>\$ 250,000</u>	<u>\$ 643,750</u>	<u>\$ 3,393,958</u>	<u>\$ 689,112</u>

The County's total legal debt margin was \$5,193,687 with an unvoted debt margin of \$515,463.

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

The Hospital Revenue and Improvement Bonds will be paid from Hospital revenues. The Mental Health Project Bonds will be paid from Mental Health revenues.

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

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

13. LONG-TERM DEBT (Continued)

Years Ended December 31,	General Obligations		Other Long-Term Obligations	
	Principal	Interest	Principal	Interest
2005	\$ 680,362	\$ 174,496	\$ 8,750	
2006	216,191	139,252	8,750	
2007	221,844	128,842	8,750	
2008	222,535	118,109	8,750	
2009	178,266	106,633	8,750	
2010-2014	1,033,878	363,118	43,750	
2015-2019	564,726	62,470	43,750	
2020-2024	12,198	351	43,750	
2025-2029	-		43,750	
2030-2034	-		43,750	
2035-2039	-		1,458	
Total	<u>\$ 3,130,000</u>	<u>\$ 1,093,271</u>	<u>\$ 263,958</u>	<u>\$ -</u>

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

14. INTERFUND TRANSFERS

Interfund cash transfers for the year ended December 31, 2004, were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
MAJOR FUNDS:		
GENERAL FUND:		
Common Pleas Mediation Fees	\$ -	\$ 50,000
Prosecutor Victims Assistance	-	13,920
Sewer & Water District		20,000
Total General Fund	<u>-</u>	<u>83,920</u>
NON-MAJOR FUNDS:		
SPECIAL REVENUE FUNDS:		
Common Pleas Mediation Fees		
General Fund	50,000	
Mediation Grant	515	
Mediation Grant		
Common Pleas Medication Fees		515
Sewer and Water District		
Sales and Use	20,000	
Prosecutor Victims Assistance		
General Fund	13,920	
MH/Medicaid		
MH/408		132,461
MH/Line Item #408		
MH/Medicaid	132,461	
Total Special Revenue Funds	<u>216,896</u>	<u>132,976</u>
GRAND TOTAL	<u>\$ 216,896</u>	<u>\$ 216,896</u>

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

Accumulated unpaid vacation, personal, compensatory time and sick leave are not accrued under the cash basis of accounting described in Note 2. All leave will either be absorbed by time off from work, or within certain limitation, be paid to the employees. The liability is not recorded on the financial statements.

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

16. BROWN COUNTY GENERAL HOSPITAL

A. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brown County General Hospital (Hospital), located in Brown County, Ohio is a county owned, tax-exempt Ohio not-for-profit corporation which operates an acute care hospital facility providing inpatient and outpatient services primarily to patients in Brown County. As the Hospital is not legally separate from the County, it is included along with the financial statements of the County as stand alone statements. The Hospital is operated under the provisions of the Ohio Revised Code.

The Hospital's reporting entity is composed of the Hospital, component units, and other organizations that are included to ensure that the financial statements are not misleading.

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

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

Method of Consolidation

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

Basis of Accounting

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

Accounting Standards

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

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

16. BROWN COUNTY GENERAL HOSPITAL (Continued)

Estimates

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

Cash and Cash Equivalents

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

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

Assets Whose Use is Limited

Assets whose use is limited primarily consists of certificates of deposit, money market accounts and United States Treasury notes. Certain amounts have been designated by the Board of Trustees for future property, plant and equipment renewal and replacement. In addition, certain amounts have been set aside in accordance with agreements with Brown County relating to the bond issuance.

Supplies Inventory

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

Property, Plant and Equipment

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

Land Improvements	5 - 20 Years
Buildings and Building Improvements	5 - 40 Years
Equipment	2 - 20 Years
Leased Equipment	3 - 15 Years

It is the Hospital's policy to capitalize donations of property, plant and equipment greater than \$500 at their fair market value at the date of the donation. These donations are recorded directly to the Hospital's fund balance. For the years 2004 and 2003, these types of donations amounted to \$113,512 and \$160,958, respectively, and are non-cash financing activities.

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 (Continued)

16. BROWN COUNTY GENERAL HOSPITAL (Continued)

Lease Agreements

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

Net Patient Service Revenues

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

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

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

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

Charity Care

Hospital patients who meet certain criteria under its charity care policy are provided care without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. Hospital services at normal established rates totaled approximately \$1,150,000 and \$910,000 for patients meeting the charity care criteria for the years ended December 31, 2004 and 2003, respectively.

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

16. BROWN COUNTY GENERAL HOSPITAL (Continued)

Contributions

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

Gifts and Donated Services

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

New Pronouncement

In 2003, the Hospital implemented Statement of Governmental Accounting Standards Board (Statement) No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", as amended by Statement No.'s 37 and 38. These statements established new financial reporting requirements for state and local governments. As a result, certain prior year amounts have been reclassified to conform to the current year's presentation.

Risk Management

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

B. DEPOSITS AND INVESTMENTS

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement No. 3.

Deposits

The carrying amount of the Hospital's deposits was \$1,379,463 and \$4,543,773 as of December 31, 2004 and 2003, respectively. The bank balance of the Hospital's deposits was \$2,314,055 and \$5,024,609 as of December 31, 2004 and 2003, respectively. Of the bank balance:

1. \$500,000 was covered by federal depository insurance as of December 31, 2004 and 2003.
2. \$1,814,055 and \$4,524,609 were collateralized with pooled securities held by the financial institutions, but not in the Hospital's name, as of December 31, 2004 and 2003, respectively.

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

16. BROWN COUNTY GENERAL HOSPITAL (Continued)

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

In addition to those patients unable to pay, there are patients receiving services who will not pay. The Hospital has established credit and collection policies to hold this cost to a minimum. Provisions for bad debts are recorded as operating expenses on the financial statements.

Estimated third-party settlements for the Medicare and Medicaid programs reflect differences between interim reimbursement and reimbursement as determined by reports filed after the end of each year. Such third-party settlements reflect differences owed to or by the Hospital.

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

	<u>2004</u>	<u>2003</u>
Federal Government: Medicare	\$ 1,400,724	\$ 1,728,742
State of Ohio: Medicaid, Workers Compensation	452,196	1,106,208
Commercial Insurance, Self-Pay and Other	<u>3,219,646</u>	<u>1,824,731</u>
Total	<u>\$ 5,072,566</u>	<u>\$ 4,659,681</u>

D. NOTES, CONTRACTS AND GRANTS RECEIVABLE

The Hospital has various receivables that include notes, contracts and grants. The following is a description of those receivables:

<u>Notes Receivable</u>	<u>2004</u>	<u>2003</u>
The Hospital advances money to physicians for tuition payments. The agreements are stipulated in the physicians' employment contracts. A portion of the advances are earned by the physicians each month. If the physician leaves the Hospital prior to the date stated in the contract, the unearned portion is due to the hospital. No interest is charged on these notes.	\$ 11,667	\$ 48,480

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

16. BROWN COUNTY GENERAL HOSPITAL (Continued)

Contracts Receivable

The Hospital advances wages and other practice expenses to new physicians who join the Hospital. The contracts state that if the physician remains employed at the Hospital for four years, these advances will be forgiven. If the physician leaves prior to four years of employment, these advances are due to the Hospital. After two years of employment with the Hospital, 1/24th of the amount advanced is forgiven monthly until the end of 24 months or until termination. Interest accrues on the principal balance of the advances annually at 1% plus the prime rate (5.25% and 4.00% respectively at December 31, 2004 and 2003.) Accrued interest is added to the principal balance after 24 months of employment. The receivable represents advances less amounts forgiven for two physicians who have not met their four year tenure requirement with the Hospital. The obligation to repay is secured by the physicians' practice accounts receivable.

\$ 790,320 \$ 787,195

Subtotal

\$ 801,987 \$ 835,675

Grant Receivable (Restricted)

The Hospital was awarded a grant in 2003 from the US Department of Housing and Urban Development that is restricted for construction and equipment.

\$ 246,498 \$ 390,000

Total Notes, Contracts and Grants Receivable

\$ 1,048,485 \$ 1,225,675

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

16. BROWN COUNTY GENERAL HOSPITAL (Continued)

E. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31:

<u>Business-Type Activities</u>	Balance January 1, 2004	Additions	Transfers/ Disposals	Balance December 31, 2004
Property, Plant and Equipment Not Being Depreciated				
Construction in Progress	\$ 5,846	\$ 450,770	\$ -	\$ 456,616
 Depreciable Property, Plant And Equipment				
Land and Land Improvements	1,250,990	840,443	-	2,091,433
Buildings and Building Improvements	10,000,225	445,862	-	10,446,087
Fixed Equipment	8,511,147	12,198	-	8,523,345
Major Movable Equipment	8,473,648	1,208,528	63,418	9,618,758
Vehicles	186,373	35,139	14,158	207,354
Total Property, Plant and Equipment at Historical Cost	<u>28,428,229</u>	<u>2,992,940</u>	<u>77,576</u>	<u>31,343,593</u>
 Less Accumulated Depreciation				
Land and Land Improvements	536,515	56,568	-	593,083
Buildings and Building Improvements	5,899,217	512,052	-	6,411,269
Fixed Equipment	4,746,603	394,263	-	5,140,866
Major Movable Equipment	5,115,958	786,871	59,857	5,842,972
Vehicles	186,373	-	9,294	177,079
Total Accumulated Depreciation	<u>16,484,666</u>	<u>1,749,754</u>	<u>69,151</u>	<u>18,165,269</u>
Business-Type Activities				
Property, Plant and Equipment - Net	<u>\$11,943,563</u>	<u>\$ 1,243,186</u>	<u>\$ 8,425</u>	<u>\$13,178,324</u>

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

16. BROWN COUNTY GENERAL HOSPITAL (Continued)

F. LONG-TERM DEBT

The following is a summary of the Hospital's long-term debt transactions for the year ended December 31, 2004:

	<u>Bonds and Notes Payable</u>	<u>Capital Lease Obligations</u>
Debt Outstanding January 1, 2004	\$1,135,000	\$ 202,182
Additions of New Debt	1,000,000	-
Repayments	(1,355,000)	(49,439)
Debt Outstanding December 31, 2004	<u>\$ 780,000</u>	<u>\$ 152,743</u>
Amount Expected to be Paid Within One Year	<u>\$ 780,000</u>	<u>\$ 56,698</u>

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

	<u>2004</u>	<u>2003</u>
Hospital improvement bonds issued in 1993, collateralized by a pledge of all revenues, investment income, accounts receivable, contracts and contract rights, charging interest from 2.8% to 5.3% and maturing in 2005.	\$ 480,000	\$ 935,000
Hospital facilities revenue bonds issued in 1995, collateralized by a pledge of all revenues, investment income, accounts receivable, contracts, instruments and supplies inventory, charging interest at 5.5% and maturing in 2005.	-	200,000
Hospital facilities note payable issued in 2004, collateralized by a pledge of all revenues, investment income, accounts receivable, contracts, instruments, and supplies inventory, charging interest at 2.75% and maturing in June, 2005	300,000	
Capital lease obligations, at various effective interest rates between 6.5% and 12.6% collateralized by leased equipment and maturing at various dates through 2007.	<u>152,743</u>	<u>202,182</u>
	932,743	1,337,182
Less Current Portion	<u>836,698</u>	<u>609,051</u>
	<u>\$ 96,045</u>	<u>\$ 728,131</u>

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

16. BROWN COUNTY GENERAL HOSPITAL (Continued)

Under the terms of the improvement bond agreement, the Hospital is required by the County to maintain funds on deposit equal to the maximum annual debt service on the bonds. This amount is included with Assets Whose Use Is Limited on the consolidated balance sheets.

Under the facilities revenue bond agreement, the Hospital is required to maintain a current ratio of at least 1.5 to 1.0 and other financial ratios, none of which were in violation as of December 31, 2004 and 2003.

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

<u>Year Ending December 31,</u>	<u>Long-Term Debt</u>	<u>Capital Lease Obligations</u>
2005	\$ 780,000	63,336
2006	-	63,337
2007	-	<u>36,946</u>
	<u>\$ 780,000</u>	163,619
Less Amount Representing Interest		<u>(10,876)</u>
Present Value of Minimum Lease Payments		152,743
Less Current Portion		<u>56,698</u>
Non-Current Portion		<u>\$ 96,045</u>

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

The book value of assets under capital lease were approximately \$393,000 at December 31, 2004 and 2003 (with accumulated depreciation of approximately \$393,000 and \$333,000 at December 31, 2004 and 2003, respectively), and are included in property, plant and equipment in the accompanying consolidated statements of net assets.

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

16. BROWN COUNTY GENERAL HOSPITAL (Continued)

G. NET PATIENT SERVICE REVENUES

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

	<u>2004</u>	<u>2003</u>
Gross Patient Service Charges at Established Rates (Including Charity Care)	\$ 57,647,156	\$50,691,993
Less		
Contractual Allowances	(21,405,548)	(18,424,740)
Charity Care	<u>(1,146,618)</u>	<u>(913,235)</u>
Net Patient Service Revenue	<u>\$ 35,094,990</u>	<u>\$31,354,018</u>

H. OPERATING LEASES

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

Minimum future payments for these leases are as follows:

2005	\$ 74,699
2006	51,374
2007	<u>12,000</u>
Total	<u>\$138,073</u>

Lease expense for the years ended December 31, 2004 and 2003 was \$249,535 and \$158,370, respectively.

I. RETIREMENT PLAN

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

The OPERS plan is a cost sharing, multiple employer, defined benefit, public employee retirement plan. It provides retirement, disability and death benefits to plan members and beneficiaries. The OPERS plan also provides health care benefits to vested retirees. Benefits provided under the plan are established by State Statute.

The plan issues a separate, publicly available financial report that includes a balance sheet and required supplementary information. This report may be obtained by contacting: Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 42315, Telephone (614) 222-6705. The Ohio Revised Code provides OPERS statutory authority for employer and employee contributions. The required, actuarially-determined contribution rates for the Hospital and for the employee are 13.55% and 8.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years are as follows:

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

16. BROWN COUNTY GENERAL HOSPITAL (Continued)

<u>Year</u>	<u>Contribution</u>
2004	\$ 1,969,265
2003	1,599,188
2002	1,468,007

J. OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in the previous note, OPERS also provides postretirement health care coverage, commonly referred to as OPEB (Other Post-Employment Benefits). The Ohio Revised Code provides the authority for public employers to fund postretirement health care through their contributions. The following information is based on data obtained from PERS for the periods ended December 31, 2004 and 2003.

OPERS provides post-retirement health care coverage to age and service retirants and dependents with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The 2004 employer rate for employees' coverage by PERS was 13.55%, of which 4.0% was used to fund health care. The total Hospital contribution used to fund health care was \$581,333 and \$599,320 for the years ended December 31, 2004 and 2003 respectively.

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

OPEB are advanced-funded on an actuarially-determined basis. The number of active contributing participants at December 31, 2004 was 369,885. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2003 was approximately \$10,500,000,000. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26,900,000,000 and \$16,400,000,000, respectively, as of December 31, 2003. The actuarial assumptions used to calculate these amounts are as follows:

- Funding Method – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.
- Assets Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.
- Investment Return – The investment assumption rate for 2003 was 8.0%.
- Active Employee Total Payroll – An annual increase of 4.0% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%.
- Health Care – Health care costs were assumed to increase 4.0% annually.

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

16. BROWN COUNTY GENERAL HOSPITAL (Continued)

L. PROFESSIONAL LIABILITY INSURANCE

The Hospital maintains malpractice insurance coverage on a per occurrence basis with Ohio Hospital Insurance Company. Professional liability claims are currently pending against the Hospital. No provision for loss has been made in the accompanying financial statements because management is of the opinion that the ultimate liability if any, resulting from the lawsuits would be adequately covered by insurance and would not adversely affect the financial position of the Hospital.

M. CONCENTRATIONS

Medicare and Medicaid accounted for approximately 60.81% and 60.84% of the Hospital's gross patient service revenues during 2004 and 2003, respectively.

BROWN COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed Through the Ohio Department of Mental Health:</i>			
Block Grants for Prevention and Treatment of Substance Abuse Alcohol, Drug and Mental Health Services Block Grant	N/A	93.959	\$ 140,108
	N/A	93.958	36,927
<i>Passed Through the Ohio Department of Mental Health:</i>			
Social Services Block Grant - Title XX	N/A	93.667	32,343
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>			
Social Services Block Grant - Title XX	N/A	93.667	31,309
Total Social Services Block Grant (Title XX)			<u>63,652</u>
<i>Passed Through the Ohio Department of Alcohol and Drug Addiction Services</i>			
Medical Assistance Program - Title XIX	N/A	93.778	735,938
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>			
Medical Assistance Program - Title XIX	N/A	93.778	<u>405,308</u>
Total U.S. Department of Health and Human Services			1,381,933
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through the Ohio Department of Development:</i>			
Community Development Block Grants	B-F-04-008-1	14.228	712
Community Development Block Grants	B-F-03-008-1	14.228	200,512
Community Development Block Grants	B-F-02-008-1	14.228	9,876
Community Development Block Grants	B-N-02-008-1	14.228	1,589
Community Development Block Grants	B-N-02-008-1	14.228	7,993
Community Development Block Grants	B-W-03-008-1	14.228	<u>210,000</u>
Total U.S. Department of Housing and Urban Development			430,682

(Continued)

BROWN COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF JUSTICE			
<i>Passed Through the Ohio Attorney General:</i>			
Crime Victim Assistance	2004VADSCE461	16.575	32,299
Crime Victim Assistance	2005VAGENE308	16.575	26,995
Byrne Formula Grant Program	2003-DG-F01-7200	16.579	26,943
Byrne Formula Grant Program	2001-DG-G01-7066	16.579	<u>36,259</u>
Total U.S. Department of Justice			122,496
FEDERAL AGENCY DEPARTMENT OF HOMELAND SECURITY			
<i>Passed Through the Ohio Emergency Management Agency</i>			
State Homeland Security Grant Program	S03-JE02-08-008	16.007	243,306
Pre-Disaster Mitigation Planning Grant	S04-FM03-08-0256	97.047	11,691
Emergency Management Performance Grants	S04-FE04-08-0453	97.042	8,073
FEMA- Community Emergency Response Team	S04-HCE03-08-0325	97.054	<u>7,140</u>
Total Federal Agency Department of Homeland Security			270,210
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through the Federal Aviation Administration</i>			
Direct from Federal Government			
Airport Improvement Program	N/A	20.106	247,886
<i>Passed Through the Ohio Department of Transportation</i>			
Highway Planning and Construction	N/A	20.205	<u>285,079</u>
Total U.S. Department of Transportation			532,965
U.S. DEPARTMENT OF EDUCATION			
<i>Passed through the Ohio Department of Health</i>			
Special Education Grants for Infants and Families with Disabilities	08-1-002-1-EG-04	84.181	<u>36,459</u>
Total U.S. Department of Education			36,459
U.S. GENERAL SERVICES ADMINISTRATION			
<i>Passed through the Ohio Secretary of State</i>			
Help America Vote Act of 2002	04-SOS-HAVA-08	39.011	<u>6,354</u>
Total General Services Administration			6,354
TOTAL FEDERAL ASSISTANCE			<u><u>\$ 2,781,099</u></u>

BROWN COUNTY

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - SUBRECIPIENTS

The County passes-through certain Federal assistance received from the Ohio Department of Mental Health and the Ohio Department of Drug and Alcohol and Drug Addiction Services to subrecipients. As described in Note A, the county records expenditures of Federal awards to subrecipients when paid in cash.

The subrecipient agencies have certain compliance responsibilities related to administering these Federal programs. Under Federal Circular A-133, the County is responsible for monitoring subrecipients to help assure the Federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, and the performance goals are achieved.

NOTE C - MATCHING REQUIREMENTS

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

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Auditor of State Betty Montgomery

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

Brown County
800 Mount Orab Pike
Georgetown, Ohio 45121

To the Board of County Commissioners:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brown County, Ohio (the County), as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements, and have issued our report thereon dated February 28, 2006, wherein, we noted the County, except for the Brown County General Hospital, (the Hospital), the County's enterprise fund, uses a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, and wherein we noted the County's modified cash basis financial statements do not include amounts related to the Hospital in its fund statements or its entity wide statements. Accordingly, the County's financial statements do not present fairly the financial position of the proprietary funds or business type activities for the County as of December 31, 2004 or the changes in its modified cash basis financial position for the year then ended. We did not audit the financial statements of the Hospital as of and for the years ended December 31, 2004 and 2003, which are presented as stand-alone statements of the County. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Hospital is based on the report of other auditors. We also noted that the County financial statements do not include financial data from legally separate component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in the Comptroller General of the United States' Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Other auditors performed procedures to obtain an understanding of the internal control of the Hospital. There were two comments related to the Hospital, which were considered reportable to the County. In a separate letter to the County's management dated February 28, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the County's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001.

Other auditors performed tests of noncompliance related to the Hospital and the results of those tests are reported separately in the audit report of the Hospital. There were two instances of noncompliance related to the Hospital which were considered reportable to the County.

In a separate letter to the County's management dated February 28, 2006, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

February 28, 2006



Auditor of State Betty Montgomery

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

Brown County
800 Mount Orab Pike
Georgetown, Ohio 45107

To the Board of County Commissioners:

Compliance

We have audited the compliance of Brown County, Ohio (the County), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended December 31, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the County's major federal program(s). The County's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Brown County complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2004. In a separate letter to the County's management dated February 28, 2006, we reported a matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

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 timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 28, 2006

BROWN COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2004

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	14.228 Community Development Block Grant 93.778 Medical Assistance Program Title XIX
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2004-001

Noncompliance Citation

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

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

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

BROWN COUNTY

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Finding repaid under audit – Overpayment of Probate/Juvenile Court Judge	Yes	
2003-002	Ohio Administrative Code, Section 117-2-03(B) County did not prepare its annual financial report in accordance with GAAP.	No	Repeated as Finding # 2004-001



**Auditor of State
Betty Montgomery**

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FINANCIAL CONDITION

BROWN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 17, 2006**