



Mary Taylor, CPA
Auditor of State

BROWN COUNTY
TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Governmental-wide Financial Statements:	
Statement of Net Assets – Modified Cash Basis as of December 31, 2005.....	15
Statement of Activities – Modified Cash Basis For The Year Ended December 31, 2005.....	16
Fund Financial Statements:	
Balance Sheet – Modified Cash Basis – Governmental Funds	17
Statement of Receipts, Disbursements, and Changes in Fund Balances – Modified Cash Basis – Governmental Funds	18
Statement of Fiduciary Net Assets – Modified Cash Basis	19
Budgetary Comparison Schedule – Modified Cash Basis – General Fund	20
Budgetary Comparison Schedule – Modified Cash Basis – Job and Family Services	21
Budgetary Comparison Schedule – Modified Cash Basis – Auto and Gas Tax Fund	22
Budgetary Comparison Schedule – Modified Cash Basis – Mental Retardation and Developmental Disabilities Fund	23
Brown County General Hospital:	
Consolidated Statement of Net Assets – Brown County General Hospital.....	24
Consolidated Statement of Operations – Brown County General Hospital.....	26
Consolidated Statement of Cash Flows – Brown County General Hospital	27
Notes to Basic Financial Statements	29
Schedule of Federal Awards Expenditures.....	65
Notes to Schedule of Federal Awards Expenditures	67
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	69
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	71
Schedule of Findings.....	73
Schedule of Prior Audit Findings.....	75

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Brown County
800 Mount Orab Pike
Georgetown, Ohio 45121

To the Board of County Commissioners:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Brown County, Ohio (the County), as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements of Brown County's primary government, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Brown County General Hospital for the years ended December 31, 2005 and 2004. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the accompanying financial statements, insofar as it relates to the amounts included for the Brown County General Hospital, is based on the report of the other auditors.

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

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

The Brown County General Hospital financial statements are presented as stand alone statements. In our opinion, based on the report of the other auditors, the Brown County General Hospital's stand alone financial statements present fairly, in all material respects, its financial position as of December 31, 2005 and December 31, 2004, and its changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The County omitted Business-Type Activities from the entity-wide statements and the proprietary fund statements for the Brown County General Hospital in its modified cash basis statements. Therefore in our opinion, the County's financial statements do not present fairly the financial position of the Business-Type Activities and proprietary funds of the County as of December 31, 2005 or the changes in its modified cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 2.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the discretely presented component unit and the aggregate remaining fund information of Brown County, Ohio, as of December 31, 2005, and the respective changes in modified cash financial position and the respective budgetary comparison for the General, Job and Family Services, Auto and Gas Tax and Mental Retardation and Developmental Disabilities Funds, thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2007, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Mary Taylor, CPA
Auditor of State

March 21, 2007

BROWN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 (Unaudited)

As Management of Brown County, we offer readers of Brown County's financial statements this narrative overview and analysis of the financial activities of Brown County for the fiscal year ended December 31, 2005. The intent of this discussion and analysis is to look at the County's financial performance as a whole; readers should also review notes to the financial statements to enhance their understanding of the County's performance.

- Net cash assets of governmental activities increase of \$1,349,544.
- At the close of the current fiscal year, Brown County's governmental funds reported a combined ending fund balance of \$13,729,207. Approximately 11%, \$1,572,322 is available for spending at the County's discretion.

Using the Basic Financial Statements

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

Report Components

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

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

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

Basis of Accounting

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

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

BROWN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005

(Unaudited)

(Continued)

Reporting the Government as a Whole

The statement of net assets and the statement of activities reflect how the County did financially during 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the County at yearend. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the County's general receipts.

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

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

Reporting the County's Most Significant Funds

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

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

The cash basis governmental fund financial statements can be found on page 17-18 of this report.

BROWN COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Unaudited)
(Continued)**

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

The basic fiduciary fund financial statement can be found on page 19 of this report.

Budgetary Comparison Schedules. The County's budgetary process accounts for certain transactions on a cash basis. The budgetary comparison schedule for the General fund and all annually budgeted major Special Revenue funds are presented to demonstrate the County's compliance with annually adopted budgets. The budgetary fund financial statements can be found on pages 20 - 23 in this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29 - 63 of this report.

Government-Wide Financial Analysis

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

The Government as a Whole

Table 1 provides a summary of the County's net assets for 2005 compared to 2004 on a modified cash basis:

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

	2005	2004
Equity in Pooled Cash and Investments	\$ 13,729,207	\$ 12,379,663
TOTAL ASSETS	\$ 13,729,207	\$ 12,379,663
Restricted for:		
Other Purposes	11,552,322	10,604,287
Capital Projects	72,895	189,511
Debt Service	531,668	487,482
Unrestricted	1,572,322	1,098,383
TOTAL NET ASSETS	\$ 13,729,207	\$ 12,379,663

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

BROWN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005

(Unaudited)

(Continued)

Net assets of government activities increased \$1,349,544 or 11% during 2005. The primary increase in cash balances is due to an increase capital grant revenue. This increase is attributed to an increase in grant monies received for Ohio Public Works Commission and Issue II projects.

Governmental activities. Governmental activities increased Brown County's net cash assets by \$1,349,544. Continued strict budget restraints have been put in place to ensure the financial future of the county. Table 2 reflects the changes in net assets in 2005 and 2004.

Changes in Net Assets

Table 2 Governmental Activities

	2005	2004
Program Receipts:		
Charges for Services	\$ 3,781,748	\$ 3,656,743
Operating Grants and Contributions	13,410,459	12,929,492
Capital Grants and Contributions	677,295	193,285
General Receipts:		
Property Taxes	2,778,468	2,915,152
Sales Taxes	3,290,560	3,188,801
Unrestricted Grants	444,683	660,229
Earnings on Investment	448,058	314,039
Miscellaneous	839,558	810,616
Proceeds from Bonds	-	250,000
Other Financing Sources/(Uses), net	620,002	712,899
Total Receipts	26,290,831	25,631,256
Program Disbursements:		
General Government:		
Legislative and Executive	4,160,082	4,552,747
Judicial	1,920,952	1,922,163
Public Safety	3,071,230	3,509,318
Public Works	3,890,063	3,348,314
Health	4,607,172	4,968,682
Human Services	4,809,168	4,460,593
Economic Development and Assistance	818,886	441,660
Capital Outlay	802,420	-
Debt Service:		
Principal Retirement	680,362	635,000
Interest and Fiscal Charges	180,952	206,589
Total Disbursements	24,941,287	24,045,066
Increase/(Decrease) in Net Assets	1,349,544	1,586,190
Net Assets - Beginning of Year	12,379,663	10,793,473
Net Assets - End of Year	\$ 13,729,207	\$ 12,379,663

BROWN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005

(Unaudited)

(Continued)

Program receipts represent only 68 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits and inspection fees and charges to nearby governments for police services provide under contract. Program receipts increased over the prior year largely due to capital grants received from Ohio Public Works Commission and Issue II for multiple road projects.

General receipts represent 32 percent of the County's total receipts, and of this amount, over 72 percent are local taxes. State and federal grants and entitlements make up the balance of the County's general receipts at 5 percent. Other receipts are very insignificant and somewhat unpredictable revenue sources. General receipts decreased over the prior year because no new debt was issued. Additionally unrestricted grants decreased due to timing between years of property tax rollbacks and state deregulation monies.

Disbursements for General Government represent the overhead costs of running the County and the support services provided for the other County activities. These include the costs of the commissioners, auditor, treasurer, County departments, as well as internal services such as payroll and purchasing. There was an overall decrease in General Government expenditures from the prior year due to the budget restraints and cut backs implemented.

Public Safety is the costs of police protection; the economic development department promotes the County to industry and commerce as well as working with other governments in the area to attract new business; and Public Works is the cost of maintaining the roads. Public Safety expenditures decreased as a result of budget cuts made to the Sheriff's Department funds. Public Works and Capital Outlay expenditures increased as a result of the Ohio Public Works Commission and Issue II projects, as well as improvements and updates to the County roads and equipment.

Governmental Activities

If you look at the Statement of Activities on page 16, you will see that the first column lists the major services provided by the County. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for general government, which account for 24 percent of all governmental disbursements. Health and human services also represent a significant cost, about 18 and 19 percent, respectively. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the County that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement.

BROWN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 (Unaudited) (Continued)

(Table 3)

	Governmental Activities			
	Total Cost Of Services 2005	Total Cost Of Services 2004	Net Cost of Services 2005	Net Cost of Services 2004
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General Government:				
Executive and Legislative	\$4,160,082	\$4,552,747	(\$2,456,282)	(\$3,206,887)
Judicial	1,920,952	1,922,163	(822,452)	(829,547)
Public Safety	3,071,230	3,509,318	(1,968,579)	(2,052,308)
Public Works	3,890,063	3,348,314	337,574	826,275
Health	4,607,172	4,968,682	(649,083)	(771,152)
Human Services	4,809,168	4,460,593	(465,395)	(673,276)
Economic Development and Assistance	818,886	441,660	(13,124)	282,938
Capital Outlay	802,420	-	(173,130)	-
Principal Retirement	680,362	635,000	(680,362)	(635,000)
Interest and Fiscal Charges	180,952	206,589	(180,952)	(206,589)
Total Expenses	<u>\$24,941,287</u>	<u>\$24,045,066</u>	<u>(\$7,071,785)</u>	<u>(\$7,265,546)</u>

The dependence upon tax receipts is apparent as over 28 percent of governmental activities are supported through general receipts.

Financial Analysis of the Government's Funds

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

As of the end of the current fiscal year Brown County's governmental funds reported combined ending fund cash basis balances of \$13,729,207, an increase of 11% in comparison with the prior year. Approximately \$1,357,832 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of Brown County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,357,832 with receipts of \$8,296,032 and disbursements of \$7,822,093. Budget restraints have been put into place to solidify the future of the general fund. State budget cuts have some impact on the general fund of Brown County and further countywide budget cuts will be implemented as needed. The general fund balance increased by \$473,939 during the current fiscal year. This resulted from a large decrease in expenditures due to the budget restraints.

The Job and Family Services fund reported an increase in fund balance of \$495,475. This resulted from an increase in public assistance funds received from the state.

BROWN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 (Unaudited) (Continued)

The Auto and Gas fund received \$3,914,442 from state gasoline tax and motor vehicle registration fees. This fund reported an increase in fund balance of \$329,980. This resulted from an increase in interest and gasoline tax from the state.

The Mental Retardation/Developmental Disabilities fund reported an increase in fund balance of \$136,378. This was a result of an increase in Medicaid reimbursements received and a decrease in overall expenditures.

General Fund Budgetary Highlights

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

During the year, the County revised the General Fund budget at various times. The final adjusted budget, however, did not change significantly from the original budget.

For the year ended December 31, 2005, General Fund disbursements were \$338,895 less than final appropriations, while actual resources available for appropriation were \$779,092 above the final budgeted amount.

Economic Factors and Next Year's Budgets and Rates

The County maintains a conservative approach to spending while maximizing its local revenues. Current economic indicators show that the current economy should remain at its current pace.

The vacancy rate of the County's general business districts is not tracked; however, much of the district is utilized by service entities such as government offices, banks, insurance offices, restaurants, etc. There are only a few retail stores located in the county. Sales tax revenue during the past three years has remained basically the same.

All of these factors were considered in the preparation of the County's 2005 budget. In conjunction with current economic factors, the County has increased its 2006 budget for the County to continue providing public safety services, to continue improving its technology, and for the economic development of the County.

Capital Assets and Debt Administration

Capital Assets

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

County Debt Administration

At the end of 2005, the County had general obligation debt outstanding of \$2,449,638, backed by the full faith and credit of the County. The County's general obligation debt decreased by \$680,362 or 22% during the 2005 fiscal year.

BROWN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 (Unaudited) (Continued)

State statute limits the total amount of debt a governmental entity may issue. The current unvoted debt margin for the County is \$3,881,386. In addition to the bonded debt, the County's long-term obligations include a Forgivable Debt with the Ohio Department of Mental Health. Additional information on the County's long-term debt can be found in note 12 of this report. Interest and fiscal charges for 2005, were \$180,952 or 1% of total governmental activities.

Request for information

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

Brown County General Hospital

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

BROWN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 (Unaudited) (Continued)

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):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
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	<u>2,019</u>	<u>2,599</u>	<u>2,535</u>
Total Assets	<u>\$ 22,142</u>	<u>\$ 22,229</u>	<u>\$ 23,683</u>
Current Portion of Long-Term Liabilities	\$ 244	\$ 837	\$ 609
Other Current Liabilities	4,097	2,862	3,353
Long-Term Liabilities	<u>1,136</u>	<u>407</u>	<u>1,017</u>
Total Liabilities	5,477	4,106	4,979
Net Assets	<u>16,665</u>	<u>18,123</u>	<u>18,704</u>
Total Liabilities and Net Assets	<u>\$ 22,142</u>	<u>\$ 22,229</u>	<u>\$ 23,683</u>

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):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues			
Net Patient Service Revenues	\$ 38,938	\$ 35,095	\$ 31,354
Other Revenues	<u>475</u>	<u>476</u>	<u>400</u>
Total Revenues	<u>39,413</u>	<u>35,571</u>	<u>31,754</u>

BROWN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 (Unaudited) (Continued)

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	<u>10,751</u>	<u>9,237</u>	<u>8,762</u>
Total Expenses	<u>40,812</u>	<u>36,328</u>	<u>30,850</u>
(Loss) Income from Operations	<u>(1,399)</u>	<u>(757)</u>	<u>904</u>
Non-Operating (Expenses) Revenues	<u>(223)</u>	<u>62</u>	<u>(106)</u>
Changes in Net Assets	\$ <u>(1,622)</u>	\$ <u>(695)</u>	\$ <u>798</u>

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

Sources of Revenues

During 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.

BROWN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005

(Unaudited)

(Continued)

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.

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BROWN COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

December 31, 2005

	Governmental Activities	Component Unit <u>GROW Inc.</u>
ASSETS		
Equity in Pooled Cash and Investments	<u>\$ 13,729,207</u>	<u>\$ 32,322</u>
TOTAL ASSETS	<u><u>\$ 13,729,207</u></u>	<u><u>\$ 32,322</u></u>
 NET ASSETS		
Restricted for:		
Other Purposes	\$ 11,552,322	\$ -
Capital Projects	72,895	-
Debt Service	531,668	-
Unrestricted	<u>1,572,322</u>	<u>32,322</u>
 TOTAL NET ASSETS	 <u><u>\$ 13,729,207</u></u>	 <u><u>\$ 32,322</u></u>

See accompanying notes to the financial statements

BROWN COUNTY

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDING DECEMBER 31, 2005

	Program Cash Receipts				Net (Disbursements)	Component Unit
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions, and Interest	Receipts and Changes in Net Assets Governmental Activities	GROW Inc.
Governmental activities:						
General Government:						
Executive and Legislative	\$ (4,160,082)	\$ 1,332,327	\$ 371,473	\$ -	\$ (2,456,282)	\$ -
Judicial	(1,920,952)	988,117	110,383	-	(822,452)	-
Public Safety	(3,071,230)	587,054	515,597	-	(1,968,579)	-
Public Works	(3,890,063)	54,340	4,125,292	48,005	337,574	-
Health	(4,607,172)	617,853	3,340,236	-	(649,083)	-
Human Services	(4,809,168)	189,007	4,154,766	-	(465,395)	-
Economic Development and Assistance	(818,886)	13,050	792,712	-	(13,124)	-
Capital Outlay	(802,420)			629,290	(173,130)	-
Debt Service:						
Principal Retirement	(680,362)	-	-	-	(680,362)	-
Interest and Fiscal Charges	(180,952)	-	-	-	(180,952)	-
<i>Total Governmental Activities</i>	<u>(24,941,287)</u>	<u>3,781,748</u>	<u>13,410,459</u>	<u>677,295</u>	<u>\$ (7,071,785)</u>	<u>-</u>
Component Unit:						
GROW Inc.	(92,816)	103,117	-	-		10,301
<i>Total Component Unit</i>	<u>(92,816)</u>	<u>103,117</u>	<u>-</u>	<u>-</u>		<u>10,301</u>
<i>Totals</i>	<u>\$ (25,034,103)</u>	<u>\$ 3,884,865</u>	<u>\$ 13,410,459</u>	<u>\$ 677,295</u>		<u>10,301</u>
General Receipts:						
Taxes						
Property					2,778,468	-
Sales					3,290,560	-
State Local Government					444,683	-
Earnings on Investments					448,058	-
Miscellaneous					839,558	-
Other Financing Sources/Uses (Net)					620,002	-
<i>Total General Receipts</i>					<u>8,421,329</u>	<u>-</u>
Increase in net assets					1,349,544	10,301
Net assets - beginning of year					12,379,663	22,021
Net assets - end of year					<u>\$ 13,729,207</u>	<u>\$ 32,322</u>

See accompanying notes to the financial statements

BROWN COUNTY

**BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	<u>General Fund</u>	<u>Job & Family Services Fund</u>	<u>Auto & Gas Fund</u>	<u>MRDD Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Equity in Pooled Cash and Investments	\$ 1,572,322	\$ 749,287	\$ 4,512,854	\$ 619,572	\$ 6,275,172	\$ 13,729,207
TOTAL ASSETS	<u>\$ 1,572,322</u>	<u>\$ 749,287</u>	<u>\$ 4,512,854</u>	<u>\$ 619,572</u>	<u>\$ 6,275,172</u>	<u>\$ 13,729,207</u>
FUND BALANCE						
Reserved for Encumbrances	214,490	199,698	497,791	47,620	963,216	1,922,815
Unreserved, Undesignated	<u>1,357,832</u>	<u>549,589</u>	<u>4,015,063</u>	<u>571,952</u>	<u>5,311,956</u>	<u>11,806,392</u>
TOTAL FUND BALANCE	<u>\$ 1,572,322</u>	<u>\$ 749,287</u>	<u>\$ 4,512,854</u>	<u>\$ 619,572</u>	<u>\$ 6,275,172</u>	<u>\$ 13,729,207</u>

See accompanying notes to the financial statements

BROWN COUNTY

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES -
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
AS OF THE YEAR ENDED DECEMBER 31, 2005**

	General Fund	Job & Family Services Fund	Auto & Gas Fund	MRDD Funds	Other Governmental Funds	Total Governmental Funds
RECEIPTS						
Taxes						
Property	\$ 1,972,856	\$ -	\$ -	\$ 536,853	\$ 268,759	\$ 2,778,468
Sales (Permissive Sales Tax)	2,632,555	-	-	-	658,005	3,290,560
Charges for Services	1,496,333	-	4,786	2,006	1,454,957	2,958,082
Intergovernmental	1,065,120	3,118,229	3,914,442	887,668	5,546,978	14,532,437
Fines and Forfeitures	441,477	-	27,125	-	350,344	818,946
Licenses and Permits	4,282	-	-	-	438	4,720
Miscellaneous	140,719	382,104	76,740	32,129	207,866	839,558
Interest	340,774	-	107,284	-	-	448,058
TOTAL RECEIPTS	8,094,116	3,500,333	4,130,377	1,458,656	8,487,347	25,670,829
DISBURSEMENTS						
General Government:						
Legislative and Executive	3,653,337	-	-	-	506,745	4,160,082
Judicial	1,244,229	-	-	-	676,723	1,920,952
Public Safety	2,074,774	-	-	-	996,456	3,071,230
Public Works	85,502	-	3,800,397	-	4,164	3,890,063
Health	51,382	-	-	1,332,338	3,223,452	4,607,172
Human Services	294,215	3,271,927	-	-	1,243,026	4,809,168
Economic Development and Assistance	-	-	-	-	818,886	818,886
Capital Outlay	-	-	-	-	802,420	802,420
Debt Service						
Principal Retirement	-	-	-	-	680,362	680,362
Interest and Fiscal Charges	-	-	-	-	180,952	180,952
TOTAL DISBURSEMENTS	7,403,439	3,271,927	3,800,397	1,332,338	9,133,186	24,941,287
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	690,677	228,406	329,980	126,318	(645,839)	729,542
OTHER FINANCING SOURCES (USED)						
Operating Transfer - In	-	-	-	-	396,223	396,223
Advance - In	179,091	-	-	-	253,491	432,582
Other Financing Sources	22,825	289,429	-	10,060	609,477	931,791
Other Financing Uses	(154,618)	(22,360)	-	-	(134,811)	(311,789)
Operating Transfer - Out	(86,945)	-	-	-	(309,278)	(396,223)
Advance - Out	(177,091)	-	-	-	(255,491)	(432,582)
TOTAL OTHER FINANCING SOURCES (USED)	(216,738)	267,069	-	10,060	559,611	620,002
NET CHANGE IN FUND BALANCE	473,939	495,475	329,980	136,378	(86,228)	1,349,544
CASH BASIS FUND BALANCE - Beginning of year	1,098,383	253,812	4,182,874	483,194	6,361,400	12,379,663
CASH BASIS FUND BALANCE - End of year	\$ 1,572,322	\$ 749,287	\$ 4,512,854	\$ 619,572	\$ 6,275,172	\$ 13,729,207
RESERVED FOR ENCUMBRANCES	\$ 214,490	\$ 199,698	\$ 497,791	\$ 47,620	\$ 963,216	\$ 1,922,815

See accompanying notes to the financial statements

BROWN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
DECEMBER 31, 2005

	<u>Agency Funds</u>
Assets:	
Equity in Pooled Cash and Investments	\$ 3,291,818
Equity in Pooled Cash and Investments in Outside Accounts	<u>676,685</u>
TOTAL ASSETS	<u>\$ 3,968,503</u>
TOTAL NET ASSETS	<u>\$ 3,968,503</u>

See accompanying notes to the financial statements

BROWN COUNTY

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 1,098,383	\$ 1,098,383	\$ 1,098,383	\$ -
Resources (Inflows):				
Property Tax	2,158,240	2,158,240	1,972,856	(185,384)
Sales (Permissive Sales Tax)	2,258,844	2,296,041	2,632,555	336,514
Charges for services	1,283,917	1,305,060	1,496,333	191,273
Intergovernmental	913,918	928,968	1,065,120	136,152
Licenses	3,674	3,735	4,282	547
Fines and Forfeitures	378,806	385,044	441,477	56,433
Other Income	120,743	122,731	140,719	17,988
Interest	292,399	297,214	340,774	43,560
Other Financing Sources:	-	-	-	-
Other	19,585	19,907	22,825	2,918
Advances from other funds	-	-	179,091	179,091
Amounts available for appropriation	<u>8,528,509</u>	<u>8,615,323</u>	<u>9,394,415</u>	<u>779,092</u>
Charges to Appropriations (Outflows):				
Executive/Legislative	3,895,761	4,035,031	3,653,337	381,694
Judicial	1,298,443	1,270,389	1,244,229	26,160
Public Safety	2,146,738	2,158,138	2,074,774	83,364
Public Health	52,457	52,457	51,382	1,075
Public Works	90,836	90,836	85,502	5,334
Human Services	308,805	308,519	294,215	14,304
Miscellaneous	-	-	-	-
Other Financing Uses:	-	-	-	-
Transfers to other funds	131,000	91,000	86,945	4,055
Advances to other funds	-	-	177,091	(177,091)
Other financing uses	154,618	154,618	154,618	-
Total Charges to Appropriations	<u>8,078,658</u>	<u>8,160,988</u>	<u>7,822,093</u>	<u>338,895</u>
Ending Budgetary Fund Balance	<u>\$ 449,851</u>	<u>\$ 454,335</u>	<u>\$ 1,572,322</u>	<u>\$ 1,117,987</u>

See accompanying notes to the financial statements

BROWN COUNTY

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
JOB AND FAMILY SERVICES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 253,812	\$ 253,812	\$ 253,812	\$ -
Resources (Inflows):				
Intergovernmental	2,713,224	2,713,224	3,118,229	405,005
Other Revenue	332,475	332,475	382,104	49,629
Other Financing Sources	251,837	251,837	289,429	37,592
Amounts available for appropriation	<u>3,551,348</u>	<u>3,551,348</u>	<u>4,043,574</u>	<u>492,226</u>
Charges to Appropriations (Outflows):				
Human Services	3,106,830	3,441,190	3,271,927	169,263
Other Financing Uses	22,360	22,360	22,360	-
Total Charges to Appropriations	<u>3,129,190</u>	<u>3,463,550</u>	<u>3,294,287</u>	<u>169,263</u>
Ending Budgetary Fund Balance	<u>\$ 422,158</u>	<u>\$ 87,798</u>	<u>\$ 749,287</u>	<u>\$ 661,489</u>

See accompanying note to the financial statements

BROWN COUNTY

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 AUTO AND GAS TAX FUND
 FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amount		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 4,182,874	\$ 4,182,874	\$ 4,182,874	\$ -
Resources (Inflows):				
Charges for services	3,777	3,777	4,786	1,009
Intergovernmental	3,089,568	3,089,568	3,914,442	824,874
Fines and Forfeitures	21,409	21,409	27,125	5,716
Other Income	60,569	60,569	76,740	16,171
Interest	84,677	84,677	107,284	22,607
Amounts available for appropriation	<u>7,442,874</u>	<u>7,442,874</u>	<u>8,313,251</u>	<u>870,377</u>
Charges to Appropriations (Outflows):				
Public Works	<u>3,261,263</u>	<u>4,284,112</u>	<u>3,800,397</u>	<u>483,715</u>
Total Charges to Appropriations	<u>3,261,263</u>	<u>4,284,112</u>	<u>3,800,397</u>	<u>483,715</u>
Ending Budgetary Fund Balance	<u>\$ 4,181,611</u>	<u>\$ 3,158,762</u>	<u>\$ 4,512,854</u>	<u>\$ 1,354,091</u>

See accompanying note to the financial statements

BROWN COUNTY

**BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
MENTAL RETARDATION/DEVELOPMENTAL DISABILITIES FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amount		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Beginning Budgetary Fund Balance:	\$ 483,194	\$ 483,194	\$ 483,194	\$ -
Resources (Inflows):				
Taxes	609,000	609,000	536,853	(72,147)
Charge for Services	1,894	1,894	2,006	112
Intergovernmental	838,265	838,265	887,668	49,403
Miscellaneous	30,341	30,341	32,129	1,788
Other Financing Sources	9,500	9,500	10,060	560
Amounts available for appropriation	<u>1,972,194</u>	<u>1,972,194</u>	<u>1,951,910</u>	<u>(20,284)</u>
Charges to Appropriations (Outflows):				
Public Health	<u>1,455,000</u>	<u>1,470,000</u>	<u>1,332,338</u>	<u>137,662</u>
Total Charges to Appropriations	<u>1,455,000</u>	<u>1,470,000</u>	<u>1,332,338</u>	<u>137,662</u>
Ending Budgetary Fund Balance	<u>\$ 517,194</u>	<u>\$ 502,194</u>	<u>\$ 619,572</u>	<u>\$ 117,378</u>

See accompanying note to the financial statements

**BROWN COUNTY GENERAL HOSPITAL
BROWN COUNTY**

**CONSOLIDATED STATEMENTS OF NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

ASSETS

	December 31,	
	2005	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 to the financial statements

**BROWN COUNTY GENERAL HOSPITAL
BROWN COUNTY**

**CONSOLIDATED STATEMENTS OF NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Continued)**

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 Benefits	841,370	850,066
Compensated Absences	706,032	641,999
Other	454,308	378,785
	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
	1,136,320	407,118
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
	16,665,245	18,122,990
Total Net Assets	16,665,245	18,122,990
Total Liabilities and Net Assets	\$ 22,142,076	\$ 22,228,812

See accompanying notes to the financial statements

**BROWN COUNTY GENERAL HOSPITAL
BROWN COUNTY**

**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	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	<u>39,413,403</u>	<u>100.0</u>	<u>35,570,795</u>	<u>100.0</u>
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	<u>40,812,464</u>	<u>103.5</u>	<u>36,328,395</u>	<u>102.1</u>
Loss from Operations	<u>(1,399,061)</u>	<u>(3.5)</u>	<u>(757,600)</u>	<u>(2.1)</u>
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	<u>(266,945)</u>	<u>(0.7)</u>	<u>(3,765)</u>	<u>-</u>
Total Non-Operating (Expenses) Revenues	<u>(222,905)</u>	<u>(0.6)</u>	<u>62,430</u>	<u>0.1</u>
Change in Net Assets	(1,621,966)	<u>(4.1) %</u>	(695,170)	<u>(2.0) %</u>
Net Assets, Beginning of Year	18,122,990		18,704,648	
Donations of Property, Plant and Equipment	<u>164,221</u>		<u>113,512</u>	
Net Assets, End of Year	<u>\$ 16,665,245</u>		<u>\$ 18,122,990</u>	

See accompanying notes to the financial statements

**BROWN COUNTY GENERAL HOSPITAL
BROWN COUNTY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	Years Ended December 31,	
	2005	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
	<u>2,655,885</u>	<u>52,467</u>
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)
	<u>(222,905)</u>	<u>62,430</u>
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
	<u>(870,332)</u>	<u>(3,279,207)</u>
Net Change in Cash and Cash Equivalents	1,562,648	(3,164,310)
Cash and Cash Equivalents at Beginning of Year	<u>1,379,463</u>	<u>4,543,773</u>
Cash and Cash Equivalents at End of Year	<u>2,942,111</u>	<u>1,379,463</u>
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
	<u>2,942,111</u>	<u>1,379,463</u>
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)
	<u>\$ 2,655,885</u>	<u>\$ 52,467</u>

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BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

1. REPORTING ENTITY AND BASIS OF PRESENTATION

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

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

REPORTING ENTITY

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

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

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

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

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

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

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

The Brown County of MR/DD provides Grow, Inc. with staff salaries, transportation, equipment, staff of administer and subversive ranging programs, and other funds necessary for the operation of Grow, Inc. and Grow's sole purpose of proving assistance to the mentally and/or physically handicapped adult of Brown County. Grow is a component unit of the County and is presented as a component unit in these financial statements.

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

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

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

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

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

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

Workforce Investment Board – The Workforce Investment Board is a jointly governed organization of representatives from the private and public sectors of Pike, Scioto, Adams, and Brown Counties appointed by the county commissioners from each county. The forty-eight-member board includes twelve members from each participating county and includes fifty-one percent of its members from the private sector. The remaining members include individuals from education, one-stop partners, juvenile justice centers, labor organizations, local public housing and former participants. The Workforce Investment Board typically meets three to four times per year and is responsible for the five year plan, selecting one stop operators, selecting youth providers and coordinating all activities in association with Workforce Improvement Act funds. This board enables the participating counties to have more local control over the programs, which they assist in overseeing. The Workforce Advisory Board received no contributions from the County during 2005.

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

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

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

CORSA has issued certificates of participation in order to provide adequate cash reserves. The certificates are secured by the member counties' obligations to make coverage payments to CORSA. The participating counties have no responsibility for the payment of the certificates. The Certificates were retired on May 1, 1997. The County has equity interest in CORSA. The County's payment for insurance of CORSA in 2005 was \$154,966. Financial statements may be obtained by contacting the County Commissioners Association of Ohio in Columbus, Ohio.

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

1. REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Basis of Presentation

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

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

B. Fund Accounting

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

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

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

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

C. Basis of Accounting

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

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

D. Budgetary Process

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

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

E. Cash and Investments

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

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

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

During 2005, the County invested in repurchase agreements, federal agency securities, and STAR Ohio. Investments are reported at cost, except for STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2005.

Interest earnings are allocated to County funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2005 were \$340,774, which includes \$297,937 assigned from other County funds.

F. Inventory and Prepaid Items

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

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets

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

H. Interfund Receivables/Payables

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

I. Accumulated Leave

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

J. Employer Contributions to Cost-Sharing Pension Plans

The County recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-Term Obligations

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

L. Net Assets

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

M. Fund Balance Designations and Reserves

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

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Interfund Transactions

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

3. COMPLIANCE

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

4. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS

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

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

1. United States Treasury bills, bonds, notes, 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, or any book entry, zero coupon United States treasury security that is a direct obligation of the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds;

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

4. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS (Continued)

7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to simultaneously exchange either securities or cash, equal value for equal value;
9. Commercial paper notes, corporate notes and bankers' acceptances; and
10. Debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government. All interest and principal shall be denominated and payable in United States funds.

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

At year end, the County had \$5,000 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the County will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$7,402,936 of the County's bank balance of \$7,802,936 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the County's name.

The County has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the County or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

4. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments

As of December 31, 2005, the County had the following investments:

<u>Investment Type</u>	Carrying Value	<u>Investment Maturities (in Years)</u>	
		Less than 1	1-2
Repurchase Agreement	\$ 5,140,173	\$ 5,140,173	\$ -
Federal National Mortgage Association Notes	1,248,101	1,248,101	-
Federal Home Loan Mortgage Corporation Notes	1,250,000	750,000	500,000
Federal Home Loan Bank Notes	1,300,000	1,300,000	-
STAR Ohio	498,008	498,008	-
Total Investments	<u>\$ 9,436,282</u>	<u>\$ 8,936,282</u>	<u>\$ 500,000</u>

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The County's investment policy addresses interest rate risk by requiring that the County's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

The security underlying the repurchase agreement, the federal national mortgage association notes, federal home loan corporation notes and the federal home loan bank notes carry a rating of Aaa by Moody's and AAA by Standard and Poor's. STAR Ohio carries a rating of AAAM by Standard and Poor's. The County has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Repurchase Agreements, Federal National Mortgage Association Notes, Federal Home Loan Mortgage Corporation Notes, and the Federal Home Loan Bank Notes are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the County's name. The County has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.35(J)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

5. PERMISSIVE SALES TAX

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

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

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

Permissive sales tax revenue for 2005 amounted to \$3,290,530.

6. PROPERTY TAX

Real property taxes are levied against all real, public utility, and tangible personal property located in the County. Property tax revenue received during 2005 for real and public utility property taxes represents collections of 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

2005 real property taxes are levied after October 1, 2005 on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35% of appraised market value. 2005 real property taxes are collected and intended to finance 2005.

Public utility tangible personal property currently is assessed at varying percentages of true value: public utility real property is assessed at 35% of true value. 2005 public utility property taxes became a lien December 31, 2004 are levied after October 1, 2005 are collected in 2005 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004 on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25% of true value for capital assets and 23% of true value for inventory.

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

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

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

6. PROPERTY TAX (Continued)

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

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

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

The full tax rate applied to real property for the fiscal year ended December 31, 2005 was \$5.80 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$4.77 per \$1,000 of assessed valuation of real property classified as residential/agricultural and \$4.90 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the County by the State of Ohio.

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

	<u>2005</u>	<u>2004</u>
Real Property:		
Residential/Agricultural	\$ 483,011,990	\$ 468,010,830
Commercial/Industrial	49,530,220	50,344,890
Total Real Property	<u>\$ 532,542,210</u>	<u>\$ 518,355,720</u>
Tangible Personal Property:		
Public Utilities	\$ 27,440,880	\$ 26,690,370
General	19,952,466	22,912,265
Total Tangible Property	<u>\$ 47,393,346</u>	<u>\$ 49,602,635</u>
Total All Property	<u><u>\$ 579,935,556</u></u>	<u><u>\$ 567,958,355</u></u>

7. RISK MANAGEMENT

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

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

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

7. RISK MANAGEMENT (Continued)

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

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

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

Workers' Compensation benefits are provided through the Ohio Bureau of Workers' Compensation. In 2005, the county participated in the County commissioner's Association of Ohio Workers' Compensation Group Rating Program (CCAO). A workers' compensation group purchasing pool (See Note 1). The intent of the CCAO is to achieve lower workers' compensation rates while establishing safe working conditions and environments for the participants. The workers' compensation experience of the participating counties is calculated as one experience and a common premium rate is applied to all counties in the CCAO. Each participant pays its workers' compensation premium to the State based on the rate for the CCAO rather than its individual rate.

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

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

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

8. DEFINED BENEFIT PENSION PLAN (OPERS)

Ohio Public Employees Retirement System

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

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

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The County's contribution rate for 2005 was 13.55 percent of covered payroll, 9.55 percent was the portion used to fund pension obligations. The 2005 employer contribution rate for both the law enforcement and public safety division was 16.7 percent of covered payroll, 12.7 percent was the portion used to fund pension obligations. The Ohio Revised Code provides statutory authority for member and employer contributions.

The County's required contributions for pension obligations to OPERS for the years ended December 31, 2005, 2003, and 2002 were \$925,160, 796,836 and \$781,074 respectively, 100% has been contributed for the years 2005, 2004, and 2003.

9. POST EMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides post retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed pan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered another Post employment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent of covered payroll was the portion that was used to fund health care.

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

9. POST EMPLOYMENT BENEFITS (Continued)

Benefits are advanced-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees). Health Care premiums were assumed to increase 4 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 that were used to fund post employment benefits were \$387,502. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 were \$10.8 billion. The actuarially accrued liability and the unfunded actuarially accrued liability were \$29.5 billion and \$18.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2005, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the resent Plan. The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefits. The plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expense, much like a Medical Spending Account.

10. OTHER EMPLOYEE BENEFITS

Insurance Benefits

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

11. CONTINGENT LIABILITIES

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

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

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

12. LONG-TERM DEBT

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

	<u>Principal Outstanding 12/31/04</u>	<u>Reductions</u>	<u>Principal Outstanding 12/31/05</u>	<u>Amounts Due In One Year</u>
Governmental Activities:				
General Obligation Bonds:				
Human Services Building Bonds	\$ 245,000	\$ 60,000	\$ 185,000	\$ 65,000
Brown County Public Library District Bonds	2,155,000	135,000	2,020,000	140,000
General Hospital Project Bonds	480,000	480,000	-	-
Mental Health Project Bonds	250,000	5,362	244,638	11,191
Total General Obligation Bonds	<u>3,130,000</u>	<u>680,362</u>	<u>2,449,638</u>	<u>216,191</u>
Other Long-Term Obligations:				
Forgivable Debt (Mental Health)	263,958	8,750	255,208	8,750
Total Other Long-Term Obligations	<u>263,958</u>	<u>8,750</u>	<u>255,208</u>	<u>8,750</u>
Total General and Other: Long-Term Obligations	<u>\$ 3,393,958</u>	<u>\$ 689,112</u>	<u>\$ 2,704,846</u>	<u>\$ 224,941</u>

The County's total legal debt margin was \$11,080,419 with an unvoted debt margin of \$3,881,386.

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

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

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

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

12. LONG-TERM DEBT (Continued)

Years Ended December 31,	General Obligations		Other Long-Term Obligations	
	Principal	Interest	Principal	Interest
2006	\$ 216,191	\$ 144,108	\$ 8,750	
2007	221,844	131,993	8,750	
2008	222,535	119,552	8,750	
2009	178,266	106,633	8,750	
2010	184,039	95,960	8,750	
2011-2015	1,093,478	301,217	43,750	
2016-2020	333,285	28,762	43,750	
2021-2025	-		43,750	
2026-2030	-		43,750	
2031-2035	-		36,458	
Total	<u>\$ 2,449,638</u>	<u>\$ 928,225</u>	<u>\$ 255,208</u>	<u>\$ -</u>

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

13. INTERFUND TRANSFERS

Interfund cash transfers for the year ended December 31, 2005, were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
MAJOR FUNDS:		
GENERAL FUND:		
Common Pleas Mediation Fees	\$ -	\$ 51,000
Prosecutor's Victims Assistance	-	14,466
County Capital Improvement Fund		1,479
Accumulated Leave		20,000
Total General Fund	<u>-</u>	<u>86,945</u>
NON-MAJOR FUNDS:		
OTHER GOVERNMENTAL FUNDS:		
Common Pleas Mediation Fees		
General Fund	51,000	
Prosecutor's Victims Assistance		
General Fund	14,466	
County Capital Improvement Fund		
General Fund	1,479	
Accumulated Leave		
General Fund	20,000	
Mental Health		
Crisis Intervention Training	4,856	
MH/Line Item #408	40,373	
Mental Health Construction	3,901	10,288
Jail Diversion Grant	5,800	
Jail Diversion Grant		
Mental Health		5,800
Mental Health Construction		
Mental Health	10,288	3,901
Crisis Intervention Training		
Mental Health		4,856
MH/Line Item #408		
Mental Health		40,373
MH/Medicaid		200,150
MH/Medicaid		
MH/Line Item #408	200,150	
MH/ADMS		
MH/Alcohol	43,910	
MH/Alcohol		
MH/ADMS		43,910
Total Special Revenue Funds	<u>396,223</u>	<u>309,278</u>
GRAND TOTAL	<u>\$ 396,223</u>	<u>\$ 396,223</u>

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

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

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

15. BROWN COUNTY GENERAL HOSPITAL

A. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brown County General Hospital (Hospital), located in Brown County, Ohio is a county owned, tax-exempt Ohio not-for-profit corporation which operates an acute care hospital facility providing inpatient and outpatient services primarily to patients in Brown County. 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 along with the financial statements of the County as stand alone statements.

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.

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

Estimates

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

Cash and Cash Equivalents

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

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

Assets Whose Use is Limited

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

Supplies Inventory

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

Property, Plant and Equipment

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

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

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

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

Lease Agreements

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

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.

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

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

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.

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:

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

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

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.

B. 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.

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

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.

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

15. BROWN COUNTY GENERAL HOSPITAL (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.

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

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

Estimated third-party settlements for the Medicare and Medicaid programs reflect differences between interim reimbursement and reimbursement as determined by 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:

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

	<u>2005</u>	<u>2004</u>
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	<u>2,969,605</u>	<u>3,219,646</u>
Total	<u>\$ 4,698,660</u>	<u>\$ 5,072,566</u>

D. NOTES, CONTRACTS AND GRANTS RECEIVABLE

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

<u>Notes Receivable</u>	<u>2005</u>	<u>2004</u>
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.

	<u>-</u>	<u>790,320</u>
Subtotal	<u>-</u>	<u>801,987</u>

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

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.

	<u>246,498</u>	<u>246,498</u>
Total Notes, Contracts and Grants Receivable	\$ <u>246,498</u>	\$ <u>1,048,485</u>

E. PROPERTY, PLANT AND EQUIPMENT

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

	Balance January 1, <u>2005</u>	<u>Additions</u>	Transfers/ <u>Disposals</u>	Balance December 31, <u>2005</u>
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 Buildings and Building	2,091,433	6,500	-	2,097,933
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	<u>207,354</u>	<u>122,408</u>	<u>9,676</u>	<u>320,086</u>
Total Property, Plant and Equipment at Historical Cost	<u>31,343,593</u>	<u>1,437,198</u>	<u>663,343</u>	<u>32,117,448</u>
Less Accumulated Depreciation				
Land and Land Improvements Buildings and Building	593,083	51,269	-	644,352
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	<u>177,079</u>	<u>22,280</u>	<u>9,675</u>	<u>189,684</u>
Total Accumulated Depreciation	<u>18,165,269</u>	<u>1,816,565</u>	<u>346,807</u>	<u>19,635,027</u>
Property, Plant and Equipment - Net	\$ <u>13,178,324</u>	\$ <u>(379,367)</u>	\$ <u>316,536</u>	\$ <u>12,482,421</u>

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

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

	Balance January 1, <u>2004</u>	<u>Additions</u>	Transfers/ <u>Disposals</u>	Balance December 31, <u>2004</u>
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 Buildings and Building Improvements	1,250,990	840,443	-	2,091,433
Fixed Equipment	10,000,225	445,862	-	10,446,087
Major Movable Equipment	8,511,147	12,198	-	8,523,345
Vehicles	8,473,648	1,208,528	63,418	9,618,758
	<u>186,373</u>	<u>35,139</u>	<u>14,158</u>	<u>207,354</u>
Total Property, Plant and Equipment at Historical Cost	<u>28,428,229</u>	<u>2,992,940</u>	<u>77,576</u>	<u>31,343,593</u>
Less Accumulated Depreciation				
Land and Land Improvements Buildings and Building Improvements	536,515	56,568	-	593,083
Fixed Equipment	5,899,217	512,052	-	6,411,269
Major Movable Equipment	4,746,603	394,263	-	5,140,866
Vehicles	5,115,958	786,871	59,857	5,842,972
	<u>186,373</u>	<u>-</u>	<u>9,294</u>	<u>177,079</u>
Total Accumulated Depreciation	<u>16,484,666</u>	<u>1,749,754</u>	<u>69,151</u>	<u>18,165,269</u>
Property, Plant and Equipment - Net	<u>\$ 11,943,563</u>	<u>\$ 1,243,186</u>	<u>\$ 8,425</u>	<u>\$ 13,178,324</u>

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

F. LONG-TERM DEBT

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

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

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

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

	<u>2005</u>	<u>2004</u>
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.	<u>96,045</u>	<u>152,743</u>
	1,051,275	932,743
Less Current Portion	<u>244,007</u>	<u>836,698</u>
	<u>\$ 807,268</u>	<u>\$ 96,045</u>

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.

BROWN COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

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

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

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

The 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.

G. NET PATIENT SERVICE REVENUES

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

	<u>2005</u>	<u>2004</u>
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	<u>(1,007,202)</u>	<u>(1,146,618)</u>
Net Patient Service Revenue	<u>\$ 38,937,972</u>	<u>\$ 35,094,990</u>

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

H. OPERATING LEASES

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

Minimum future payments for these leases are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2006	\$ 109,550
2007	<u>21,696</u>
Total	<u>\$ 131,246</u>

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

I. RETIREMENT PLAN

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

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:

<u>Year</u>	<u>Contribution</u>
2005	\$ 2,076,827
2004	1,969,265
2003	1,599,188

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

J. OTHER POST-EMPLOYMENT BENEFITS

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

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.

BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (Continued)

15. BROWN COUNTY GENERAL HOSPITAL (Continued)

K. 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.

L. 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.

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BROWN COUNTY

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2005**

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Passed Through the Ohio Department of Mental Health:</i>			
Block Grants for Prevention and Treatment of Substance Abuse	N/A	93.959	\$ 138,583
Alcohol, Drug and Mental Health Services Block Grant	N/A	93.958	27,564
<i>Passed Through the Ohio Department of Mental Health:</i>			
Social Services Block Grant - Title XX	N/A	93.667	39,350
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>			
Social Services Block Grant - Title XX	N/A	93.667	21,127
Total Social Services Block Grant (Title XX)			<u>60,477</u>
<i>Passed Through the Ohio Department of Alcohol and Drug Addiction Services</i>			
Medical Assistance Program - Title XIX	N/A	93.778	483,626
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>			
Medical Assistance Program - Title XIX - CAFS	N/A	93.778	301,974
Medical Assistance Program - Title XIX - TCM	N/A	93.778	164,877
Total Medical Assistance Program - Title XIX			<u>950,477</u>
State Children's Health Insurance Program	N/A	93.767	<u>728</u>
Total U.S. Department of Health and Human Services			1,177,829
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through the Ohio Department of Development:</i>			
Community Development Block Grants	BF-03-008-1	14.228	26,546
Community Development Block Grants	BF-04-008-1	14.228	191,621
Community Development Block Grants	BF-05-008-1	14.228	5,857
Community Development Block Grants	BN-04-008-1	14.228	7,006
Community Development Block Grants	BW-03-008-1	14.228	83,930
Community Development Block Grants	B-C-04-008-1	14.228	102,731
			<u>417,691</u>
<i>Passed Through the Ohio Department of Development:</i>			
Home Investment Partnership Program	B-C-04-008-2	14.239	<u>149,051</u>
Total U.S. Department of Housing and Urban Development			566,742
U.S. DEPARTMENT OF JUSTICE			
<i>Passed Through the Ohio Attorney General:</i>			
Crime Victim Assistance	2006VAGENE308	16.575	7,584
Crime Victim Assistance	2005VAGENE308	16.575	24,542
Crime Victim Assistance	2006VADSCE461	16.575	7,345
Crime Victim Assistance	2005VADSCE461	16.575	15,782
			<u>55,253</u>
Bryne Formula Grant Program	2004-DG-C01-7290	16.579	<u>32,966</u>
Total U.S. Department of Justice			88,219

(Continued)

BROWN COUNTY

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
FEDERAL AGENCY DEPARTMENT OF HOMELAND SECURITY			
<i>Passed Through the Ohio Emergency Management Agency</i>			
Public Assistance Grants	1390-DR-015-OF580	97.036	84,215
Emergency Management Performance Grants	2005-EM-T5-0001	97.042	19,087
State Domestic Preparedness Equipment Support	2004-GE-T4-0025	97.004	86,951
State Domestic Preparedness Equipment Support	2003-MU-T3-0015	97.004	<u>12,150</u>
			99,101
Total Federal Agency Department of Homeland Security			202,403
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through the Federal Aviation Administration</i>			
Direct from Federal Government			
Airport Improvement Program	N/A	20.106	50,127
<i>Passed Through the Ohio Department of Transportation</i>			
Highway Planning and Construction	N/A	20.205	<u>35,618</u>
Total U.S. Department of Transportation			85,745
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through the Ohio Department of Health</i>			
Special Education Grants for Infants and Families with Disabilities	08-1-002-1-EG-06	84.181	18,379
Special Education Grants for Infants and Families with Disabilities	08-1-002-1-EG-05	84.181	<u>18,856</u>
Total U.S. Department of Education			37,235
U.S. GENERAL SERVICES ADMINISTRATION			
<i>Passed through the Ohio Secretary of State</i>			
Help America Vote Act of 2003	05-SOS-HAVA-08	39.011	4,164
Help America Vote Act of 2002	E06-0043-08	90.401	<u>396,978</u>
Total General Services Administration			401,142
TOTAL FEDERAL ASSISTANCE			<u>\$ 2,559,315</u>

BROWN COUNTY

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - SUBRECIPIENTS

The County passes-through certain Federal assistance received from Ohio Department of Mental Health and the Ohio Department of Drug and Alcohol Addiction Services to other governments or not-for-profit agencies (subrecipients). As described in Note A, the County records expenditures of Federal awards to subrecipients when paid in cash.

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

NOTE C - MATCHING REQUIREMENTS

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

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Mary Taylor, CPA

Auditor of State

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

Brown County
800 Mount Orab Pike
Georgetown, Ohio 45121

To the Board of County Commissioners:

We have audited the financial statements of the governmental activities, each major fund and the aggregate discretely presented component unit and remaining fund information of Brown County, Ohio (the County), as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 21, 2007, wherein, we noted the County, except for the Brown County General Hospital, (the Hospital), the County's enterprise fund, uses a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, and wherein we noted the County's modified cash basis financial statements do not include amounts related to the Hospital in its fund statements or its entity wide statements. Accordingly, the County's financial statements do not present fairly the financial position of the proprietary funds or business type activities for the County as of December 31, 2005, or the changes in its modified cash basis financial position for the year ended. We did not audit the financial statements of the Hospital as of and for the year ended December 31, 2005, which are presented as stand-alone statements of the County. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Hospital is based on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Other auditors performed procedures to obtain an understanding of the internal control of the Hospital. There was a comment related to the Hospital, which was considered reportable to the County. In a separate letter to the County's management dated March 21, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the County's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standard* which is described in the accompanying schedule of findings as item 2005-001.

Other auditors performed tests of noncompliance related to the Hospital and the results of those tests are reported separately in the audit report of the Hospital. There was an instance of noncompliance related to the Hospital that was considered reportable to the County.

In a separate letter to the County's management dated March 21, 2007, we reported other matters related to noncompliance we deemed immaterial.

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

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

Mary Taylor, CPA
Auditor of State

March 21, 2007



Mary Taylor, CPA

Auditor of State

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

Brown County
800 Mount Orab Pike
Georgetown, Ohio 45107

To the Board of County Commissioners:

Compliance

We have audited the compliance of Brown County, Ohio (the County), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended December 31, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the County's major federal programs. The County's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Brown County complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2005. In a separate letter to the County's management dated March 21, 2007, we reported a matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

Brown County
Independent Accountants' Report on Compliance
With Requirements Applicable to Each Major Federal
Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133
Page 2

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 21, 2007

BROWN COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2005

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	14.228 Community Development Block Grant 93.778 Medical Assistance Program Title XIX 90.401 Help America Vote Act Requirements Payments
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2005-001

Noncompliance Citation

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

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

Ohio Revised Code Section 117.38 also states that the financial report should be filed within sixty days after the close of the fiscal year, at which time there should be a public notice published in the newspapers. The financial report was not filed and the notice was not published in the newspaper.

We recommend the County take the necessary steps to ensure that the financial report is prepared in accordance with generally accepted accounting principles, filed within the prescribed deadline, and a notice published in the local papers.

We did not receive a response from Officials to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

BROWN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Administrative Code, Section 117-2-03(B): County did not prepare its annual financial report in accordance with GAAP.	No	Repeat as finding number 2005-001



Mary Taylor, CPA
Auditor of State

FINANCIAL CONDITION

BROWN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 10, 2007**