



**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 fund, and the aggregate remaining fund information of Brown County, Ohio (the County), as of and for the year ended December 31, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Brown County General Hospital. Those financial statements were audited by other auditors whose report 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Ohio Administrative Code Section 117-02-03 (B) requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. However as discussed in Note 1, with the exception of the Brown County General Hospital financial statements, the accompanying financial statements and notes follow the modified basis of cash receipts and disbursements. This is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

The Brown County General Hospital financial statements are presented as stand alone statements in accordance with generally accepted accounting principles.

The financial statements referred to above include only the primary government of Brown County, which consists of all funds, departments, and offices that comprise the County's legal entity. The financial statements do not include financial data for the County's legally separate component units, which accounting principles generally accepted in the United States of America, as applied to the County's modified cash basis of accounting, requires to be reported with the financial data of the County's primary government. As a result, the primary government financial statements do not purport to, and do not present fairly the modified cash basis financial position of the reporting entity of the County as of December 31, 2003 and the changes in its modified cash basis financial position, for the year ended in conformity with the basis of accounting described in Note 1.

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In our opinion, based on our audit and the report of other auditors, 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 fund, and the aggregate remaining fund information for the primary government of Brown County, Ohio, as of December 31, 2003, and the respective changes in modified cash basis financial position and the respective budgetary comparison for the General, Sales and Use Tax, Job and Family Services, Auto and Gas, and Mental Retardation/Developmental Disabilities Funds, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We conducted our audit to form opinions on the financial statements that collectively comprise the County's basic financial statements. U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* requires presenting a federal awards expenditure schedule 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.

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



Betty Montgomery
Auditor of State

December 22, 2004

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2003
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, 2003. 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 decreased \$5,476,183.
- At the close of the current fiscal year, Brown County's governmental funds reported a combined ending fund balance of \$10,938,464. Approximately 84%, \$9,148,470 is available for spending at the government's discretion.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Brown County's Modified Cash Financial Statements. Brown County's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of Brown County's finances.

The *statement of net assets-modified cash basis* presents information on all of Brown County's modified cash assets, presented as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the cash and investments of Brown County are improving or deteriorating.

The *statement of activities-modified cash basis* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs.

Both of the government-wide financial statements identify functions of Brown County that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of Brown County include general government, judicial, public safety, public works, health, human services, and economic development.

The government-wide financial statements can be found on pages 11-12 of the report.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2003
Unaudited
(Continued)

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements.

Brown County maintains many individual governmental funds. Information is presented separately in the governmental fund *Statement of Receipts, Disbursements and Changes in Cash Basis Fund Balances* for the General, County Board of Mental Retardation and Developmental Disabilities, Job and Family Services, Auto & Gas, and the Sales & Use Tax funds, which are considered to be major funds. Data from the other governmental funds are combined into single, aggregated presentation.

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

The cash basis governmental fund financial statements can be found on pages 13-14 of this report.

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

The basic fiduciary fund financial statement can be found on page 15 of this report.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-55 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 first year for Brown County in implementing a new standard. 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 first year of implementing the new standard, comparative data is not available. In future years comparative data will be presented.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2003
Unaudited
(Continued)

Brown County's Net Assets – Modified Cash Basis

	Governmental Activities
Equity in Pooled Cash and Investments	<u>\$10,938,464</u>
Total Assets	<u>\$10,938,464</u>
Restricted for:	
Special Revenue	\$ 9,644,065
Capital Projects	72,895
Debt Service	415,123
Unrestricted	<u>806,381</u>
Total Net Assets	<u>\$ 10,938,464</u>

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.

Governmental activities. Governmental activities decreased Brown County's net cash assets by \$ 5,476,183. However strict budget restraints have been put in place to ensure the financial future of the county.

Program Receipts:	
Charges for Services	\$3,688,929
Operating Grants and Contributions	11,781,540
Capital Grants, Contributions, and Interest	170,336
General Receipts:	
Property Taxes	2,500,974
Sales Taxes	2,963,922
Unrestricted Grants	231,952
Other	<u>2,200,931</u>
Total Receipts	<u>23,538,584</u>
Program Disbursements:	
General Government:	
Legislative and Executive	4,867,265
Judicial	1,728,700
Public Safety	3,413,642
Public Works	8,788,113
Health	4,440,330
Human Services	4,536,415
Economic Development and Assistance	269,370
Debt Service:	
Principal Retirement	728,799
Interest and Fiscal Charges	242,133
Total Expenditures	<u>29,014,767</u>
Decrease in Net Assets	<u>\$5,476,183</u>

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2003
Unaudited
(Continued)

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 \$10,938,464, a decrease of 35% in comparison with the prior year. Approximately \$9,148,470 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 \$657,171, with receipts of \$5,068,383 and disbursements of \$5,683,536. 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 county-wide budget cuts will be implemented as needed. The general fund balance decreased by \$494,482 during the current fiscal year.

The Sales and Use Tax fund reports monies received from 1% sales tax collected in the county. The Sales and Use Tax fund has received \$2,371,331 in sales tax and disbursed \$2,721,076 for legislative and executive expenditures.

The Job and Family Services fund reported a net change in fund balance of (\$86,042). This resulted from disbursements made on reimbursable program costs. The Ohio Department of Jobs and Family Services reimbursed the deficit amount to the County in 2004.

The Auto and Gas fund received \$3,720,544 from state gasoline tax and motor vehicle registration fees. This fund reported a net change in fund balance of (\$3,936,200) as a result of public works disbursements of \$8,264,877 for maintenance and repair of roads and bridges.

The Mental Retardation/Developmental Disabilities fund reported a net change in fund balance of (\$151,046). This resulted from disbursements made on reimbursable program costs.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2003
Unaudited
(Continued)

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.

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, 2003, General Fund disbursements were \$138,592 less than final appropriations, while actual resources available for appropriation were \$143,034 above the final budgeted amount.

Economic Factors and Next Year's Budgets and Rates

- . The Adult Detention Center Bonds were retired in 2003.
- . 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 two years has remained basically the same.
- . The county will continue to be involved in a major building project that will increase expenditures.

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

County Debt Administration

At the end of 2003, the County had general obligation debt outstanding of \$3,515,000, backed by the full faith and credit of the County. The County's general obligation debt decreased by \$710,000 or 17% during the 2003 fiscal year.

State statute limits the total amount of debt a governmental entity may issue. The current unvoted debt margin for the County is \$1,150,715. 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 11 of this report. Interest and fiscal charges for 2003, were \$242,133 or 1% of total governmental activities.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2003
Unaudited
(Continued)

Brown County General Hospital

Brown County General Hospital (Hospital) located in Georgetown, Ohio is a county-owned, tax exempt Ohio not-for-profit corporation that operates an acute care hospital facility providing quality inpatient and outpatient services to residents of Brown County and surrounding areas. The Hospital financial statements are presented as stand alone statements. The Hospital is operated under the provisions of the Ohio Revised Code. The reporting entity is comprised of the Hospital and the Brown County General Hospital Foundation, which provides services exclusively for the benefit of the Hospital.

In addition to inpatient services, the Hospital provides outpatient services including diagnostic and lab testing; emergency, surgery and home care services; rehabilitation therapies; and a strong network of primary care clinics throughout the Hospital's service area. The following is a partial summary of activities for 2003:

	<u>2003</u>	<u>% Increase</u>
Admissions	1,838	11.1%
Lab Tests	104,271	7.4%
Diagnostic Imaging Procedures	25,839	9.3%
Surgeries	2,266	12.1%
Home Care Visits	12,116	6.5%
Emergency Room Visits	14,747	7.7%

The following is an analysis and discussion of specific Hospital financial information for 2003 and 2002.

Operating Revenues

Operating Revenues for the year ended December 31, 2003 were \$31,754,413. Revenues grew by \$4,523,792, which was a 16.6% increase over the prior year. Both inpatient and outpatient business contributed to this growth.

Operating Expenses

Operating Expenses for the year ended December 31, 2003 were \$30,849,627. Expenses increased by \$3,676,596, which was 13.5% increase over the prior year. The increase can be attributed to salary and benefit costs coupled with increases in supplies, purchased services and physician fee expense. The majority of the expense increase is directly related to the volume growth that occurred.

Operating Income

Operating Income for 2003 was \$904,786, an increase of \$847,196 over 2002. Volume growth coupled with a slowing of the expense growth rate led to the improvement in operations.

Non-Operating Revenues and (Expenses)

Non-Operating (Expense) Revenue for 2003 was (\$106,460). A write down of a physician receivable and related settlement was positively offset by \$390,000 of grant revenue and investment income.

BROWN COUNTY
Management's Discussion and Analysis
For The Year Ended December 31, 2003
Unaudited
(Continued)

Excess of Revenues over Expenses

Excess of Revenues over Expenses for 2003 was \$798,326, an increase of \$476,777 over 2002. The improvement in operations was partially offset by the non-operating loss.

Total Assets

Assets increased by \$987,222 to \$23,683,436. Accounts Receivable increased \$1,276,137 due to the increase in business volume and an accumulation of unbilled accounts receivable at year-end. Cash and cash equivalents decreased by \$352,480.

Capital Assets

Capital assets consist primarily of land, land improvements, buildings and building improvements, and equipment. Approximately \$1,500,000 of additions were purchased in 2003 and depreciation expense was approximately \$1,700,000.

Total Liabilities

Total liabilities increased \$27,938 in 2003 to \$4,978,788. The composition of this change was a timing issue related to payroll liabilities and other accounts payable and accrued expenses.

Long-Term Debt

Long-term debt consists primarily of bonds, capital lease obligations and compensated absences. Approximately \$600,000 of long-term debt was paid down in 2003.

Total Net Assets

Total Net Assets increased by \$959,284 in 2003 to \$18,704,648. The majority of this change was a result of the net income for 2003. Overall, the Hospital's financial position has improved over the last year.

Cash Flow

Cash flows from operating activities were approximately \$1,900,000. This consisted primarily of cash received from patients and cash payments to employees and suppliers for goods and services. Other areas that impacted cash flow were acquisitions of property, plant and equipment, principal payments on long-term debt and the increase in accounts payable and accrued expenses.

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.

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BROWN COUNTY
Statement of Net Assets-Modified Cash Basis
December 31, 2003

ASSETS	<u>Governmental Activities</u>
Equity in Pooled Cash and Investments	\$ 10,938,464
TOTAL ASSETS	<u>\$ 10,938,464</u>
NET ASSETS	
Restricted for:	
Special Revenue	\$ 9,644,065
Capital Projects	72,895
Debt Service	415,123
Unrestricted	<u>806,381</u>
TOTAL NET ASSETS	<u>\$ 10,938,464</u>

See accompanying notes to the financial statements

BROWN COUNTY, OHIO
Statement of Activities - Modified Cash Basis
for the Year Ending December 31, 2003

	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:					
Executive and Legislative	\$ (4,867,265)	\$ 852,623	\$ 258,742	\$ -	\$ (3,755,900)
Judicial	(1,728,700)	1,284,990	176,287	-	(267,423)
Public Safety	(3,413,642)	615,317	667,854	82,939	(2,047,532)
Public Works	(8,788,113)	71,159	3,756,203	-	(4,960,751)
Health	(4,440,330)	723,726	3,092,466	87,397	(536,741)
Human Services	(4,536,415)	126,742	3,572,988	-	(836,685)
Economic Development and Assistance	(269,370)	14,372	257,000	-	2,002
Debt Service:					
Principal Retirement	(728,799)	-	-	-	(728,799)
Interest and Fiscal Charges	(242,133)	-	-	-	(242,133)
Total Governmental Activities	\$ (29,014,767)	\$ 3,688,929	\$ 11,781,540	\$ 170,336	\$ (13,373,962)
General Receipts:					
Taxes					
Property					2,500,974
Sales					2,963,922
State Local Government					231,952
Earnings on Investments					318,678
Miscellaneous					1,134,556
Other Financing Sources/Uses (Net)					<u>747,697</u>
Total General Receipts					<u>7,897,779</u>
(Decrease) in net assets					(5,476,183)
Net assets - beginning of year					<u>16,414,647</u>
Net assets - end of year					<u><u>\$ 10,938,464</u></u>

See accompanying notes to the financial statements

BROWN COUNTY OHIO
Balance Sheet Modified Cash Basis - Governmental Funds
December 31, 2003

	General Fund	Sales & Use Fund	Job & Family Svs. Fund	Auto & Gas Fund	MRDD Funds	Other Governmental Funds	Total Governmental Funds
ASSETS							
Equity in Pooled Cash and Investments	\$806,381	\$591,804	\$182,278	\$2,860,838	\$496,156	\$6,001,007	\$10,938,464
TOTAL ASSETS	\$806,381	\$591,804	\$182,278	\$2,860,838	\$496,156	\$6,001,007	\$10,938,464
FUND BALANCE							
Reserved for Encumbrances	149,210	124,188	103,461	814,245	32,146	5,434,263	6,657,513
Unreserved, Undesignated	657,171	467,616	78,817	2,046,593	464,010	566,744	4,280,951
TOTAL FUND BALANCE	\$806,381	\$591,804	\$182,278	\$2,860,838	\$496,156	\$6,001,007	\$10,938,464

See accompanying notes to the financial statements

BROWN COUNTY OHIO
Statement of Modified Cash Basis Assets and Fund Balances and
Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances - Governmental Funds
As of and For the Year Ended December 31, 2003

	General Fund	Sales & Use Fund	Job & Family Svs. Fund	Auto & Gas Fund	MRDD Funds	Other Governmental Funds	Total Governmental Funds
RECEIPTS							
Taxes							
Property	\$ 1,715,654	\$ -	\$ -	\$ -	\$ 541,387	\$ 243,933	\$ 2,500,974
Sales (Permissive Sales Tax)	-	2,371,331	-	-	-	592,591	2,963,922
Charges for Services	1,505,741	-	-	1,715	63,635	1,318,998	2,890,089
Intergovernmental	919,698	8,139	2,475,541	3,720,544	686,163	4,373,747	12,183,832
Fines and Forfeitures	595,850	-	-	20,839	-	95,749	712,438
Licences and Permits	4,864	-	-	-	-	81,538	86,402
Miscellaneous	95,827	71,929	258,304	335,250	-	373,246	1,134,556
Interest	230,749	-	-	87,929	-	-	318,678
TOTAL RECEIPTS	5,068,383	2,451,399	2,733,845	4,166,277	1,291,185	7,079,802	22,790,891
DISBURSEMENTS							
Legislative and Executive	1,798,660	2,721,076	-	-	-	347,529	4,867,265
Judicial	1,137,098	-	-	-	-	591,603	1,728,701
Public Safety	2,271,486	-	-	-	-	1,142,157	3,413,643
Public Works	183,463	-	-	8,264,877	-	339,772	8,788,112
Health	50,881	-	-	-	1,442,231	2,947,219	4,440,331
Human Services	241,948	-	3,151,782	-	-	1,142,686	4,536,416
Economic Development and Assistance	-	-	-	-	-	269,370	269,370
Debt Service	-	-	-	-	-	-	-
Principal Retirement	-	-	-	-	-	728,799	728,799
Interest and Fiscal Charges	-	-	-	-	-	242,134	242,134
TOTAL DISBURSEMENTS	5,683,536	2,721,076	3,151,782	8,264,877	1,442,231	7,751,269	29,014,771
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	(615,153)	(269,677)	(417,937)	(4,098,600)	(151,046)	(671,467)	(6,223,880)
OTHER FINANCING SOURCES (USES)							
Operating Transfers - In	0	0	0	0	0	215,272	215,272
Advances - In	115,000	-	-	-	-	126,356	241,356
Other Financing Sources	131,791	-	409,754	162,400	-	625,202	1,329,147
Other Financing Uses	-	(227,506)	(77,859)	-	-	(276,086)	(581,451)
Operating Transfers - Out	(11,120)	(41,000)	-	-	-	(163,152)	(215,272)
Advances - Out	(115,000)	-	-	-	-	(126,356)	(241,356)
TOTAL OTHER FINANCING SOURCES (USES)	120,671	(268,506)	331,895	162,400	0	401,236	747,696
NET CHANGE IN FUND BALANCE	(494,482)	(538,183)	(86,042)	(3,936,200)	(151,046)	(270,231)	(5,476,184)
CASH BASIS FUND BALANCE - Beginning of year	1,300,863	1,129,987	268,320	6,797,038	647,202	6,271,238	16,414,648
CASH BASIS FUND BALANCE - End of year	\$ 806,381	\$ 591,804	\$ 182,278	\$ 2,860,838	\$ 496,156	\$ 6,001,007	\$ 10,938,464
RESERVED FOR ENCUMBRANCES	\$ 149,210	\$ 124,188	\$ 103,461	\$ 814,245	\$ 32,146	\$ 566,744	\$ 1,789,994

See accompanying notes to the financial statements

BROWN COUNTY, OHIO
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
December 31, 2003

	<u>Agency Funds</u>
Assets:	
Equity in Pooled Cash and Investments	\$2,363,999
Equity in Pooled Cash and Investments in Outside Accounts	<u>997,530</u>
Total Assets	<u><u>\$3,361,529</u></u>
Net Assets:	
Total Net Assets	<u><u>\$3,361,529</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, 2003

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$1,300,863	1,300,863	1,300,863	-
Resources (Inflows):				
Property Tax	2,000,500	2,000,500	1,715,654	(284,846)
Charges for services	1,379,000	1,379,000	1,505,741	126,741
Intergovernmental	688,740	688,740	919,698	230,958
Licenses	3,400	3,400	4,864	1,464
Fines and Forfeitures	445,700	445,700	595,850	150,150
Other Income	354,800	354,800	95,827	(258,973)
Interest	300,000	300,000	230,749	(69,251)
Other Financing Sources:				
Other	-	-	131,791	131,791
Advances from other funds	-	-	115,000	115,000
Amounts available for appropriation	<u>6,473,003</u>	<u>6,473,003</u>	<u>6,616,037</u>	<u>143,034</u>
Charges to Appropriations (Outflows):				
Executive/Legislative	1,713,942	1,897,319	1,798,660	98,659
Judicial	1,075,522	1,127,202	1,137,098	(9,896)
Public Safety	2,250,336	2,418,495	2,271,486	147,009
Public Health	51,963	51,963	50,881	1,082
Public Works	98,181	98,181	183,463	(85,282)
Human Services	248,198	273,198	241,948	31,250
Miscellaneous	165,000	32,480	-	32,480
Other Financing Uses:				
Transfers to other funds	60,000	49,410	11,120	38,290
Advances to other funds	-	-	115,000	(115,000)
Total Charges to Appropriations	<u>5,663,142</u>	<u>5,948,248</u>	<u>5,809,656</u>	<u>138,592</u>
Ending Budgetary Fund Balance	<u><u>\$809,861</u></u>	<u><u>524,755</u></u>	<u><u>806,381</u></u>	<u><u>281,626</u></u>

See accompanying notes to the basic financial statements

BROWN COUNTY
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
SALES AND USE TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$1,129,987	1,129,987	1,129,987	-
Resources (Inflows):				
Sales Tax	2,400,000	2,400,000	2,371,331	(28,669)
Intergovernmental	-	-	8,139	8,139
Other Income	-	-	71,929	71,929
Amounts available for appropriation	<u>3,529,987</u>	<u>3,529,987</u>	<u>3,581,386</u>	<u>51,399</u>
Charges to Appropriations (Outflows):				
Executive/Legislative	2,981,291	2,821,424	2,721,076	100,348
Other Financing Uses:				
Other	-	312,942	227,506	85,436
Transfers to other funds	20,000	41,000	41,000	-
Total Charges to Appropriations	<u>3,001,291</u>	<u>3,175,366</u>	<u>2,989,582</u>	<u>185,784</u>
Ending Budgetary Fund Balance	<u><u>\$528,696</u></u>	<u><u>354,621</u></u>	<u><u>591,804</u></u>	<u><u>237,183</u></u>

See accompanying notes to the basic financial statements

**BROWN COUNTY
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
JOB AND FAMILY SERVICES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$268,320	268,320	268,320	-
Resources (Inflows):				
Intergovernmental	3,726,664	3,726,664	2,475,541	(1,251,123)
Other Revenue	190,759	190,759	258,304	67,545
Other Financing Sources	161,872	161,872	409,754	247,882
Amounts available for appropriation	<u>4,347,615</u>	<u>4,347,615</u>	<u>3,411,919</u>	<u>(935,696)</u>
Charges to Appropriations (Outflows):				
Human Services	3,692,047	3,692,047	3,151,782	540,265
Other Financing Uses	-	-	77,859	(77,859)
Total Charges to Appropriations	<u>3,692,047</u>	<u>3,692,047</u>	<u>3,229,641</u>	<u>462,406</u>
Ending Budgetary Fund Balance	<u><u>\$655,568</u></u>	<u><u>655,568</u></u>	<u><u>182,278</u></u>	<u><u>(473,290)</u></u>

See accompanying notes to the basic financial statements

BROWN COUNTY
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
AUTO AND GAS TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$6,797,038	6,797,038	6,797,038	-
Resources (Inflows):				
Charges for services	2,000	2,000	1,715	(285)
Intergovernmental	3,000,000	3,000,000	3,720,544	720,544
Fines and Forfeitures	20,000	20,000	20,839	839
Other Income	100,000	100,000	335,250	235,250
Interest	50,000	50,000	87,929	37,929
Other Financing Sources	-	-	162,400	162,400
Amounts available for appropriation	<u>9,969,038</u>	<u>9,969,038</u>	<u>11,125,715</u>	<u>1,156,677</u>
Charges to Appropriations (Outflows):				
Public Works	<u>3,172,000</u>	<u>5,364,633</u>	<u>8,264,877</u>	<u>(2,900,244)</u>
Total Charges to Appropriations	<u>3,172,000</u>	<u>5,364,633</u>	<u>8,264,877</u>	<u>(2,900,244)</u>
Ending Budgetary Fund Balance	<u><u>\$6,797,038</u></u>	<u><u>4,604,405</u></u>	<u><u>2,860,838</u></u>	<u><u>(1,743,567)</u></u>

See accompanying notes to the basic financial statements

BROWN COUNTY
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
MENTAL RETARDATION/DEVELOPMENTAL DISABILITIES FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$647,202	647,202	647,202	-
Resources (Inflows):				
Taxes	575,000	575,000	541,387	(33,613)
Charge for Services	96,000	96,000	63,635	(32,365)
Intergovernmental	725,000	725,000	686,163	(38,837)
Amounts available for appropriation	<u>2,043,202</u>	<u>2,043,202</u>	<u>1,938,387</u>	<u>(104,815)</u>
Charges to Appropriations (Outflows):				
Public Health	1,396,000	1,485,450	1,442,231	43,219
Total Charges to Appropriations	<u>1,396,000</u>	<u>1,485,450</u>	<u>1,442,231</u>	<u>43,219</u>
Ending Budgetary Fund Balance	<u><u>\$647,202</u></u>	<u><u>557,752</u></u>	<u><u>496,156</u></u>	<u><u>(61,596)</u></u>

See accompanying notes to the basic financial statements

**BROWN COUNTY
CONSOLIDATED BALANCE SHEET - BROWN COUNTY GENERAL HOSPITAL
December 31, 2003**

ASSETS

Current Assets

Cash and Cash Equivalents	\$	2,164,968
Patient Accounts Receivable, Less Allowance for Doubtful		
Accounts and Contractual Adjustments of \$4,014,907		4,659,681
Notes, Contracts and Grants Receivable		835,675
Accounts Receivable - Other		547,676
Grants Receivable		390,000
Supplies Inventory		245,095
Prepaid Expenses and Other Assets		<u>517,973</u>
 Total Current Assets		 <u>9,361,068</u>

Assets Whose Use is Limited

By Board for Plant Renewal and Replacement		1,635,129
By County for Bond Issuance		<u>743,676</u>
 Total Assets Whose Use is Limited		 <u>2,378,805</u>

Property, Plant and Equipment, Net

11,943,563

Total Assets

\$ 23,683,436

(continued)

BROWN COUNTY
CONSOLIDATED BALANCE SHEET - BROWN COUNTY GENERAL HOSPITAL
December 31, 2003
(Continued)

LIABILITIES AND FUND BALANCES

Current Liabilities

Current Portion of Long-Term Debt	609,051
Accounts Payable	976,228
Estimated Settlement Amounts Due to Third-Party Payors	166,033
Deferred Income	33,119
Accrued Expenses	
Salaries, Wages, Withholdings and Benefits	1,249,260
Compensated Absences	564,949
Other	361,327
Due to Restricted Funds	<u>1,629</u>
 Total Current Liabilities	 <u>3,961,596</u>

Long-Term Liabilities

Accrued Compensated Absences, Less Current Portion	289,061
Long-Term Debt, Net of Current Portion	<u>728,131</u>
 Total Long-Term Liabilities	 <u>1,017,192</u>
 Total Liabilities	 4,978,788

Fund Equity:

Unrestricted	18,265,346
Restricted	<u>439,302</u>
 Total Fund Equity	 <u>18,704,648</u>
 Total Liabilities and Fund Equity	 \$ <u><u>23,683,436</u></u>

BROWN COUNTY
CONSOLIDATED STATEMENT OF OPERATIONS - BROWN COUNTY GENERAL HOSPITAL
For the year ended December 31, 2003

Net Patient Service Revenues	\$ 31,354,018
Other Operating Revenues	<u>400,395</u>
Total Operating Revenues	<u>31,754,413</u>
Operating Expenses	
Salaries and Wages	11,986,399
Employee Benefits	3,266,128
Supplies and Other	7,571,840
Provision for Bad Debts	2,520,611
Depreciation and Amortization	1,687,363
Professional Fees	2,636,220
Utilities	661,392
Insurance	411,388
Interest	<u>108,286</u>
Total Operating Expenses	<u>30,849,627</u>
Income from Operations	<u>904,786</u>
Non-Operating Revenues (Expenses)	
Investment Income	82,255
Gifts, Grants and Other Non-Operating Revenues	391,770
Donations of Equipment	125,533
Non-Operating Expenses	<u>(545,060)</u>
Total Non-Operating (Expenses) Revenues	<u>54,498</u>
Excess of Revenues Over Expenses	<u>959,284</u>
Fund Equity, December 31, 2002	17,745,364
Fund Equity, December 31, 2003	<u><u>\$ 18,704,648</u></u>

BROWN COUNTY, OHIO
CONSOLIDATED STATEMENTS OF CASH FLOWS - BROWN COUNTY GENERAL HOSPITAL
For the Year Ended December 31, 2003

Cash Flows from Operating Activities	
Cash Received from Patients	\$ 30,077,881
Cash Payments to Suppliers for Goods and Services	(13,738,724)
Cash Payments to Employees for Services	(14,848,618)
Other Operating Revenues	<u>400,395</u>
Net Cash Provided by Operating Activities	<u>1,890,934</u>
Cash Flows from Non-Capital Financing Activities	
Investment Income	82,255
Gifts, Grants and Other Non-Operating Revenue	391,770
Non-Operating Expenses	<u>(580,485)</u>
Net Cash (Used) Provided by Non-Capital Financing Activities	<u>(106,460)</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of Property, Plant and Equipment	(1,505,922)
Fund Balances Released from Restrictions	34,277
Principal Paid on Long-Term Debt	(618,360)
Proceeds from Sale of Property, Plant and Equipment	2,565
Increase in Value of Assets Whose Use is Limited	<u>(49,514)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(2,136,954)</u>
Net Change in Cash and Cash Equivalents	(352,480)
Cash and Cash Equivalents at Beginning of Year	<u>2,517,448</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 2,164,968</u></u>
Reconciliation of Income from Operations to	
Net Cash Provided by Operating Activities	
Income from Operations	\$ <u>904,786</u>
Adjustments to Reconcile Income from Operations	
to Net Cash Provided by Operating Activities	
Depreciation	1,678,471
Amortization	8,892
Provision for Bad Debts	2,520,611
(Gain) Loss on Disposal of Property, Plant and Equipment	(3,134)
Changes in	
Patient Accounts Receivable	(3,796,748)
Notes, Contracts, Grants and Other Receivables	502,076
Grants Receivable	(390,000)
Supplies Inventory	(27,202)
Prepaid Expenses and Other Assets	(153,116)
Accounts Payable	(85,773)
Estimated Settlement Amounts Due to Third-Party Payors	61,033
Deferred Income	9,740
Accrued Expenses	661,241
Due to Restricted Funds	<u>57</u>
Total Adjustments	<u>986,148</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,890,934</u></u>

See accompanying notes.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 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.

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.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

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.

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 2003.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

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. The affairs of CORSA are managed by an elected board of not more than nine trustees. 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 2003 was \$146,276.00. Financial statements may be obtained by contacting the County Commissioners Association of Ohio in Columbus, Ohio.

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 remaining five members are elected for ensuing year by the participants at a meeting held in the month of December each year. No participant can have more than one member on the group executive committee in any year, and each elected member shall be a county commissioner.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

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

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. (See note 15). 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Sales and Use Tax Fund – This fund accounts for monies received from 1% sales tax collected in the county. This fund is not dedicated to a specific purpose and therefore can be used for all general obligations of the county.

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.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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

Basis of Presentation – The County's financial statements consist of a government-wide statement of activities and fund financial statements providing more detailed financial information.

Government-wide Financial Statement of Activities: This statement displays information about the County as a whole, except for fiduciary funds. The statement of activities eliminates internal service fund activity to avoid reporting those transactions twice.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the County's governmental activities. These disbursements are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. 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, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the cash basis or draws from the County's general receipts.

Fund Financial Statements: Fund financial statements report detailed information about the County. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the proprietary fund statements. Fiduciary funds are reported by type.

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

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

During fiscal year 2003, investments of the County Treasurer were limited to governmental securities, STAR Ohio, certificates of deposit and a repurchase account. These investments are reported at cost.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Restricted Assets – Cash and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Creditors, contributors, grantors, laws of other governments or enabling legislation is the source of the restrictions.

Inventory and Prepaid Items – On the cash-basis of accounting, inventories of supplies are reported as disbursements when purchased.

Capital Assets – Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

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

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

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.

Net Assets – Net assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use.

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

Interfund Activity – Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the financial statements.

Budgetary Process – The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year, with the legal restriction that appropriations cannot exceed estimated resources, as certified.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the County Commissioners.

Advances-in and Advances-out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Budgetary information for the Brown County General Hospital and Grow, Inc. (component units) are not reported because they are not included in the entity for which the "appropriated budget" is adopted and they do not maintain separate budgetary records.

Budget – A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 15 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources – The County Budget Commission certifies its actions to the County by September 1. As part of this certification, the County receives the official certificate of estimated resources which states the projected receipts of each fund. On or about January 1, the certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the County must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about January 1, the certificate of estimated resources is amended to include actual unencumbered balances from the preceding year. The certificate may be amended further during the year if the County Auditor determines, and the Budget commission agrees, that an estimate needs to be either increased or decreased. The amounts set forth in the financial statements represent estimates from the amended certificate in force at the time final appropriations were passed by the commissioners.

Appropriations – A temporary appropriation resolution to control expenditures may be passed on or around January 1 of each year for the period January 1 to March 31. An annual appropriation resolution must be passed by April 1 of each year for the period January 1 to December 31. The appropriation resolution may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified.

The allocation of appropriations among departments and objects within a fund may be modified during the year only by a resolution of the Commissioners. Several supplemental appropriation resolutions were legally enacted by the County Commissioners during the year. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeted Level of Expenditures – Administrative control is maintained through the establishment of detailed line-item budgets. Appropriate funds may not be expended for purpose other than those designated in the appropriation resolution without authority from the Commissioners. Expenditures plus encumbrances may not legally exceed appropriations at the legal level of appropriation. Appropriations are made to fund, department and object level (i.e. General Fund – Commissioners – personal services, fringe benefits, supplies and materials, contractual services and other expenditures).

Encumbrances – The County is required to use the encumbrance method of accounts by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations.

Lapsing of Appropriations – At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and is not reappropriated.

Legal Level of Control – Each County department prepares a budget which is approved the Board of County commissioners. The County maintains budgetary control within an organizational unit and fund by not permitting expenditures and encumbrances to exceed appropriations at the object level (the legal level of control). Modifications to the original budget within expenditure objects require the approval of the Board of Commissioners.

NOTE 3 - 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 2003 for real and public utility property taxes represents collections of 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) are for 2003 taxes.

2003 real property taxes are levied after October 1, 2003 on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35% of appraised market value. 2003 real property taxes are collected in an 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. 2003 public utility property taxes became a lien December 31, 2002 are levied after October 1, 2003 are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after October 1, 2002 on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25% of true value for capital assets and 24% of true value for inventory.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 3 - PROPERTY TAX (Continued)

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

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.

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, 2003 was \$3.80 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$3.80 per \$1,000 of assessed valuation of real property classified as residential/agricultural and \$3.80 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.

Real Property:	
Residential/Agricultural	\$ 409,833,380
Commercial/Industrial	46,284,980
Total Real Property	\$ 456,118,360
Tangible Personal Property:	
Public Utilities	\$ 26,704,190
General	25,261,294
Total Tangible Property	\$ 51,965,484
Total All Property	\$ 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.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 4 - EQUITY IN CASH EQUIVALENTS AND INVESTMENTS

Monies held by the County are classified by State Statute into two categories. Active monies are public monies determined to be necessary to meet current demand upon the County treasury. Active monies must be maintained either as cash in the County treasury, in commercial accounts payable on demand 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.

Monies held by the County which are not considered active are classified as inactive. Inactive monies may be deposited or invested in the following securities:

- 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.
- B.** Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Governments National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
- C.** Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days.
- D.** Bond and other obligations of the State of Ohio or its political subdivision provided that such political subdivisions are located wholly or partly within the County.
- E.** Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts.
- F.** No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- G.** The State Treasurer's investment pool (STAR Ohio).

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

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

- H.** Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value.
- I.** High grade commercial paper in an amount not to exceed five percent of the County's total average portfolio.
- J.** Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the County's total average portfolio.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the County, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year-end, the County had \$5,500 of undeposited cash on hand which is included on the statement of net assets sheet of the County as part of "Cash Equivalents."

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, 2003, the carrying amount of the County's deposits was \$2,355,164. The bank balance of \$3,460,935 for deposits is classified by risks follows:

- 1) \$451,839 was insured by the Federal Depository Insurance Corporation.
- 2) \$3,009,096 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.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

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

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 securities are held by the County. 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.

	Category 2	Category 3	Unclassified	Carrying Value	Fair Value
Federal Home Loan					
Mortgage Corporation Bonds	-	\$1,252,344	-	\$1,252,344	\$1,239,713
Federal Farm Credit Bank Bonds	-	350,000	-	350,000	349,996
Federal Home Loan Bank Bonds	-	5,050,000	-	5,050,000	5,075,376
Federal National Mortgage					
Association Bonds	-	1,750,000	-	1,750,000	1,753,600
Repurchase Agreements	\$3,300,677	-	-	3,300,677	3,300,677
STAR Ohio	-	-	\$236,308	236,308	236,308
Total Investments	<u>\$3,300,677</u>	<u>\$8,402,344</u>	<u>\$236,308</u>	<u>\$11,939,329</u>	<u>\$11,955,670</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:

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

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

	Cash & Cash Equivalents	Investments
Basic Financial Statements	\$14,299,993	-
Cash on Hand	(5,500)	-
Federal Home Loan Mortgage Corporation Bonds	(1,252,344)	\$1,252,344
Federal Farm Credit Bank Bonds	(350,000)	350,000
Federal Home Loan Bank Bonds	(5,050,000)	5,050,000
Federal National Mortgage Association Bonds	(1,750,000)	1,750,000
Repurchase Agreements	(3,300,677)	3,300,677
STAR Ohio	(236,308)	236,308
<i>GASB Statement No. 3</i>	\$2,355,164	\$11,939,329

NOTE 5 - PERMISSIVE SALES TAX

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

In 1993 an additional ¼% sales and use tax was passed 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 2003 amounted to \$2,963,922.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 6 - RISK MANAGEMENT

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

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

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

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

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

Workers' Compensation benefits are provided through the Ohio Bureau of Workers' Compensation. In 2003, the county participated in the County commissioner's Association of Ohio Workers' Compensation Group Rating Program (CCAO). A workers' compensation group purchasing pool (See Note 1). The intent of the CCAO is to achieve lower workers' compensation rates while establishing safe working conditions and environments for the participants. The workers' compensation experience of the participating counties is calculated as one experience and a common premium rate is applied to all counties in the CCAO. Each participant pays its workers' compensation premium to the State based on the rate for the CCAO rather than its individual rate.

In order to allocate the savings derived by formation of the CCAO and to maximize the number of participants in the CCAO, annually the CCAO's executive committee calculates the total savings which accrued to the CCAO through its formation. This savings is then compared to the overall savings percentage of the CCAO. The CCAO's executive committee then collects rate contributions from, or pays 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

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 6 - RISK MANAGEMENT (continued)

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.

NOTE 7 – 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.

For the year ended December 31, 2003, 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 2003 was 13.55 percent of covered payroll, 8.55 percent was the portion used to fund pension obligations. The 2003 employer contribution rate for both the law enforcement and public safety division was 16.7 percent of covered payroll, 11.7 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, 2003, 2002, and 2001 were \$781,074, \$753,041, and \$797,571 respectively, 100% has been contributed for the years 2003, 2002, and 2001.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 8 – 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 2003 local government employer contribution rate 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5 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 2002, 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) and an additional increase in 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 364,881. Actual employer contributions for 2003 which were used to fund post employment benefits were \$456,768. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002 (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarially accrued liability were \$18.7 billion and \$87 billion, respectively.

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, 2003, 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.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 9 – 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.

NOTE 10 - 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.

NOTE 11 – LONG-TERM DEBT

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

	Principal Outstanding 12/31/02	Reductions	Principal Outstanding 12/31/03	Amounts Due in One Year
Governmental Activities:				
General Obligation Bonds:				
Adult Detention Center Bonds	\$ 100,000	\$ 100,000	\$ -	\$ -
Human Services Building Bonds	355,000	55,000	300,000	55,000
Brown County Public Library				
District Bonds	2,400,000	120,000	2,280,000	125,000
General Hospital Project Bonds	1,370,000	435,000	935,000	455,000
Total General Obligation Bonds	<u>\$ 4,225,000</u>	<u>\$ 710,000</u>	<u>\$ 3,515,000</u>	<u>\$ 635,000</u>
Other Long-Term Obligations:				
Mortgage Loan Payable (ADAMH)	\$ 18,738	\$ 18,738	\$ -	\$ -
Forgiveable Debt (Mental Health)	281,458	8,750	272,708	8,750
Total Other Long-Term Obligations	<u>\$ 300,196</u>	<u>\$ 27,488</u>	<u>\$ 272,708</u>	<u>\$ 8,750</u>
Total General and Other				
Long-Term Obligations	<u>\$ 4,525,196</u>	<u>\$ 737,488</u>	<u>\$ 3,787,708</u>	<u>\$ 643,750</u>

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 11 – LONG-TERM DEBT (continued)

The County's total legal debt margin was \$7,271,973 with an unvoted debt margin of \$1,150,715.

The Adult Detention Center and 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.

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. During 2003, \$8,750 was forgiven by the ODMH. The mortgage loan payable represents twenty-five percent of the land purchase and construction costs which the County was required to pay.

Years Ended December 31,	General Obligation		Other Long-Term Obligations	
	Principal	Interest	Principal	Interest
2004	\$635,000	\$200,288	\$8,750	-
2005	675,000	166,552	8,750	-
2006	205,000	130,200	8,750	-
2007	210,000	118,738	8,750	-
2008	210,000	106,987	8,750	-
2009-2013	905,000	370,800	43,750	-
2014-2018	675,000	82,200	43,750	-
2019-2023	-	-	43,750	-
2024-2028	-	-	43,750	-
2029-2033	-	-	43,750	-
2034-2035	-	-	10,208	-
Total	<u>\$3,515,000</u>	<u>\$1,175,765</u>	<u>\$272,708</u>	<u>-</u>

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 12 – INTERFUND TRANSFERS

Interfund cash transfers for the year ended December 31, 2003, were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
MAJOR FUNDS:		
GENERAL FUND:		
Prosecutor's Victims Assistance	-	\$9,816
Felony Delinquent Custody and Care	-	1,304
Total General Fund	-	<u>11,120</u>
SALES AND USE:		
Sewer and Water District	-	20,000
Common Pleas Mediation Fees	-	21,000
Total Sales and Use	-	<u>41,000</u>
 NONMAJOR FUNDS:		
SPECIAL REVENUE FUNDS:		
Mental Health:		
MH/508a	52,061	-
Jail Diversion:		
MDFT Grant	-	1,474
MDFT Grant:		
Jail Diversion	1,474	-
Medicaid Reserve Fund:		
Residential Facility/MRDD	15,000	-
Common Pleas Mediation Fees:		
Sales and Use	21,000	-
Felony Delinquent Custody and Care:		
General Fund	1,304	-
Sewer and Water District:		
Sales and Use	20,000	-
Residential Facility/MRDD:		
Medicaid Reserve Fund	-	15,000
Prosecutor Victims Assistance:		
General Fund	9,816	-
MH/Medicaid:		
MH/408	-	94,618
MH/508a:		
Mental Health	-	52,061
MH/408:		
MH/Medicaid	94,618	-
Total Special Revenue Funds	<u>215,273</u>	<u>163,153</u>
 GRAND TOTALS	 <u><u>\$215,273</u></u>	 <u><u>\$215,273</u></u>

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 13 - ACCUMULATED UNPAID VACATION, PERSONAL, COMPENSATORY TIME AND SICK LEAVE

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

NOTE 14 - RESTATEMENT OF FUND BALANCES

For Fiscal Year 2003, the County ceased to report on the basis of Generally Accepted Accounting Principles. The implementation of this change had the following effects of fund balances of the major and non-major funds of the County as they were previously reported.

Governmental Funds:

	General	Sales and Use Tax	Job and Family Services	Auto and Gas Tax	MRDD	Nonmajor	Agency
Fund Balances, December 31, 2002	\$ 2,758,528	\$ -	\$ 148,883	\$ 7,174,457	\$ 1,249,974	\$ 4,663,272	\$ 2,301,217
Elimination of Asset and Liability Accruals	(264,999)	-	119,437	(377,419)	8,952	996,252	-
Fund Reclassifications	(1,192,666)	1,129,987	-	-	(611,724)	775,308	(100,905)
Adjusted Fund Balances, December 31, 2002	\$ 1,300,863	\$ 1,129,987	\$ 268,320	\$ 6,797,038	\$ 647,202	\$ 6,434,832	\$ 2,200,312

NOTE 15 - 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.

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.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 15 – BROWN COUNTY GENERAL HOSPITAL (continued)

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.

Funds

In the accompanying consolidated financial statements, the funds used are categorized as follows:

General (Unrestricted) Fund – Funds available for general use in operations of the Hospital.

Temporarily Restricted Funds – Funds whose use is subject to donor-imposed stipulations that can be fulfilled by actions of the Hospital and/or Foundation pursuant to those stipulations or that expire by the passage of time. The restrictions on the presently held temporarily restricted fund balance consist of supporting specific programs or establishment of new programs. Included in temporarily restricted funds are amounts previously reported as Specific Purpose and Endowment funds which consist of externally restricted donations in support of Hospital activities and scholarships.

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.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 15 – BROWN COUNTY GENERAL HOSPITAL (continued)

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 year 2003, these types of donations amounted to \$125,533, and are non-cash financing activities.

Lease Agreements

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

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 15 – BROWN COUNTY GENERAL HOSPITAL (continued)

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 \$910,000 for patients meeting the charity care criteria for the year ended December 31, 2003.

Contributions

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

Gifts and Donated Services

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

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 15 – BROWN COUNTY GENERAL HOSPITAL (continued)

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 \$3,800,098 as of December 31, 2003. The bank balance of the Hospital's deposits was \$5,024,609 as of December 31, 2003. Of the bank balance:

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

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003

NOTE 15 – BROWN COUNTY GENERAL HOSPITAL (continued)

Investments

The Hospital is authorized by state statute to make direct investments in certificates of deposit, money market accounts, and U.S. government, federal agency and federal instrumentality obligations.

GASB Statement No. 3 requires the use of three categories to classify investments. Category 1 includes investments that are insured or registered or are held by the Hospital or its agent in the Hospital's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Hospital's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the Hospital's name. Money market accounts are unclassified investments since they are not evidenced by the securities in physical or book entry form.

	2003			Fair/Carrying Value
	1	2	3	
Common Stock	\$ 24,141	\$ -	\$ -	\$ 24,141
U.S. Treasury Notes	-	-	685,320	685,320
Money Market Accounts	-	-	-	58,355
	<u>\$ 24,141</u>	<u>\$ -</u>	<u>\$ 685,320</u>	<u>\$ 767,816</u>

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:

	2003
Federal Government: Medicare	\$ 1,728,742
State of Ohio: Medicaid, Workers Compensation	1,106,208
Commercial Insurance, Self-Pay and Other	1,824,731
Total	<u>\$ 4,659,681</u>

**BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003**

NOTE 15 – BROWN COUNTY GENERAL HOSPITAL (continued)

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 at December 31, 2003:

Notes Receivable	\$ 48,480
Contracts Receivable	<u>787,195</u>
Subtotal	<u>\$ 835,675</u>
Grant Receivable (Restricted)	<u>\$ 390,000</u>
Total Notes, Contracts and Grants Receivable	<u>\$1,225,675</u>

Notes Receivable

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.

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 (4.00% at December 31, 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.

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. No money was drawn on this grant in 2003.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003
(Continued)

NOTE 15 – BROWN COUNTY GENERAL HOSPITAL (continued)

D. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31, 2003:

Land and Improvements	\$ 1,250,990
Buildings and Building Improvements	10,000,225
Equipment	17,171,168
Construction in Progress	<u>5,846</u>
	28,428,229
Less Accumulated Depreciation	<u>16,484,666</u>
Property, Plant and Equipment, Net	<u>\$ 11,943,563</u>

Depreciation expense was \$1,678,471 for the year ended December 31, 2003.

E. LONG-TERM DEBT

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

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.	\$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
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>202,182</u>
	1,337,182
Less Current Portion	<u>609,051</u>
	<u>\$ 728,131</u>

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, 2003.

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003
(Continued)

NOTE 15 – BROWN COUNTY GENERAL HOSPITAL (continued)

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

<u>Lease</u>	<u>Year Ending December 31,</u>	<u>Long-Term Debt</u>	<u>Obligations Under Capital</u>
	2004	\$ 555,000	63,336
	2005	580,000	63,336
	2006	-	63,337
	2007	<u>-</u>	<u>36,946</u>
		<u>\$ 1,135,000</u>	226,955
Less Amount Representing Interest			<u>(24,773)</u>
Present Value of Minimum Lease Payments			202,182
Less Current Portion			<u>54,051</u>
Non-Current Portion			<u>\$ 148,131</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.

Assets under capital lease were approximately \$393,000 at December 31, 2003 (with accumulated depreciation of approximately \$333,000 at December 31, 2003,) and are included in property, plant and equipment in the accompanying consolidated balance sheets.

F. 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 year ended December 31 2003 were as follows:

Gross Patient Service Charges at Established Rates (Including Charity Care)	\$ 50,691,993
Less	
Contractual Allowances	(18,424,740)
Charity Care	<u>(913,235)</u>
Net Patient Service Revenue	<u>\$ 31,354,018</u>

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003
(Continued)

NOTE 15 – BROWN COUNTY GENERAL HOSPITAL (continued)

G. 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:

2004	\$205,222
2005	59,249
2006	51,374
2007	<u>12,000</u>
 Total	 <u>\$327,845</u>

Lease expense for the years ended December 31, 2003 was \$158,370.

H. 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) 466-2085.

The Ohio Revised Code provides OPERS statutory authority for employer and employee contributions. The required, actuarially-determined contribution rates for the Hospital and for the employee are 13.55% and 8.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years are as follows:

<u>Year</u>	<u>Contribution</u>
2003	\$ 1,599,188
2002	1,468,007
2001	1,355,249

BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2003
(Continued)

NOTE 15 – BROWN COUNTY GENERAL HOSPITAL (continued)

I. 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, 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 2003 employer rate for employees' coverage by PERS was 13.55%, of which 5.0% was used to fund health care. The total Hospital contribution used to fund health care was \$599,320 for the year ended December 31, 2003.

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, 2003 was 364,881. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2002 was approximately \$10,000,000,000. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18,700,000,000 and \$8,700,000,000, respectively, as of December 31, 2002. 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 2002 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 0.50% to 6.30%.
- 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, 2003
(Continued)

NOTE 15 – BROWN COUNTY GENERAL HOSPITAL (continued)

J. 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.

K. CONCENTRATIONS

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

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BROWN COUNTY

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
Direct from the Federal Government			
Emergency Conservation Program	N/A	10.054	<u>\$424,682</u>
Total U.S. Department of Agriculture			424,682
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed Through the Ohio Department of Mental Health:</i>			
Block Grants for Prevention and Treatment of Substance Abuse	N/A	93.959	89,430
Alcohol, Drug and Mental Health Services Block Grant	N/A	93.958	39,110
<i>Passed Through the Ohio Department of Mental Health:</i>			
Social Services Block Grant - Title XX	N/A	93.667	23,904
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>			
Social Services Block Grant - Title XX	N/A	93.667	<u>35,228</u>
Total Social Services Block Grant (Title XX)			59,132
<i>Passed Through the Ohio Department of Alcohol and Drug Addiction Services</i>			
Medical Assistance Program - Title XIX	N/A	93.778	518,595
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>			
Medical Assistance Program - Title XIX	N/A	93.778	<u>408,130</u>
Total U.S. Department of Health and Human Services			1,114,397
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through the Ohio Department of Development:</i>			
Community Development Block Grants	B-F-01-008-1	14.228	4,980
	B-F-02-008-1	14.228	196,346
	B-F-03-008-1	14.228	123
	B-N-02-008-1	14.228	<u>13,411</u>
Total U.S. Department of Housing and Urban Development			214,860

(Continued)

BROWN COUNTY

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003
(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	2004VAGENE308	16.575	29,449
	2004VADSCE461	16.575	<u>25,653</u>
			55,102
Direct from the Federal Government			
Community Oriented Policing Services	199-SH-WX-0578	16.710	<u>48,932</u>
Total U.S. Department of Justice			104,034
FEDERAL AGENCY DEPARTMENT OF HOMELAND SECURITY			
<i>Passed Through the Ohio Emergency Management Agency</i>			
Public Assistance Grants	1390-DR-015-OF580	97.036	20,250
Emergency Management Performance Grants	N/A	97.051	9,854
State Domestic Preparedness Equipment Support	N/A	97.004	85,061
State and Local All Hazards Emergency Operations Planning	N/A	97.042	<u>27,498</u>
Total Federal Agency Department of Homeland Security			142,663
U.S. DEPARTMENT OF LABOR			
<i>Passed Through the Ohio Department of Job and Family Services</i>			
Workforce Investment Act Incentive Grant	N/A	17.267	<u>19,196</u>
Total U.S. Department of Labor			19,196
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through the Federal Aviation Administration</i>			
Direct from Federal Government			
Airport Improvement Program	N/A	20.106	34,007
<i>Passed Through the Ohio Department of Transportation</i>			
Highway Planning and Construction	N/A	20.205	<u>90,470</u>
Total U.S. Department of Transportation			124,477
TOTAL FEDERAL ASSISTANCE			<u><u>\$2,144,309</u></u>

BROWN COUNTY

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

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.

NOTE D -- U.S. DEPARTMENT OF HOMELAND SECURITY FEDERAL AWARDS

The Federal Homeland Security Act of 2002 established the Department of Homeland Security (the Department) to consolidate functions of other Federal agencies related to homeland security. Effective January 24, 2003, the Department began to administer certain Federal awards the County previously received from other Federal agencies. The accompanying Federal Awards Expenditure Schedule reports all such 2003 award amounts under the Department's Catalog of Federal Domestic Assistance (CFDA) numbers. The purposes and compliance requirement of these programs has not changed. A comparison of the Federal agencies' and CFDA numbers the County reported in its 2002 Federal Award Expenditure Schedule compared with the Department's CFDA numbers reported in the 2003 Schedule follows:

<u>Previous Federal Agency</u>	<u>CFDA No. Used In 2002</u>	<u>Homeland Security CFDA No. used for 2003</u>
U.S. Department of Justice	16.007	97.004
U.S. Department of Federal Emergency Management Agency	83.552	97.042

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL 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, 2003, which collectively comprise the Government's basic financial statements and have issued our report thereon dated December 22, 2004, wherein we noted the County prepares its financial statements on a basis of accounting other than accounting principles generally accepted in the United States of America and wherein we noted that the County's financial statements did not include financial data related to the County's legally separate component units. We also noted that the financial statements of the Brown County General Hospital were audited by other auditors. The report of the other auditors has been furnished to us, and our report on compliance, insofar as it relates to the Brown County General Hospital, is based on the compliance report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-01 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the County in a separate letter dated December 22, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Government's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

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

Betty Montgomery
Auditor of State

December 22, 2004



**Auditor of State
Betty Montgomery**

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

Brown County
800 Mount Orab Pike
Georgetown, Ohio 45121

To the Board of County Commissioners:

Compliance

We have audited the compliance of Brown County, Ohio (the County), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. 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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on 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 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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Betty Montgomery
Auditor of State

December 22, 2004

BROWN COUNTY

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualification for omitting component units, unqualified on the primary government
(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 non-compliance 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):	Medical Assistance Program (CAFS) CFDA# 93.778 Emergency Conservation Program CFDA# 10.054
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2003-001

Finding Repaid Under Audit

The County and Probate/Juvenile Court Judge salaries are set by Ohio Rev. Code, Sections 1907.16 and 1907.17, and 141.04 and 141.05, respectively. Judge Margaret Clark served as County Court Judge until February 9, 2003. On February 9, 2003 Judge Clark became the Probate/Juvenile Court Judge. As a result of changing positions, Judge Clark's salary for the year was pro-rated between the County Court Judge rate and the Probate/Juvenile Court Judge rate. Due to an error in the County Auditor's calculation of the pro-rated salary, Judge Clark was overpaid. For the year ended December 31, 2003, Judge Clark should have received a salary of \$10,805; however she was paid \$11,639, which resulted in an overpayment of \$834.

Judge Clark was notified on November 19, 2004 of the overpayment. On December 1, 2004, Judge Clark repaid \$834 to the credit of the General Fund of Brown County.

FINDING NUMBER 2003-002

Material Noncompliance

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 prepares 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, fund equities, 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.

The Brown County General Hospital financial statements are presented as stand alone statements in accordance with generally accepted accounting principles.



**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
FEBRUARY 10, 2005**