BROWN COUNTY GENERAL HOSPITAL

December 31, 2004

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

Auditor of State
Betty Montgomery

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

We have reviewed the *Independent Auditor's Report* of the Brown County General Hospital, prepared by VonLehman and Company, Inc., for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

February 28, 2006

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BROWN COUNTY GENERAL HOSPITAL

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December 31, 2004

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Brown County General Hospital
Georgetown, Ohio

We have audited the accompanying basic financial statements of Brown County General Hospital as of and for the years ended December 31, 2004 and 2003, as listed in the table of contents. These basic financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brown County General Hospital as of December 31, 2004 and 2003, and the results of its operations, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated May 2, 2005, on our consideration of Brown County General Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

VonLehman and Company Inc.

Fort Mitchell, Kentucky
May 2, 2005

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BROWN COUNTY GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)

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

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

FINANCIAL HIGHLIGHTS

- The Hospital's net assets decreased by approximately $581,000 mainly due to a loss from operations for 2004 of $757,000.

- During the year, the Hospital's net operating revenues increased 12.0% to $35.6 million while expenses increased 17.8% to $36.3 million. The result is a loss from operations of $757,000 compared to an income from operations in 2003 of $904,000.

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

  - Land and Office Building in Fayetteville/Mt. Orab
  - PACS System
  - Adult Ventilators
  - Phacoemulsification Eye Machine
  - Anesthesia Machine
  - Storage Archive Network System

  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). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the financial results of the Hospital's operations and present revenues earned and expenses incurred. The final financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash 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 on pages 8 through 17 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, 2004 and 2003 is presented below (in thousands):

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

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

	2004	2003	$ Change	% Change
Revenues				
Net Patient Service Revenues	$ 35,095	$ 31,354	$ 3,741	
Other Revenues	476	400	76	
Total Revenues	35,571	31,754	3,817	12.0%
Expenses				
Salaries and Benefits	18,977	15,253	3,724	
Professional Fees	3,449	2,636	813	
Provision for Bad Debts	2,906	2,521	385	
Supplies and Other	10,996	10,440	556	
Total Expenses	36,328	30,850	5,478	17.8%
(Loss) Income from Operations	(757)	904	(1661)	
Non-Operating Revenues (Expenses)	62	(106)	168	
Changes in Net Assets	$ (695)	$ 798	$ (1,493)	-

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

FINANCIAL ANALYSIS (Continued)

Sources of Revenues

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

Payer Mix

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

Revenues

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

Expenses

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year-end, the Hospital had $13.2 million invested in property, plant and equipment. This amount represents a net increase (including additions and deletions) of $1.2 million, or 10.3%, over last year. See page one of the MD & A for a description of the significant capital acquisitions during 2004 and Note 5 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 $933,000 in outstanding debt (including capital lease obligations) versus $1.3 million last year, a decrease of 30%. Interest rates varied from 2.75% to 12.6%. For a breakdown of the interest payment schedule, and a detailed presentation of debt acquisitions and retirements for the year, refer to Note 6 to the basic financial statements.

ECONOMIC FACTORS AND 2005 BUDGET

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

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

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

BROWN COUNTY GENERAL HOSPITAL
CONSOLIDATED STATEMENTS OF NET ASSETS

ASSETS

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

See accompanying notes.

LIABILITIES AND NET ASSETS

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

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

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

See accompanying notes.

BROWN COUNTY GENERAL HOSPITAL
CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See accompanying notes.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brown County General Hospital (Hospital), located in Brown County, Ohio is a county owned, tax-exempt Ohio not-for-profit corporation which operates an acute care hospital facility providing inpatient and outpatient services primarily to patients in Brown County. The Hospital is operated under the provisions of the Ohio Revised Code.

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

Component units are legally separate organizations for which the Hospital is financially accountable. The Hospital is financially accountable for an organization if the Hospital appoints a voting majority of the organization's governing board and the Hospital is able to significantly influence the programs or services performed or provided by the organization; or the Hospital is legally entitled to or can otherwise access the organization's resources; or the Hospital is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the Hospital is obligated for the debt of the organization. Component units may also include organizations for which the Hospital approves the budget, the issuance of debt, or the levying of taxes. Accordingly, the Hospital has no component units.

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

Method of Consolidation

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

Basis of Accounting

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

Accounting Standards

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

Estimates

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

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

Cash and Cash Equivalents

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

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

Assets Whose Use is Limited

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

Supplies Inventory

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

Property, Plant and Equipment

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

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

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

Lease Agreements

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

Net Patient Service Revenues

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

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

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

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

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

Charity Care

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

Contributions

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

Gifts and Donated Services

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

Risk Management

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

NOTE 2 – DEPOSITS AND INVESTMENTS

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

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Deposits

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

1. $500,000 was covered by federal depository insurance as of December 31, 2004 and 2003.

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

NOTE 3 – THIRD-PARTY SETTLEMENTS AND COMPONENTS OF PATIENT ACCOUNTS RECEIVABLE

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

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

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

NOTE 4 –NOTES, CONTRACTS AND GRANTS RECEIVABLE

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

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

NOTE 4 –NOTES, CONTRACTS AND GRANTS RECEIVABLE (Continued)

Contracts Receivable	2004	2003
The Hospital advances wages and other practice expenses to new physicians who join the Hospital. The contracts state that if the physician remains employed at the Hospital for four years, these advances will be forgiven. If the physician leaves prior to four years of employment, these advances are due to the Hospital. After two years of employment with the Hospital, 1/24th of the amount advanced is forgiven monthly until the end of 24 months or until termination. Interest accrues on the principal balance of the advances annually at 1% plus the prime rate (The prime rate was 5.25% and 4.00% respectively at December 31, 2004 and 2003.) Accrued interest is added to the principal balance after 24 months of employment. The receivable represents advances less amounts forgiven for two physicians who have not met their four year tenure requirement with the Hospital. The obligation to repay is secured by the physicians' practice accounts receivable.	$ 790,320	$ 787,195
Subtotal	$ 801,987	$ 835,675
Grant Receivable		
The Hospital was awarded a grant in 2003 from the US Department of Housing and Urban Development that is restricted for construction and equipment.	$ 246,498	$ 390,000
Total Notes, Contracts and Grants Receivable	$ 1,048,485	$ 1,225,675

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

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

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

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT (Continued)

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

NOTE 6 – LONG-TERM DEBT

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

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

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

	2004	2003
Hospital improvement bonds issued in 1993, collateralized by a pledge of all revenues, investment income, accounts receivable, contracts and contract rights, charging interest from 2.8% to 5.3% and maturing in 2005.	$ 480,000	$ 935,000
Hospital facilities revenue bonds issued in 1995, collateralized by a pledge of all revenues, investment income, accounts receivable, contracts, instruments and supplies inventory, charging interest at 5.5% and maturing in 2005.	-	200,000
Hospital facilities note payable issued in 2004, collateralized by a pledge of all revenues, investment income, accounts receivable, contracts, instruments, and supplies inventory, charging interest at 2.75% and maturing in June, 2005.	300,000	-

NOTE 6 – LONG-TERM DEBT (Continued)

	2004	2003
Capital lease obligations, at various effective interest rates between 6.5% and 12.6% collateralized by leased equipment and maturing at various dates through 2007.	152,743	202,182
	932,743	1,337,182
Less Current Portion	836,698	609,051
	$ 96,045	$ 728,131

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

Under the facilities revenue bond agreement, the Hospital is required to maintain a current ratio of at least 1.5 to 1.0 and other financial ratios, all of which were met as of December 31, 2004 and 2003.

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

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

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

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

NOTE 7 – NET PATIENT SERVICE REVENUES

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

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

NOTE 8 – OPERATING LEASES

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

Minimum future payments for these leases are as follows:

2005	$ 74,699
2006	51,374
2007	12,000
Total	$138,073

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

NOTE 9 – RETIREMENT PLAN

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

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

The plan issues a separate, publicly available financial report that includes a balance sheet and required supplementary information. This report may be obtained by contacting: Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 42315, Telephone (614) 466-2085. The Ohio Revised Code provides OPERS statutory authority for employer and employee contributions. The required, actuarially-determined contribution rates for the Hospital and for the employee are 13.55% and 8.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years are as follows:

Year	Contribution
2004	$ 1,969,265
2003	1,599,188
2002	1,468,007

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS

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

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

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

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

- Funding Method – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

- Assets Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

- Investment Return – The investment assumption rate for 2003 was 8.0%.

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

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

NOTE 11 – PROFESSIONAL LIABILITY INSURANCE

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

NOTE 12 – CONCENTRATIONS

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

VON LEHMAN + COMPANY INC.

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

Board of Trustees
Brown County General Hospital

We have audited the basic financial statements of Brown County General Hospital as of and for the year ended December 31, 2004, and have issued our report thereon dated May 2, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Brown County General Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Brown County General Hospital's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2004-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Brown County General Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as item 2004-001.

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

VonLehman and Company Inc.

Fort Mitchell, Kentucky
May 2, 2005

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BROWN COUNTY GENERAL HOSPITAL
NONCOMPLIANCE CITATIONS - OHIO REVISED CODE
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

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

Finding Number 2004-001

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

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

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

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

This matter will be referred to the Ohio Ethics Commission.

BROWN COUNTY GENERAL HOSPITAL
STATUS OF PRIOR AUDIT CITATIONS AND RECOMMENDATIONS

NONE

Auditor of State
Betty Montgomery

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BROWN COUNTY GENERAL HOSPITAL

BROWN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 14, 2006