BROWN COUNTY GENERAL HOSPITAL

December 31, 2005

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

Auditor of State
Betty Montgomery

Board of Trustees
Brown County General Hospital
425 Home Street
Georgetown, Ohio 45121

We have reviewed the *Independent Auditor's Report* of the Brown County General Hospital, Brown County, prepared by VonLehman and Company, Inc., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 31, 2006

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BROWN COUNTY GENERAL HOSPITAL

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December 31, 2005

VON LEHMAN + COMPANY INC.

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Brown County General Hospital
Georgetown, Ohio

We have audited the accompanying basic financial statements of Brown County General Hospital, a component unit of Brown County, Ohio, as of and for the years ended December 31, 2005 and 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the basic financial statements present only the Hospital and do not purport to, and do not present fairly the financial position of Brown County, Ohio as of December 31, 2005 and 2004, and the changes in its financial position for the years then ended in accordance with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brown County General Hospital as of December 31, 2005 and 2004, and the results of its operations, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated April 10, 2006, on our consideration of Brown County General Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires 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.

VonLehman and Company Inc.

Fort Mitchell, Kentucky
April 10, 2006

4755 Lake Forest Drive √ Suite 100 √ Cincinnati, OH √ 45242-3836 √ 513-891-5911 √ 513-891-5969 fax
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BROWN COUNTY GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
(UNAUDITED)

This section of Brown County General Hospital's (the Hospital) annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance during the year ended December 31, 2005. This MD&A includes a discussion and analysis of the activities and results of the Hospital.

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

FINANCIAL HIGHLIGHTS

- The Hospital's net assets decreased by approximately $1.5 million mainly due to a loss from operations for 2005 of $1.4 million.

- During the year, the Hospital's net operating revenues increased 10.8% to $39.4 million while operating expenses increased 12.4% to $40.8 million. The result is a loss from operations of $1.4 million compared to a loss from operations in 2004 of $757,000.

- During the year, the Hospital made the following significant capital acquisitions and improvements:

  Office Building in Fayetteville/Mt. Orab
  PACS System
  Computerized Radiology System

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

FINANCIAL STATEMENTS

The financial statements of the Hospital present information about the Hospital using financial reporting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information. The statements of net assets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the financial results of the Hospital's operations and present revenues earned and expenses incurred. The final financial statement is the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Hospital's cash flows from operating activities, capital and related financing activities, and investing activities, and provides information on the sources and uses of cash during the year. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided. The notes to the financial statements can be found beginning on page 8 of this report.

FINANCIAL ANALYSIS

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

A summary of the Hospital's Statements of Net Assets as of December 31, 2005, 2004 and 2003 is presented below (in thousands):

	2005	2004	2003
Cash and Cash Equivalents	$ 2,942	$ 1,379	$ 4,544
Patient Accounts Receivable, Net	4,699	5,073	4,660
Property, Plant and Equipment, Net	12,482	13,178	11,944
Other Assets	2,019	2,599	2,535
Total Assets	$ 22,142	$ 22,229	$ 23,683
Current Portion of Long-Term Liabilities	$ 244	$ 837	$ 609
Other Current Liabilities	4,097	2,862	3,353
Long-Term Liabilities	1,136	407	1,017
Total Liabilities	5,477	4,106	4,979
Net Assets	16,665	18,123	18,704
Total Liabilities and Net Assets	$ 22,142	$ 22,229	$ 23,683

A summary of the Hospital's Revenues, Expenses and Changes in Net Assets for the years ended December 31, 2005, 2004 and 2003 is presented below (in thousands):

	2005	2004	2003
Revenues			
Net Patient Service Revenues	$ 38,938	$ 35,095	$ 31,354
Other Revenues	475	476	400
Total Revenues	39,413	35,571	31,754
Expenses			
Salaries and Benefits	20,391	18,977	15,253
Purchased Services and Professional Fees	4,298	3,449	2,636
Provision for Bad Debts	3,547	2,906	2,521
Depreciation and Amortization	1,825	1,759	1,678
Supplies and Other	10,751	9,237	8,762
Total Expenses	40,812	36,328	30,850
(Loss) Income from Operations	(1,399)	(757)	904
Non-Operating (Expenses) Revenues	(223)	62	(106)
Changes in Net Assets	$ (1,622)	$ (695)	$ 798

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

FINANCIAL ANALYSIS (Continued)

Sources of Revenues

During 2005, the Hospital derived substantially all of its revenues from patient services and other related activities. Revenues include, among other items, revenues from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

Payer Mix

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

OPERATING AND FINANCIAL PERFORMANCE

The Hospital generated significantly more gross revenues from patients in 2005, but sustained a loss from operations due to an increase in expenses (see below) and an increase in its contractual allowances. This section will discuss highlights of 2005 operations and changes in activity.

Revenues

Net patient service revenues increased $3.8 million in 2005 primarily due to an overall increase in volume and charges.

Expenses

Total operating expenses increased $4.5 million in 2005 which was attributed to an increase in personnel costs, costs for purchased services and professional fees, costs for supplies and drugs, utilities and bad debt expense.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year-end, the Hospital had $12.5 million invested in property, plant and equipment. This amount represents a net decrease (including additions, deletions, and depreciation expense) of $0.7 million, or 5.3%, over last year. See page one of the MD & A for a description of the significant capital acquisitions during 2005 and the notes to the basic financial statements for a detailed presentation of the acquisitions and deletions for the year.

Debt Administration

At year-end, the Hospital had $1.1 million in outstanding debt (including capital lease obligations) versus $933,000 last year, an increase of 12.7%. Interest rates varied from 4.0% to 8.0%. For a breakdown of the interest payment schedule, and a detailed presentation of debt acquisitions and retirements for the year, refer to the notes to the basic financial statements.

ECONOMIC FACTORS AND 2006 BUDGET

The Hospital's Board and management considered many factors when setting the 2006 budget. Of primary importance in setting the budget was the status of the economy, which takes into account market focus and other environmental factors such as the following:

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

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

BROWN COUNTY GENERAL HOSPITAL
CONSOLIDATED STATEMENTS OF NET ASSETS

ASSETS

	December 31, 2005	December 31, 2004
Current Assets		
Cash and Cash Equivalents (Includes Restricted Cash of $788,536 and $89,313 as of December 31, 2005 and 2004, Respectively)	$ 2,927,481	$ 680,668
Patient Accounts Receivable, Net of Allowance for Doubtful Accounts and Contractual Adjustments of $4,031,813 for 2005 and $4,285,367 for 2004	4,698,660	5,072,566
Notes, Contracts and Grants Receivable, Net of Allowance for Doubtful Accounts of $329,061 for 2005 and $-0- for 2004	246,498	1,048,485
Accounts Receivable - Other	955,021	649,809
Supplies Inventory	276,955	257,364
Prepaid Expenses and Other Assets	540,410	642,801
Total Current Assets	9,645,025	8,351,693
Cash and Cash Equivalents Whose Use is Limited		
By Board for Plant Renewal and Replacement	14,630	17,115
By County for Bond Issuance	-	681,680
Total Cash and Cash Equivalents Whose Use is Limited	14,630	698,795
Property, Plant and Equipment, Net	12,482,421	13,178,324
Total Assets	$ 22,142,076	$ 22,228,812

See accompanying notes.

LIABILITIES AND NET ASSETS

		December 31,		
		2005		2004
Current Liabilities				
Current Portion of Long-Term Debt	$	244,007	$	836,698
Accounts Payable		1,388,867		836,623
Estimated Settlement Amounts Due to				
Third-Party Payors		685,955		120,000
Deferred Income		19,972		34,533
Accrued Expenses				
Salaries, Wages, Withholdings and Benefis		841,370		850,066
Compensated Absences		706,032		641,999
Other		454,308		378,785
Total Current Liabilities		4,340,511		3,698,704
Long-Term Liabilities				
Accrued Compensated Absences, Less Current Portion		329,052		311,073
Long-Term Debt, Net of Current Portion		807,268		96,045
Total Long-Term Liabilities		1,136,320		407,118
Total Liabilities		5,476,831		4,105,822
Net Assets				
Invested in Property, Plant and Equipment, Net of Related Debt		11,431,146		12,245,581
Unrestricted		4,445,563		5,788,096
Restricted		788,536		89,313
Total Net Assets		16,665,245		18,122,990
Total Liabilities and Net Assets	$	22,142,076	$	22,228,812

BROWN COUNTY GENERAL HOSPITAL
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Years Ended December 31,			
	2005		2004	
	Amount	Percent	Amount	Percent
Net Patient Service Revenues	$ 38,937,972	98.8 %	$ 35,094,990	98.7 %
Other Operating Revenues	475,431	1.2	475,805	1.3
Total Operating Revenues	39,413,403	100.0	35,570,795	100.0
Operating Expenses				
Salaries and Wages	15,627,138	39.6	14,734,843	41.4
Employee Benefits	4,763,408	12.1	4,241,832	11.9
Supplies and Other	9,253,000	23.5	7,892,566	22.2
Provision for Bad Debts	3,546,745	9.0	2,906,350	8.2
Depreciation and Amortization	1,824,670	4.6	1,758,646	4.9
Purchased Services and Professional Fees	4,297,979	10.9	3,449,056	9.7
Utilities	694,787	1.8	705,293	2.0
Insurance	747,562	1.9	552,063	1.6
Interest	57,175	0.1	87,746	0.2
Total Operating Expenses	40,812,464	103.5	36,328,395	102.1
Loss from Operations	(1,399,061)	(3.5)	(757,600)	(2.1)
Non-Operating (Expenses) Revenues				
Investment Income	33,842	0.1	51,905	0.1
Gifts, Grants and Other Non-Operating Revenues	10,198	-	14,290	-
Non-Operating Expenses	(266,945)	(0.7)	(3,765)	-
Total Non-Operating (Expenses) Revenues	(222,905)	(0.6)	62,430	0.1
Change in Net Assets	(1,621,966)	(4.1) %	(695,170)	(2.0) %
Net Assets, Beginning of Year	18,122,990		18,704,648	
Donations of Property, Plant and Equipment	164,221		113,512	
Net Assets, End of Year	$ 16,665,245		$ 18,122,990	

See accompanying notes.

BROWN COUNTY GENERAL HOSPITAL
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2005	Years Ended December 31, 2004
Cash Flows from Operating Activities		
Cash Received from Patients	$ 39,511,878	$ 34,682,105
Cash Payments to Suppliers for Goods and Services	(17,014,194)	(15,465,680)
Cash Payments to Employees for Services	(20,317,230)	(19,639,763)
Other Operating Revenues	475,431	475,805
Net Cash Provided by Operating Activities	2,655,885	52,467
Cash Flows from Non-Capital Financing Activities		
Investment Income	33,842	51,905
Gifts, Grants and Other Non-Operating Revenue	10,198	14,290
Non-Operating Expenses	(266,945)	(3,765)
Net Cash (Used) Provided by Non-Capital Financing Activities	(222,905)	62,430
Cash Flows from Capital and Related Financing Activities		
Acquisition of Property, Plant and Equipment	(990,473)	(2,879,428)
Principal Paid on Long-Term Debt	(881,468)	(1,404,439)
Proceeds from Note Payable	1,000,000	1,000,000
Proceeds from Sale of Property, Plant and Equipment	1,609	4,660
Net Cash Used by Capital and Related Financing Activities	(870,332)	(3,279,207)
Net Change in Cash and Cash Equivalents	1,562,648	(3,164,310)
Cash and Cash Equivalents at Beginning of Year	1,379,463	4,543,773
Cash and Cash Equivalents at End of Year	2,942,111	1,379,463
Recap of Cash and Cash Equivalents		
Undesignated Cash	2,138,945	591,355
Designated Cash	14,630	698,795
Restricted Cash	788,536	89,313
Total Cash and Cash Equivalents	2,942,111	1,379,463
Reconciliation of Loss from Operations to Net Cash Provided by Operating Activities		
Loss from Operations	(1,399,061)	(757,600)
Adjustments to Reconcile Loss from Operations to Net Cash Provided by Operating Activities		
Depreciation	1,816,565	1,749,754
Amortization	8,105	8,892
Provision for Bad Debts	3,546,745	2,906,350
Loss on Disposal of Property, Plant and Equipment	32,423	3,765
Changes in		
Patient Accounts Receivable	(3,172,839)	(3,319,235)
Notes, Contracts, Grants and Other Receivables	496,775	75,057
Supplies Inventory	(19,591)	(12,269)
Prepaid Expenses and Other Assets	94,286	(133,720)
Accounts Payable	552,244	(139,605)
Estimated Settlement Amounts Due to Third-Party Payors	565,955	(46,033)
Deferred Income	(14,561)	1,414
Accrued Expenses	148,839	(284,303)
Net Cash Provided by Operating Activities	$ 2,655,885	$ 52,467

See accompanying notes.

NOTE 1 – 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. The Hospital is operated under the provisions of the Ohio Revised Code. As the Hospital is not legally separate from the County, it is included as a blended component unit in the general purpose financial statements of the County.

The Hospital's reporting entity is composed of the Hospital, component units, and other organizations that are included to ensure that the financial statements are not misleading. Component units are legally separate organizations for which the Hospital is financially accountable. The Hospital is financially accountable for an organization if the Hospital appoints a voting majority of the organization's governing board and the Hospital is able to significantly influence the programs or services performed or provided by the organization; or the Hospital is legally entitled to or can otherwise access the organization's resources; or the Hospital is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the Hospital is obligated for the debt of the organization. Component units may also include organizations for which the Hospital approves the budget, the issuance of debt, or the levying of taxes. Accordingly, the Hospital has no component units.

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

Method of Consolidation

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

Basis of Accounting

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

Accounting Standards

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

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.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

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

Assets Whose Use is Limited

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

Supplies Inventory

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

Property, Plant and Equipment

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

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

It is the Hospital's policy to capitalize donations of property, plant and equipment greater than $500 at their fair market value at the date of the donation. These donations are recorded directly to the Hospital's fund balance. For the years 2005 and 2004, these types of donations amounted to $164,221 and $113,512, respectively, 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.

Compensated Absences

It is the Hospital's policy to compensate eligible employees during authorized absences. Such employees earn sick leave credit proportionately to the paid hours in each bi-weekly pay period according to rates prescribed to by the Ohio Revised Code (ORC). This sick leave is accrued at the rate specified by the ORC (0.0575 per hour worked). Sick leave does not accrue on overtime hours. Employees who retire from active service with the Hospital, State of Ohio, or any of its political subdivisions will be paid for one-fourth (1/4) of the total of his/her accrued but unused sick leave. Payment of sick leave will be based on the employee's rate of pay at the time of retirement. The maximum payment shall not exceed 240 hours.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

An employee who transfers from, or is separated and reinstated from a state or county employer shall be credited with the unused balance of accumulated sick leave provided the transfer to employment or reinstatement takes place within 10 years of the date on which the employee was last employed. It is the employee's responsibility upon hire to notify Human Resources of any previous leave credits.

An employee who transfers from full-time to pool status is no longer eligible to accrue sick benefits. Earned sick hours will be banked and available if the employee returns to full-time or part-time status under OPERS.

Net Patient Service Revenues

For purposes of these financial statements, operating revenues are those revenues generated by the Hospital for healthcare services rendered, grants received, or any other activity related to the Hospital's primary purpose as previously noted in Note 1.

Also, 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 clinical, 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 State Medicaid Agency.

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 $1,007,202 and $1,146,618 for patients meeting the charity care criteria for the years ended December 31, 2005 and 2004, respectively.

Governmental Accounting Standards Board (Statement) No. 34

The Hospital has 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.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and Unrestricted Resources

It is the Hospital's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Unrestricted resources are used only after restricted resources have been depleted.

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are net assets that must be used for a particular purpose as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Restricted net assets include amounts that must be held in perpetuity with the income unrestricted as to use. Restricted net assets were restricted to the following:

	2005	2004
Equipment Purchases	$ 678,460	$ -
Foundation	105,076	84,313
Other Endowments	5,000	5,000
Total	$ 788,536	$ 89,313

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

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.

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.

NOTE 2 – CASH AND CASH EQUIVALENTS

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

Active deposits are public deposits necessary to meet current demands. Such monies must be maintained either as cash in the Hospital, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States.

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio);

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time and,

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

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 Hospital, 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 Board or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

As of December 31, 2005 and 2004, the Hospital had $2,633 and $2,615, respectively in undeposited cash on hand which is included on the financial statements of the Hospital as part of "Cash and Cash Equivalents".

B. Deposits with Financial Institutions

As of December 31, 2005 the carrying amount of all Hospital deposits was $2,942,111. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2005, $2,835,277 of the Hospital's bank balance of $3,042,910 was exposed to custodial risk as discussed below, while $207,633 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Hospital's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Hospital.

NOTE 3 – 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 cost 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:

	2005	2004
Federal Government: Medicare	$ 1,075,111	$ 1,400,724
State of Ohio: Medicaid, Workers Compensation	653,944	452,196
Commercial Insurance, Self-Pay and Other	2,969,605	3,219,646
Total	$ 4,698,660	$ 5,072,566

NOTE 4 –NOTES, CONTRACTS AND GRANTS RECEIVABLE

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

	2005	2004
Notes Receivable		
The Hospital advanced money to physicians for tuition payments. The agreements were stipulated in the physicians' employment contracts. A portion of the advances were earned by the physicians each month. If the physician left the Hospital prior to the date stated in the contract, the unearned portion was due to the hospital. No interest was charged on these notes. The notes were paid off in 2005.	$ -	$ 11,667
Contracts Receivable		
The Hospital advanced wages and other practice expenses to new physicians who joined the Hospital. The contracts stated that if the physician remained employed at the Hospital for four years, these advances would be forgiven. If the physician left prior to four years of employment, these advances were due to the Hospital. After two years of employment with the Hospital, 1/24th of the amount advanced was forgiven monthly until the end of 24 months or until termination. Interest accrued on the principal balance of the advances annually at 1% plus the prime rate (The prime rate was 7.25% and 5.25% respectively at December 31, 2005 and 2004.) Accrued interest was added to the principal balance after 24 months of employment. The receivable represented advances less amounts forgiven for two physicians who had not met their four year tenure requirement with the Hospital. The obligation to repay was secured by the physicians' practice accounts receivable. Due to the uncertainty of the repayment of these advances, they were completely reserved for in 2005.	-	790,320
Subtotal	-	801,987
Grant Receivable		
The Hospital was awarded a grant in 2003 from the US Department of Housing and Urban Development that is restricted for construction and equipment.	246,498	246,498
Total Notes, Contracts and Grants Receivable	$ 246,498	$ 1,048,485

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment transactions for the year ended December 31, 2005 were as follows:

	Balance January 1, 2005	Additions	Transfers/ Disposals	Balance December 31, 2005
Property, Plant and Equipment Not Being Depreciated				
Construction in Progress	$ 456,616	$ 60,699	$ 282,503	$ 234,812
Depreciable Property, Plant and Equipment				
Land and Land Improvements	2,091,433	6,500	-	2,097,933
Buildings and Building Improvements	10,446,087	358,169	-	10,804,256
Fixed Equipment	8,523,345	55,285	-	8,578,630
Major Movable Equipment	9,618,758	834,137	371,164	10,081,731
Vehicles	207,354	122,408	9,676	320,086
Total Property, Plant and Equipment at Historical Cost	31,343,593	1,437,198	663,343	32,117,448
Less Accumulated Depreciation				
Land and Land Improvements	593,083	51,269	-	644,352
Buildings and Building Improvements	6,411,269	473,816	-	6,885,085
Fixed Equipment	5,140,866	427,157	-	5,568,023
Major Movable Equipment	5,842,972	842,043	337,132	6,347,883
Vehicles	177,079	22,280	9,675	189,684
Total Accumulated Depreciation	18,165,269	1,816,565	346,807	19,635,027
Property, Plant and Equipment - Net	$ 13,178,324	$ (379,367)	$ 316,536	$ 12,482,421

Property, plant and equipment transactions for the year ended December 31, 2004 were as follows:

	Balance January 1, 2004	Additions	Transfers/ Disposals	Balance December 31, 2004
Property, Plant and Equipment Not Being Depreciated				
Construction in Progress	$ 5,846	$ 450,770	$ -	$ 456,616
Depreciable Property, Plant and Equipment				
Land and Land Improvements	1,250,990	840,443	-	2,091,433
Buildings and Building Improvements	10,000,225	445,862	-	10,446,087
Fixed Equipment	8,511,147	12,198	-	8,523,345
Major Movable Equipment	8,473,648	1,208,528	63,418	9,618,758
Vehicles	186,373	35,139	14,158	207,354
Total Property, Plant and Equipment at Historical Cost	$ 28,428,229	$ 2,992,940	$ 77,576	$ 31,343,593

(Continued)

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT (Continued)

	Balance January 1, 2004	Additions	Transfers/ Disposals	Balance December 31, 2004
Less Accumulated Depreciation				
Land and Land Improvements	$ 536,515	$ 56,568	$ -	$ 593,083
Buildings and Building Improvements	5,899,217	512,052	-	6,411,269
Fixed Equipment	4,746,603	394,263	-	5,140,866
Major Movable Equipment	5,115,958	786,871	59,857	5,842,972
Vehicles	186,373	-	9,294	177,079
Total Accumulated Depreciation	16,484,666	1,749,754	69,151	18,165,269
Property, Plant and Equipment - Net	$ 11,943,563	$ 1,243,186	$ 8,425	$ 13,178,324

NOTE 6 – LONG-TERM DEBT

	December 31, 2005	
	Bonds and Notes Payable	Capital Lease Obligations
Debt Outstanding January 1, 2005	$ 780,000	$ 152,743
Additions of New Debt	1,000,000	-
Repayments	(824,770)	(56,698)
Debt Outstanding December 31, 2005	$ 955,230	$ 96,045
Expected to be Paid Within One Year	$ 184,273	$ 59,734

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

NOTE 6 – LONG-TERM DEBT (Continued)

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

	2005	2004
Hospital improvement bonds issued in 1993, collateralized by a pledge of all revenues, investment income, accounts receivable, contracts and contract rights, charged interest from 2.8% to 5.3% and matured in 2005.	$ -	$ 480,000
Hospital facilities note payable issued in 2004, collateralized by a pledge of all revenues, investment income, accounts receivable, contracts, instruments, and supplies inventory, charged interest at 2.75% and matured in June, 2005.	-	300,000
Note Payable issued in 2005, collateralized by equipment purchased with the proceeds, charging interest at 4.57% and maturing in September, 2010.	955,230	-
Capital lease obligations, at various effective interest rates between 4.0% and 8.0% collateralized by leased equipment and maturing at various dates through 2007.	96,045	152,743
	1,051,275	932,743
Less Current Portion	244,007	836,698
	$ 807,268	$ 96,045

The Hospital's Long-Term Debt is subject to certain financial and administrative covenants. All covenants not met as of December 31, 2005 were waived.

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

Year Ending December 31,	Long-Term Debt	Capital Lease Obligations
2006	$ 184,273	$ 63,337
2007	192,871	36,946
2008	201,873	-
2009	211,295	-
2010	164,918	-
	$ 955,230	100,283
Less Amount Representing Interest		(4,238)
Present Value of Minimum Lease Payments		96,045
Less Current Portion		59,734
Non-Current Portion		$ 36,311

NOTE 6 – LONG-TERM DEBT (Continued)

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

The cost of assets under capital lease was approximately $393,000 at December 31, 2005 and 2004, (with accumulated depreciation of approximately $393,000 at December 31, 2005 and 2004) and is included in property, plant and equipment in the accompanying consolidated statements of net assets.

NOTE 7 – NET PATIENT SERVICE REVENUES

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

	2005	2004
Gross Patient Service Charges at Established Rates (Including Charity Care)	$ 67,092,502	$ 57,647,156
Less		
Contractual Allowances	(27,147,328)	(21,405,548)
Charity Care	(1,007,202)	(1,146,618)
Net Patient Service Revenue	$ 38,937,972	$ 35,094,990

NOTE 8 – 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:

Year Ending December 31,	
2006	$ 109,550
2007	21,696
Total	$ 131,246

Lease expense for the years ended December 31, 2005 and 2004 was $143,105 and $249,535, respectively.

NOTE 9 – RETIREMENT PLAN

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

NOTE 9 – RETIREMENT PLAN (Continued)

OPERS administers three separate pension plans; the Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and death benefits, annual cost of living adjustments, and post-retirement healthcare benefits to qualifying members of both the Traditional and the Combined Plan; however healthcare benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment healthcare coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS Board of Trustees.

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:

Year	Contribution
2005	$ 2,076,827
2004	1,969,265
2003	1,599,188

NOTE 10 – 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 OPERS for the periods ended December 31, 2005 and 2004.

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 2005 employer rate for employees' coverage by OPERS was 13.55%, of which 4.0% was used to fund health care. The total Hospital contribution used to fund health care was $613,086 and $581,333 for the years ended December 31, 2005 and 2004 respectively.

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

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

OPEB are advanced-funded on an actuarially-determined basis. The number of active contributing participants at December 31, 2005 was 376,109. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2004 was approximately $10,800,000,000. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $29,500,000,000 and $18,700,000,000, respectively, as of December 31, 2004. 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 2004 was 8.0%.

- Active Employee Total Payroll – An annual increase of 4.0% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%.

- Health Care – Health care costs were assumed to increase 4.0% annually.

NOTE 11 – PROFESSIONAL LIABILITY INSURANCE

The Hospital maintains malpractice insurance coverage on a per occurrence basis with Lexington Insurance. 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.

NOTE 12 – CONCENTRATIONS

Medicare and Medicaid accounted for approximately 62.3% and 60.8% of the Hospital’s gross patient service revenues during 2005 and 2004, respectively.

VON LEHMAN + COMPANY INC.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Brown County General Hospital

We have audited the basic financial statements of Brown County General Hospital as of and for the year ended December 31, 2005, and have issued our report thereon dated April 10, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Brown County General Hospital'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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting 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 financial reporting that, in our judgment, could adversely affect Brown County General Hospital's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2005-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic 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. Our consideration of the internal control over financial reporting 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 also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting which we reported to management in a separate letter dated April 10, 2006.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Brown County General Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as item 2005-001.

This report is intended solely for the information and use of the board of trustees, management, and the Auditor of State of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

VonLehman and Company Inc.

Fort Mitchell, Kentucky
April 10, 2006

4755 Lake Forest Drive √ Suite 100 √ Cincinnati, OH √ 45242-3836 √ 513-891-5911 √ 513-891-5969 fax
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BROWN COUNTY GENERAL HOSPITAL
NONCOMPLIANCE CITATION - OHIO REVISED CODE
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

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

Finding Number 2005-001

Provisions of the Ohio Revised Code address circumstances in which a public official or employee is prohibited from using the authority or influence of his office or employment to secure anything of value that substantially and improperly influences the official or employee in the exercise of his duties, and from having an interest in a public contract.

Ohio Rev. Code Section 2921.42(A)(1) states that no public official shall knowingly authorize or employ the authority or influence of his office to secure authorization of any public contract in which he, a member of his family, or any of his business associates has an interest.

Ohio Rev. Code Sections 102.03(D) and (E) which provide:

> (D) No public official or employee shall use or authorize the use of the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.
>
> (E) No public official or employee shall solicit or accept anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

Additionally, Section 18 of the Hospital's Policy Manual states in pertinent part that Hospital employees should avoid all potential conflicts of interest. Adherence to this policy ensures that the Hospital's employees act with total objectivity in carrying out their duties for the Hospital. Also, this section states that employees may not use Hospital assets for personal benefit or for personal business purposes. The Hospital's Foundation president, Carl Beck, authorized purchases for both the Hospital and the Foundation from Ad Works, a company owned by his wife. These purchases were obtainable through other vendors. Mr. Beck indirectly monetarily benefited from these transactions.

We recommend the Hospital, with the help of its legal counsel, follow the aforementioned formal policy regarding related party transactions.

This matter will be referred to the Ohio Ethics Commission.

Finding Number 2004-001

Provisions of the Ohio Revised Code address circumstances in which a public official or employee is prohibited from using the authority or influence of his office or employment to secure anything of value that substantially and improperly influences the official or employee in the exercise of his duties, and from having an interest in a public contract.

Ohio Rev. Code Section 2921.42(A)(1) states that no public official shall knowingly authorize or employ the authority or influence of his office to secure authorization of any public contract in which he, a member of his family, or any of his business associates has an interest.

Additionally, Section 18 of the Hospital's Policy Manual states in pertinent part that Hospital employees should avoid all potential conflicts of interest. That section also states that Employees should not have other outside employment or business interests that place them in the position of (i) appearing to represent the Hospital, (ii) providing goods or services substantially similar to those the Hospital provides or is considering making available, or (iii) lessening their efficiency, productivity, or dedication to the Hospital in performing their everyday duties. The Hospital's former CEO, David Wallace, entered into a sub-lease of office space at a local strip mall on May 1, 2004. This sub-lease enabled Mr. Wallace's private business partner, Tony Applegate, who previously leased this same space, to monetarily benefit.

Status

This matter has been referred to the Ohio Ethics Commission.

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

BROWN COUNTY GENERAL HOSPITAL

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
AUGUST 15, 2006