

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

ANNUAL FINANCIAL REPORT

2004

BROWN COUNTY, INDIANA



FILED

08/25/2006

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Mari H. Miller	01-01-03 to 12-31-06
Treasurer	Stephanie Yager Joe Wray	01-01-01 to 12-31-04 01-01-05 to 12-31-08
Clerk	Benita Fox	01-01-04 to 12-31-07
Sheriff	Robert E. Stogsdill	01-01-03 to 12-31-06
Recorder	Glenda Stogsdill	01-01-01 to 12-31-08
President of the Board of County Commissioners	James L. Gredy Stephanie Yager	01-01-04 to 12-31-04 01-01-05 to 12-31-06
President of the County Council	David L. Critser	01-01-04 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF BROWN COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Brown County (County), as of and for the year ended December 31, 2004, as listed in the table of contents, which collectively comprise the County's basic financial statements. 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 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.

As discussed in Note I, the County prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

As discussed in Note I, the financial statements referred to above do not include a number of component units of the County which should have been included to fairly present the financial position of the County.

In our opinion, except that the omission of the component units of the County referred to in the preceding paragraph results in incomplete presentation, the financial statements referred to above present fairly, in all material respects, the cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the County as of December 31, 2004, and the cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

The Schedules of Funding Progress, as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

The County has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

In accordance with Government Auditing Standards, we have also issued a report dated June 15, 2006, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This separate report is an integral part of an audit performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and, in considering the results of the audit, this report should be read along with the auditor's report on the financial statements.

Our audit was performed for the purpose of forming an opinion on the financial statements of the County. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements.

STATE BOARD OF ACCOUNTS

June 15, 2006



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF BROWN COUNTY, INDIANA

We have audited the financial statements of Brown County (County), as of and for the year ended December 31, 2004, and have issued our report thereon dated June 15, 2006. The opinion to the financial statements was qualified due to the omission of component units. 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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order 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.

We noted other matters involving the internal control over financial reporting that we have discussed with the management of the County on June 15, 2006. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

This report is intended solely for the information and use of the County's 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. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

June 15, 2006

STATE BOARD OF ACCOUNTS

BROWN COUNTY
STATEMENT OF CASH AND INVESTMENTS
December 31, 2004

	<u>Primary Government Governmental Activities</u>
<u>Assets</u>	
Cash and investments	\$ -
Restricted assets:	
Cash and investments	<u>4,815,338</u>
Total assets	<u>\$ 4,815,338</u>
 <u>Net Assets</u>	
Restricted for:	
General government	\$ 262,166
Public safety	797,199
Highways and streets	920,336
Health and welfare	947,446
Culture and recreation	7,962
Debt service	428,276
Capital outlay	1,559,217
Unrestricted	<u>(107,264)</u>
Total net assets	<u>\$ 4,815,338</u>

The notes to the financial statements are an integral part of this statement.

BROWN COUNTY
STATEMENT OF CASH ACTIVITIES
For The Year Ended December 31, 2004

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets
	Primary Government				
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 3,636,978	\$ 231,622	\$ 2,494,194	\$ -	\$ (911,162)
Public safety	2,675,543	323,261	831,141	-	(1,521,141)
Highways and streets	2,276,377	27,634	1,514,197	-	(734,546)
Health and welfare	1,136,638	2,156	590,912	-	(543,570)
Culture and recreation	210,659	109,666	-	-	(100,993)
Capital outlay	249,148	-	-	35,801	(213,347)
Total primary government	<u>\$ 10,185,343</u>	<u>\$ 694,339</u>	<u>\$ 5,430,444</u>	<u>\$ 35,801</u>	<u>(4,024,759)</u>
General receipts:					
Property taxes					2,287,557
Other local taxes					711,602
Grants and contributions not restricted to specific programs					258,515
Unrestricted investment earnings					153,822
Other operating receipts					217,990
Total general receipts					<u>3,629,486</u>
Change in net assets					(395,273)
Net assets - beginning					<u>5,210,611</u>
Net assets - ending					<u>\$ 4,815,338</u>

The notes to the financial statements are an integral part of this statement.

BROWN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2004

	General	County Highway	County Economic Development Income Tax Excess	County Family and Children	Cumulative Capital Development	Other Governmental Funds	Totals
Cash and investments - January 1	\$ (44,086)	\$ 562,690	\$ 1,061,133	\$ 179,887	\$ 1,033,204	\$ 2,417,783	\$ 5,210,611
Operating receipts:							
Taxes	1,053,530	195,622	-	370,935	78,331	1,300,743	2,999,161
Intergovernmental	1,899,197	1,224,794	598,174	340,539	15,495	1,668,491	5,746,690
Charges for services	232,347	27,634	-	-	-	434,357	694,338
Other	206,833	48,290	-	40,474	5,012	71,203	371,812
Total operating receipts	3,391,907	1,496,340	598,174	751,948	98,838	3,474,794	9,812,001
Interfund loan proceeds	389,366	-	-	350,000	-	-	739,366
Interfund loan payments received	-	-	-	-	-	120,000	120,000
Transfers in	6,272	-	-	-	-	11,914	18,186
Total receipts	3,787,545	1,496,340	598,174	1,101,948	98,838	3,606,708	10,689,553
Operating disbursements:							
General government	2,929,692	-	58,899	-	-	648,388	3,636,979
Public safety	1,838,014	-	3,000	-	-	834,529	2,675,543
Highways and streets	-	1,406,046	272,194	-	-	598,137	2,276,377
Health and welfare	161,387	-	-	467,226	-	508,025	1,136,638
Culture and recreation	96,479	-	-	-	-	114,180	210,659
Capital outlay	-	-	-	-	37,091	212,057	249,148
Total operating disbursements	5,025,572	1,406,046	334,093	467,226	37,091	2,915,316	10,185,344
Other disbursements	-	-	-	-	-	21,930	21,930
Interfund loan payments	-	-	-	120,000	-	-	120,000
Interfund loans made	-	-	350,000	-	-	389,366	739,366
Transfers out	-	-	-	-	-	18,186	18,186
Total disbursements	5,025,572	1,406,046	684,093	587,226	37,091	3,344,798	11,084,826
Excess (deficiency) of total receipts over (under) total disbursements	(1,238,027)	90,294	(85,919)	514,722	61,747	261,910	(395,273)
Cash and investments - December 31	\$ (1,282,113)	\$ 652,984	\$ 975,214	\$ 694,609	\$ 1,094,951	\$ 2,679,693	\$ 4,815,338

The notes to the financial statements are an integral part of this statement.

BROWN COUNTY
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended December 31, 2004

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and investments - January 1	\$ 1,111,690	\$ 8,496	\$ 1,862,758
Additions:			
Contributions:			
Employer	108,904	-	-
Plan members	<u>13,192</u>	<u>-</u>	<u>-</u>
Total contributions	<u>122,096</u>	<u>-</u>	<u>-</u>
Investment earnings:			
Interest	79,017	-	-
Less investment expense	<u>(3,459)</u>	<u>-</u>	<u>-</u>
Net investment earnings	<u>75,558</u>	<u>-</u>	<u>-</u>
Agency fund additions	<u>-</u>	<u>-</u>	<u>12,887,906</u>
Total additions	<u>197,654</u>	<u>-</u>	<u>12,887,906</u>
Deductions:			
Benefits	53,496	-	-
Administrative expense	6,678	-	-
Agency fund deductions	<u>-</u>	<u>-</u>	<u>3,602,865</u>
Total deductions	<u>60,174</u>	<u>-</u>	<u>3,602,865</u>
Excess of total additions over total deductions	<u>137,480</u>	<u>-</u>	<u>9,285,041</u>
Cash and investments - December 31	<u>\$ 1,249,170</u>	<u>\$ 8,496</u>	<u>\$ 11,147,799</u>

The notes to the financial statements are an integral part of this statement.

BROWN COUNTY
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The County was established under the laws of the State of Indiana. The County operates under a Council-Commissioner form of government and provides the following services: public safety (police), highways and streets, health welfare and social services, culture and recreation, public improvements, planning and zoning, and general administrative services.

These financial statements present the County (primary government).

Management has chosen to omit from these financial statements component units which have significant operational or financial relationships with the County. Accordingly, the financial statements do not include the data of all of the County's component units necessary to fairly present the financial position of the County.

Discretely Presented Component Units

The financial statements of the individual component units may be obtained from their respective offices as follows: Brown County Solid Waste Management District, P.O. Box 1308, Nashville, Indiana, 47448; Hamblen Township Fire Protection District, 6593 Sweetwater Trail, Nineveh, Indiana, 46164; Helmsburg Regional Sewer District, P.O. Box 147, Helmsburg, Indiana, 47435; and Gnawbone Regional Sewer District, P.O. Box 927, Nashville, Indiana, 47448.

B. Government-Wide and Fund Financial Statements

Government-wide financial statements, (i.e., the Statement of Cash and Investments and the Statement of Cash Activities) report information on all of the nonfiduciary activities of the County. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. However, there are no business-type activities to report at this time. Likewise, the primary government is reported separately from certain legally separate component units for which the County is financially accountable.

The Statement of Cash Activities demonstrates the degree to which direct disbursements of a given function or segment are offset by program receipts. Direct disbursements are clearly identifiable with a specific function or segment. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program receipts are reported instead as general receipts.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the County has not established any enterprise funds.

BROWN COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide, governmental fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Receipts are recorded when received and disbursements are recorded when paid.

The cash basis of accounting differs from accounting principles generally accepted in the United States in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

The County reports the following major governmental funds:

The general fund is the County's primary operating fund and accounts for all financial resources of the County, except those required to be accounted for in another fund.

The county highway fund accounts for the cost of maintaining the county roads. Revenues are monthly distributions from the State of Indiana for highway use taxes.

The county economic development income tax excess fund accounts for the County's share of the distribution from the State of Indiana for this tax imposed on income of county residents and nonresidents who work in the County.

The county family and children fund accounts for the costs payable by the County to provide services for adoption assistance, foster care and child welfare services. These services are funded by property taxes and assistance from the State of Indiana.

The cumulative capital development fund is used to accumulate funds for capital projects needed by the County. Revenues are from property taxes levied.

Additionally, the County reports the following fund types:

The pension trust funds account for the activities of the Sheriff's Pension Trust and the Sheriff's Benefit pension funds, which accumulate resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the school corporation.

Agency funds account for assets held by the County as an agent for payroll benefits and money held for other governmental units and individuals and serve as control of accounts for certain cash transactions during the time they are a liability to the County.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

BROWN COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The County does not have any enterprise or internal service funds.

When both restricted and unrestricted resources are available for use, the County's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Net Assets or Equity

1. Deposits and Investments

State statute (IC 5-13-9) authorizes the County to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Governmental and Fiduciary Funds

Investments are stated at cost. Any changes in the fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the County in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. Due to delays in completing the 2002 reassessment, 2002 property taxes payable in 2003 had a provisional property tax billing for 2003 as authorized by Indiana Code 6-1.1-27-2. There was not a final 2002 property taxes payable in 2003 or 2003 property taxes payable in 2004 billed in 2004.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of one-half day per month. Unused sick leave may be accumulated indefinitely. Accumulated sick leave is not paid to employees.

b. Vacation Leave

After thirteen months of continuous employment, employees earn vacation leave at rates from 5 days to 25 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

BROWN COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

c. Personal Leave

After 13 months of continuous employment, employees earn personal leave at the rate of one-half day per month. Personal leave does not accumulate from year to year.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States. All annual appropriations lapse at calendar year end.

On or before August 31, the fiscal officer of the County submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the County receives approval of the Indiana Department of Local Government Finance. Due to the delays in completing the 2002 reassessment, the budget was not approved by the Indiana Department of Local Government Finance.

The County's management cannot transfer budgeted appropriations without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the total appropriations for any budgeted fund or any department of the general fund. The legal level of budgetary control is by function for all budgeted funds.

B. Cash and Investment Balance Deficits

Cash and investment balance deficits for governmental and fiduciary funds arise primarily from disbursements exceeding receipts due to the delay in billing property taxes because of the 2002 reassessment. These deficits are to be repaid from future receipts. The cash and investment balance deficits at December 31, 2004, are:

<u>Fund</u>	<u>Amount</u>
General	<u>\$ 1,282,113</u>

III Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

BROWN COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

The County's investments are categorized below 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 or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by 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.

	Category			Reported Amount	Fair Value
	1	2	3		
Investments	\$ -	\$ -	\$ -	\$ -	\$ -
Investments Not Subject to Categorization:					
Participation in Investment Pools of Other Governments				2,698,505	2,698,505
Open-End Mutual Funds				1,240,254	1,318,965
Total investments				\$ 3,938,759	\$ 4,017,470

B. Leases

Capital Leases

The County has entered into various capital leases for a new jail, a modular park building and equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2004, for the years ended December 31, are as follows:

2005	\$ 709,032
2006	680,881
2007	638,199
2008	591,000
2009	594,000
2010-2014	2,962,000
2015-2019	2,961,000
2020-2024	2,970,000
2025-2029	2,962,000
Total minimum lease payments	15,068,112
Less amount representing interest	6,326,015
Present value of net minimum lease payments	\$ 8,742,097

BROWN COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

The assets acquired through capital leases still in effect are as follows:

	Governmental Activities
Buildings	\$ 8,561,550
Machinery and equipment	444,546
Transportation equipment	140,313
Totals	\$ 9,146,409

C. Temporary Loans Between Funds

The County adopted resolutions to make temporary loans between funds and amended these original resolutions to extend the repayment from December 31 to June 30 of the following year. The following temporary loans between funds were outstanding as of December 31, 2004:

Fund to Receive Repayment of Loan	Fund to Repay Loan	Amount
County Economic Development		
Income Tax Excess	County Family and Children	\$ 350,000
Cumulative Capital Development	General	389,366
Totals		\$ 739,366

Temporary loans between funds activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Loans Made	Loan Repayments	Ending Balance
Temporary Loans	\$ 120,000	\$ 739,366	\$ 120,000	\$ 739,366

D. Changes in Long-Term Debt

Long-term debt activity for the year ended December 31, 2004, was as follows:

Primary Government	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital leases	\$ 8,775,036	\$ 73,186	\$ 106,125	\$ 8,742,097	\$ 271,483

BROWN COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

IV. Other Information

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk. Risk financing is not utilized for the other risks of loss.

Medical Benefits to Employees, Retirees and Dependents (Excluding Postemployment Benefits)

The County has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees and dependents. The risk financing fund is accounted for in the General Fund where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$35,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

Job Related Illnesses or Injuries to Employees

During 1990, the County joined together with other governmental entities to form the Indiana Public Employers' Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses or injuries to employees. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

B. Holding Corporation

The County has entered into a capital lease with Brown County Jail Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the government. No lease payment was due during 2004.

C. Subsequent Events

The County had problems with the contractor performing their 2002 reassessment and was forced to contract with another company to finish the project. The reassessment was subsequently completed; however, there was no property tax billed in 2004. The County sent the 2002 property tax bills, payable in 2003, in 2005; and these were settled to the taxing units of the County in August 2005. The 2003 property tax bills, payable in 2004, were mailed with a December 2005 due date. As of March 2006, the County has not made settlement of these taxes to the taxing units.

The reassessment problems discussed in the preceding paragraph have caused financial hardships for the County in 2005 and 2006. The lack of this major funding source for the County has caused the following funds to be overdrawn as of December 31, 2005:

BROWN COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund	Amount
General	\$ 6,133,126
County Health	448,009
Property Reassessment	85,626
Jail Lease	465,002
 Total	 \$ 7,131,763

The County used money held in trust in the Property Tax Replacement Credit Fund, totaling \$5,125,758, and County Adjusted Gross Income Tax Distribution Fund, totaling \$2,347,892, to cover these overdrawn funds.

Also, there was a loan between funds made in 2005 from the County Economic Development Income Tax Excess Fund to the County Family and Children Fund for \$350,000. Repayment of the loan was extended to June 30, 2006. The loan from County Capital Development Fund to General Fund made in 2004 was not repaid as of March 2006.

The Brown County Jail Building Corporation constructed a new jail during 2004 and the facility was completed and turned over to the County in 2005.

On March 30, 2006, the County closed on a loan for \$1,475,000 to make public improvements to bridges, courthouse security and veteran's building. The proceeds of the loan were placed in an interest bearing account and withdrawal for improvements, as they are made, will come from this account. The loan will be repaid beginning on July 30, 2007, in four equal installments of \$408,908. The loan repayment will be through a tax rate on property in the County.

D. Administration of Welfare Programs

The county is required to provide certain funding for administrative costs of welfare programs, the Hospital Care for Indigent program, Medical Assistance to Wards and Children with Special Health Care Needs through local property tax levies. The County remits those taxes to the State, which pays the cost.

E. Pension Plans

Agent Multiple-Employer and Single Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The County contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the County authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

BROWN COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The County's annual pension cost and related information, as provided by the actuary, is presented in this note.

b. County Police Retirement Plan

Plan Description

The primary government contributes to the County Police Retirement Plan, which is a single-employer defined benefit pension plan. With the approval of the primary government's fiscal body, the plan is administered by the sheriff's department and an appointed trustee as authorized by state statute (IC 36-8-10-12) for full-time police officers. The plan provides retirement, death, and disability benefits to plan members and beneficiaries. The trustee issues a publicly available financial report that includes financial statements and required supplementary information of the plan. The report may be obtained by contacting the county sheriff.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the County Police Retirement Plan are established by state statute. The primary government's annual pension cost and related information, as provided by the actuary, is presented in this note.

c. County Police Benefit Plan

Plan Description

The primary government contributes to the County Police Benefit Plan which is a single-employer defined benefit pension plan. With the approval of the primary government's fiscal body, the plan is administered by the sheriff's department and an appointed trustee as authorized by state statute (IC 36-8-10-12) for full-time police officers. The plan provides dependent pensions, life insurance, and disability benefits to plan members and beneficiaries. The trustee issues a publicly available financial report that includes financial statements and required supplementary information of the plan. The report may be obtained by contacting the county sheriff.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the County Police Benefit Plan are established by state statute. The primary government's annual pension cost and related information, as provided by the actuary, is presented in this note.

BROWN COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF	County Police Retirement Plan	County Police Benefit Plan
Annual required contribution	\$ 118,845	\$ 110,255	\$ 13,901
Interest on net pension obligation	(7,390)	1,301	-
Adjustment to annual required contribution	8,421	(2,648)	-
Annual pension cost	119,876	108,908	13,901
Contributions made	114,737	95,003	13,901
Increase in net pension obligation	5,139	13,905	-
Net pension obligation, beginning of year	(101,929)	18,591	-
Net pension obligation, end of year	\$ (96,790)	\$ 32,496	\$ -

	PERF	County Police Retirement Plan	County Police Benefit Plan
Contribution rates:			
County	4.38%	26%	3%
Plan members	3%	6%	6%
Actuarial valuation date	07-01-04	01-01-05	01-01-05
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed	Level percentage of projected Payroll, closed
Amortization period	40 years	40 years	40 years
Amortization period (from date)	07-01-97	12-31-97	12-31-97
Asset valuation method	4 year smoothed market	4 year smoothed market	4 year smoothed market

Actuarial Assumptions

Investment rate of return	7.25%	7%	7%
Projected future salary increases:			
Total	5%	5%	5%
Attributed to inflation	4%	4%	4%
Attributed to merit/seniority	1%	1%	1%
Cost-of-living adjustments	2%	2%	0%

BROWN COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-02	\$ 86,311	127%	\$ (121,740)
	06-30-03	127,484	84%	(101,929)
	06-30-04	119,876	96%	(96,790)
County Police Retirement Plan	12-31-02	70,911	100%	(7,805)
	12-31-03	96,729	73%	18,591
	12-31-04	110,255	86%	32,496
County Police Benefit Plan	12-31-02	9,133	0%	-
	12-31-03	12,175	0%	-
	12-31-04	13,901	0%	-

BROWN COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (Unfunded) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-02	\$ 2,195,833	\$ 2,372,202	\$ (176,369)	93%	\$ 2,407,978	(7%)
07-01-03	2,215,109	2,254,108	(38,999)	98%	2,633,506	(1%)
07-01-04	2,249,058	2,215,472	33,586	102%	2,470,810	1%

County Police Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-00	\$ 1,116,591	\$ 1,127,125	\$ (10,534)	99%	\$ 328,694	(3%)
01-01-01	1,061,654	1,064,278	(2,624)	100%	344,399	(1%)
01-01-02*	1,113,004	1,113,004	-	100%	374,867	0%
01-01-03*	1,082,963	1,082,963	-	100%	392,031	0%
01-01-04*	1,175,670	1,175,670	-	100%	427,127	0%
01-01-05*	1,300,516	1,300,516	-	100%	427,780	0%

*Actuarial Value of Assets was valued using 75% of the expected actuarial value and 25% of the market value method. Assets prior to these were based on market value.

BROWN COUNTY
OTHER REPORT

The annual report presented herein was prepared in addition to the official report prepared for the individual County office listed below:

County Auditor

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

TO: THE OFFICIALS OF BROWN COUNTY, INDIANA

Compliance

We have audited the compliance of the Brown County (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, 2004. The County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. 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; 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 of the County's compliance with those requirements.

As described in item 2004-1 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding equipment and real property management that are applicable to its Public Safety Partnership and Community Policing Grants. Compliance with such requirements is necessary, in our opinion, for the County to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended December 31, 2004.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2004-1.

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 the 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2004-1 to be a material weakness.

This report is intended solely for the information and use of the County's 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. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 15, 2006

BROWN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2004

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Direct Grant			
Cooperative Forestry Assistance Forest Service, Hoosier National Forest	10.664	03-LE-11091201-010	\$ <u>2,780</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grant			
Public Safety Partnership and Community Policing Grants COPS MORE02	16.710	2002CMWX0031	<u>152,673</u>
Pass-Through Indiana Criminal Justice Institute			
Juvenile Accountability Incentive Block Grants	16.523		
Juvenile Individual, Family and Group Counseling		01-JB-007	18,552
Juvenile Individual, Family and Group Counseling		02-JB-007	<u>10,588</u>
Total for program			<u>29,140</u>
Crime Victim Assistance	16.575		
Domestic Violence Task Force		01VA164	7,400
Family Access Program		01VA175	3,500
Family Access Program		02VA177	28,177
Family Access Program		03VA017	20,439
Victim Assistance Program		03VA018	21,195
Victim Assistance Program		04VA022	<u>12,773</u>
Total for program			<u>93,484</u>
Local Law Enforcement Block Grants Program FY2004 Local Law Enforcement Block	16.592	04-LB-005	<u>3,613</u>
Total for federal grantor agency			<u>278,910</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205		
Bridge Inspection Services		BR-NBIS(428)	12,832
Bridge 86 Construction Engineering		BRO-9907(003)	<u>63,503</u>
Total for cluster			<u>76,335</u>
Pass-Through Indiana Criminal Justice Institute			
Highway Safety Cluster			
State and Community Highway Safety Operation Pullover	20.600	OP-05-02, T-03, P-11	<u>940</u>
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601		
Traffic Safety Equipment		154AL 04-04-04-01	4,848
Operation Pullover		OP 04-02-03-10	<u>2,466</u>
Total for program			<u>7,314</u>
Total for cluster			<u>8,254</u>
Total for federal grantor agency			<u>84,589</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

BROWN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2004
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Indiana State Department of Health			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		
Bioterrorism Grant		BPRS-A-07	11,914
Mass Prophylaxis and Strategic National Stockpile		BPRS-A-04-SNS 7	100
Public Health Coordinator		BPRS 106-2	<u>15,692</u>
Total for program			<u>27,706</u>
Pass-Through Indiana Family and Social Services Administration			
Child Support Enforcement	93.563		
Clerk's Expenditures			6,803
Prosecutor's Expenditures			51,338
Incentive Payments			18,802
Indirect Costs			<u>13,849</u>
Total for program			<u>90,792</u>
Grants to States for Access and Visitation Programs	93.597		
Fathers and Families Grant		07-04-1V-0119	16,740
Fathers and Families Grant		07-05-1V-0119	<u>13,885</u>
Total for program			<u>30,625</u>
Total for federal grantor agency			<u>149,123</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Pass-Through Indiana Department of Homeland Security			
Homeland Security Grant Program	97.004		
2003 Part 2			9,819
2004 Homeland Security Subgrant Agreement			<u>13,200</u>
Total for program			<u>23,019</u>
Public Assistance Grants	97.036		
Emergency Snow Removal		Disaster 3197	<u>30,009</u>
Emergency Management Performance Grants	97.042		
Community Emergency Response Team Subgrant Agreement			823
FY 2004 EMA Reimbursement			<u>13,922</u>
Total for program			<u>14,745</u>
State and Local All Hazards Emergency Operations Planning	97.051		
FFY 2002 Supplemental Funding Grant			<u>15,789</u>
Total for federal grantor agency			<u>83,562</u>
Total federal awards expended			<u>\$ 598,964</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

BROWN COUNTY
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Brown County (County) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

BROWN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted?	no
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Federal Awards:

Internal control over major programs:

Material weaknesses identified?	yes
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified for all programs except Public Safety Partnership and Community Policing Grants, which was qualified.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no
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Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
16.710	Public Safety Partnership and Community Policing Grants Highway Planning and Construction Cluster
93.563	Child Support Enforcement

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	no
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BROWN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

FINDING 2004-1, EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: U.S. Department of Justice
Federal Program: Public Safety Partnership and Community Policing Grants
CFDA Number: 16.710
Direct Grant

The County has not maintained an adequate capital asset system which would account for all capital assets acquired with federal financial assistance.

The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule), Subpart C.32(d)(1), requires that property records be maintained for equipment acquired in whole or in part with grant funds.

As a result, the County is unable to effectively monitor the retention or disposition of capital assets acquired with federal funds. Failure to conduct complete and accurate inventories and reconcile the results to the detailed capital asset ledger could result in some assets being lost, stolen or misappropriated and not detected within a reasonable time.

We recommended that the County maintain a capital asset system which will fulfill requirements imposed by the Common Rule.

BROWN COUNTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

**Brown County Auditor
P.O. Box 37
Nashville, IN 47448
812-988-5485 phone
812-988-5487 fax**

June 15, 2006

RE: Corrective Action Plan for Finding 2004-1, Equipment and Real Property Management

We understand the need to have capital asset records, but our resources and delays in completing the 2002 reassessment and property tax billings has caused us to not get this completed. We are striving to become current in getting our property tax billing and settlement made by December 31, 2006. After this is accomplished, our next goal is to conduct an inventory and compile a record of our capital assets. We also understand that those capital assets purchased with federal funds must be designated as such. We are hopeful that this can be done within six months, or by June 30, 2007.

Mari H. Miller

Mari H. Miller
Brown County Auditor

BROWN COUNTY
EXIT CONFERENCE

The contents of this report were discussed on June 15, 2006, with Mari H. Miller, County Auditor; Stephanie Yager, President of the Board of County Commissioner; and David L. Critser, President of the County Council.