CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008



Mary Taylor, CPA Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Brown County General Hospital, Brown County, prepared by Blue & Co., LLC, for the audit period January 1, 2009 through December 31, 2009. 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.

Mary Jaylo

Mary Taylor, CPA Auditor of State

June 4, 2010

This Page is Intentionally Left Blank.

TABLE OF CONTENTS DECEMBER 31, 2009 AND 2008

	Pag	е
Repo	rt of Independent Auditors	1
Requ	ired Supplementary Information	
Μ	anagement's Discussion and Analysis (unaudited)i-	۰vi
Cons	olidated Financial Statements	
Ba	alance Sheets	3
St	tatements of Operations and Changes in Net Assets	5
St	tatements of Cash Flows	6
N	otes to Consolidated Financial Statements	. 8

Other Information

Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	25
Schedule of Prior Audit Findings	27

* blue

Blue & Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240 main 614.885.BLUE (2583) tax 614 885.0580 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Trustees BROWN COUNTY GENERAL HOSPITAL Georgetown, Ohio

We have audited the accompanying consolidated balance sheet of Brown County General Hospital (the "Hospital"), a business-type activity of Brown County, Ohio, as of and for the years ended December 31, 2009 and 2008, and the related statement of operations and changes in net assets and cash flows for the years then ended. These consolidated 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements of Brown County General Hospital are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Brown County, Ohio that is attributable to the transactions of Brown County General Hospital. They do not purport to, and do not, present fairly the financial position of Brown County, the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brown County General Hospital as of December 31, 2009 and 2008, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees BROWN COUNTY GENERAL HOSPITAL

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2010, 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 audits.

The accompanying consolidated financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in note 13 to the consolidated financial statements, the Hospital has suffered recurring losses from operations and did not meet certain covenants related to the bonds outstanding at December 31, 2009 (note 7). These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 13. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

May 20, 2010

Blue & Co., LLC

A Component Unit of Brown County, State of Ohio Management's Discussion and Analysis (unaudited)

The discussion and analysis of Brown County General Hospital (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2009 and 2008. The intent of this discussion and analysis is to provide further information on the Hospital's financial performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the financial performance.

Financial Highlights

- The Hospital's net assets decreased approximately \$2,783,000 from 2008 to 2009.
- During the year, the Hospital's operating revenues decreased 4% to approximately \$32,441,000 while operating expenses decreased 6% to \$34,893,000. The result is a loss from operations of approximately \$2,452,000 compared to a loss from operations of \$3,054,000 in 2008.
- Significant capital acquisitions included a CT scanner, computer equipment, and a digital imaging storage system. The sources of funding for these projects were through capital leases.
- The Hospital did not meet certain covenants related to its debt outstanding at December 31, 2009.
- The Hospital is currently seeking an affiliation agreement with another hospital or hospital system.

Using This Annual Report

The Hospital's financial statements consist of three statements—a Balance Sheet; a Statement of Operations and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital.

The Balance Sheet and Statement of Operations and Changes in Net Assets

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Operations and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

A Component Unit of Brown County, State of Ohio Management's Discussion and Analysis (unaudited)

These two statements report the Hospital's net assets and related changes. You can think of the Hospital's net assets—the difference between assets and liabilities—as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and related financing activities. It provides answers to such questions as "where did cash come from?" "what was cash used for?" and "what was the change in cash balance during the reporting period?"

Net Assets

A summary of the Hospital's Statement of Net Assets as of December 31, 2009, 2008 and 2007 is presented below (in thousands):

Table 1: Assets, Liabilities, and Net Assets (in thousands)

	 2009 200		2008		2007
Assets Cash and cash equivalents Capital assets Patient accounts receivable, net Other assets Total assets	\$ 1,273 9,452 3,564 1,026 15,314	\$	1,007 11,268 4,146 935 17,357	\$	1,801 10,530 4,966 1,201 18,500
Liabilities Current portion of long-term liabilities Other current liabilities Long-term liabilities Total liabilities	\$ 913 5,150 2,415 8,478	\$	732 4,487 2,519 7,738	\$	277 4,109 <u>1,010</u> 5,396
Net assets Invested in capital assets, net of related debt Unrestricted Restricted Total net assets	 6,124 534 178 6,836		8,017 1,441 161 9,618		9,244 3,675 <u>185</u> 13,104
Total liabilities and net assets	\$ 15,314	\$	17,357	\$	18,500

A Component Unit of Brown County, State of Ohio Management's Discussion and Analysis (unaudited)

Net assets decreased to approximately \$6,836,000 in 2009, down from \$9,618,000 in 2008.

Total assets decreased 12%, primarily from decreases in patient accounts receivables and capital assets. Total liabilities increased 10% during the year primarily due to new capital leases entered into during the year approximating \$896,000, offset by payments of long-term debt and capital leases. Total net assets decreased primarily due to the combination of the operating loss and non-operating expenses. Total net assets decreased approximately \$2,783,000 in 2009 and \$3,486,000 in 2008.

Capital Assets

At year-end 2009, the Hospital had \$9.5 million invested in capital assets, while it had capital assets of \$11.3 million in 2008. This amount represents a net decrease (including additions, deletions, and depreciation expense) of \$1.8 million, or 16%, from last year.

Debt Administration

At year-end 2009 and 2008, the Hospital had \$4.2 million in outstanding debt (including capital lease obligations and a line of credit). Interest rates for these capital leases vary from 1.3% to 7.5%. For a breakdown of the payment schedule and a detailed presentation of debt acquisitions and retirements for the year, refer to the notes to the basic financial statements.

Payor Mix

The Hospital provides care to patients under payment arrangement with Medicare, Medicaid, and various managed care 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.

A Component Unit of Brown County, State of Ohio Management's Discussion and Analysis (unaudited)

A summary of the Hospital's revenues, expenses and changes in net assets for the years ended December 31, 2009, 2008 and 2007 presented below (in thousands):

	 2009	 2008	 2007
Operating revenues Net patient service revenues Other revenues	\$ 32,017 424	\$ 33,630 <u>306</u>	\$ 34,004 489
Total revenues	32,441	33,936	34,493
Operating expenses Salaries and benefits Supplies and other Purchased services and professional fees Depreciation	 18,665 9,304 4,913 2,010	 21,303 9,798 3,986 1,904	 20,804 10,128 3,164 1,835
Total operating expenses	 34,893	 36,991	 35,931
Loss from operations	(2,452)	(3,054)	(1,438)
Non-operating (expenses) revenues	 (331)	 (431)	 (49)
Change in net assets	\$ (2,783)	\$ (3,486)	\$ (1,487)

Operating Gains/Losses

The Hospital generated 5% less net revenues from patients in 2009 compared to 2008, and continued to have a loss from operations due to increases in contractual allowances and bad debts. This section will discuss highlights of 2009 operations and changes in activity.

Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as inpatient services, outpatient services, physician offices, and the cafeteria. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

A Component Unit of Brown County, State of Ohio Management's Discussion and Analysis (unaudited)

Operating revenue changes were a result of the following factors:

- Net patient service revenue decreased approximately \$1,613,000. This was attributable primarily to a decrease in inpatient revenue and an increase in revenue deductions. Revenue deductions are the amounts that are not paid to the Hospital under contractual arrangements with Medicare, Medicaid, and other payors. These revenue deductions increased from 50% to 52% as a percentage of gross revenue.
- Other operating revenue increased approximately \$118,000 due mainly to \$124,000 of income from workers compensation.

Expenses

Operating expenses are the costs necessary to perform and conduct the services and primary purposes of the Hospital. Total operating expenses decreased in 2009 to \$34,893,000, a \$2,098,000 decrease from 2008. The operating expense changes were the result of the following factors:

• Salary and benefits costs decreased 12% due to changes in staffing levels and health insurance costs.

Statement of Cash Flows

Net cash flows provided by operating activities increased from prior year due to a decrease in expenses by the Hospital.

A Component Unit of Brown County, State of Ohio Management's Discussion and Analysis (unaudited)

Other Economic Factors

The Hospital's Board and management considered many factors when setting the 2010 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 of quality improvements
- 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 assets improvement.

Contacting the Hospital's Management

This financial statement is designed to provide users with a general overview of the Hospital's finances. Questions or comments about this report should be directed to Mr. Michael Patterson, CEO, by telephone at 1-937-378-7500, or by mail to the Administrative Department at 425 Home Street, Georgetown, OH 45121.

BALANCE SHEETS DECEMBER 31, 2009 AND 2008

ASSETS

	2009		. <u></u>	2008
Current assets Cash and cash equivalents Restricted cash Patient accounts receivable, net of allowance for doubtful accounts of \$1,520,287 in 2009	\$	894,890 200,000	\$	846,443 -
and \$2,594,137 in 2008 Notes, contracts, and other accounts receivable Inventories Estimated settlement amounts due from third-party Prepaid expenses and other current assets Total current assets		3,563,728 123,279 551,096 - 351,295 5,684,288		4,145,776 93,199 444,678 53,502 <u>344,016</u> 5,927,614
Assets whose use is limited		178,131		160,867
Capital assets, net		9,451,641		11,268,242
Total assets	\$	15,314,060	\$	17,356,723

BALANCE SHEETS DECEMBER 31, 2009 AND 2008

LIABILITIES AND NET ASSETS

	2009	2008
Current liabilities Line of credit Current portion of long-term debt Current portion of capital lease obligations Accounts payable Estimated third-party settlements Deferred grant revenue Accrued expenses Salaries, wages, withholdings, and benefits Compensated absences Other Total current liabilities	\$ 900,000 239,918 672,652 1,307,623 107,464 200,000 906,507 793,549 935,295 6,063,008	\$ 900,000 286,295 446,176 1,252,937 - - 932,142 910,860 490,904 5,219,314
Long-term liabilities Long-term debt, net of current portion Capital lease obligations, net of current portion Total long-term liabilities	483,720 <u>1,931,595</u> 2,415,315	723,638 1,795,376 2,519,014
Total liabilities	8,478,323	7,738,328
Net assets Invested in capital assets, net of related debt Unrestricted Restricted Total net assets	6,123,756 533,850 178,131 6,835,737	8,016,757 1,440,771 160,867 9,618,395
Total liabilities and net assets	\$ 15,314,060	\$ 17,356,723

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Operating revenues Net patient service revenue Other operating revenue	\$ 32,017,353 423,672	\$ 33,630,263 306,100
Total operating revenues	32,441,025	33,936,363
Operating expenses		40.040.004
Salaries and wages	14,848,833	16,948,864
Employee benefits	3,816,649	4,354,143
Supplies and other	8,010,373	8,498,135
Depreciation	2,010,364	1,903,872
Purchased services and professional fees	4,913,052	3,986,087
Utilities	563,062	711,309
Insurance	730,540	588,442
Total operating expenses	34,892,873	36,990,852
Loss from operations	(2,451,848)	(3,054,489)
Non-operating (expenses) revenues		
Investment income	3,934	8,567
Interest	(225,974)	(154,861)
Gifts, grants, and donations	54,675	(30,238)
Non-operating expenses	(163,445)	(254,489)
Total non-operating (expenses) revenues	(330,810)	(431,021)
Change in net assets	(2,782,658)	(3,485,510)
Net assets beginning of year	9,618,395	13,103,905
Net assets, end of year	\$ 6,835,737	\$ 9,618,395

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash flow from operating activities Cash received from patients Cash payments to suppliers for goods and services Cash payments to employees for services Other receipts and payments, net Net cash from operating activities	\$ 32,760,367 (13,861,727) (18,808,428) <u>623,672</u> 713,884	\$ 34,375,876 (13,380,607) (21,387,503) <u>306,100</u> (86,134)
Cash flow from non-capital financing activities Investment income Gifts, grants, and donations Non-operating expenses Net cash from non-capital financing activities	3,934 54,675 <u>(163,445)</u> (104,836)	8,567 (30,238) (254,489) (276,160)
Cash flow from capital and related financing activities Acquisition of capital assets Principal paid on long-term debt and capital leases Net change in line of credit Interest paid on long term debt Loss on sale of capital assets Proceeds from sale of capital assets Net cash from capital and related financing activities Net change in cash and cash equivalents	(264,301) (819,737) - (225,974) 197,938 <u>768,737</u> (343,337) 265,711	(420,403) (481,947) 400,000 (154,861) 209,457 <u>15,879</u> (431,875) (794,169)
Cash and cash equivalents Beginning of year End of year	1,007,310 \$ 1,273,021	1,801,479 \$ 1,007,310
Recap of cash and cash equivalents Cash and cash equivalents Restricted cash Assets whose use is limited Total cash and cash equivalents	<pre>\$ 894,890 200,000 178,131 \$ 1,273,021</pre>	\$ 846,443 - - - - - - - - - - - - - - - - - -

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued) YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009			2008
Reconciliation of loss from operations to net cash from operating activities		(0.454.040)	•	(0.054.400)
Loss from operations	\$	(2,451,848)	\$	(3,054,489)
Adjustment to reconcile loss from operations to net cash				
from operating activities				4 000 070
Depreciation		2,010,364		1,903,872
Bad debts		5,635,652		6,515,638
Changes in operating assets and liabilities				
Patient accounts receivable		(5,053,604)		(5,695,097)
Notes, contracts, grants, and other receivables		(30,080)		264,105
Inventory		(106,418)		(94,320)
Prepaid expenses and other current assets		(7,279)		149,664
Accounts payable		54,686		65,550
Estimated third-party settlement		160,966		(74,928)
Deferred grant revenue		200,000		
Accrued expenses		301,445		(66,129)
Net cash from operating activities	\$	713,884	\$	(86,134)
Net cash norn operating activities	<u> </u>			(30,101)
Quantum set a sach flow information				
Supplemental cash flow information	¢	906 127	¢	2 446 627
Equipment acquired under capital lease	\$	896,137	\$	2,446,627

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Brown County General Hospital (the 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, Ohio and the surrounding areas. The Hospital is operated under the provisions of the Ohio Revised Code.

The reporting entity is composed of the Hospital and the Brown County General Hospital Foundation (Foundation), which was formed to provide services exclusively for the benefit of the Hospital. All material intercompany transactions have been eliminated.

The financial statements of Brown County General Hospital and the Foundation are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Brown County that is attributable to the transactions of Brown County General Hospital. They do not purport to, and do not, present fairly the financial position of Brown County as of December 31, 2009 and 2008, the changes in its financial position or, where applicable, its cash flows for the years then ended.

Basis of Presentation

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis- for State and Local Governments*, issued in June 1999. The Hospital follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provide a comprehensive look at the Hospital's financial activities. The financial statements include the Foundation as blended component units in the Hospital's financial statements.

Basis of Accounting

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

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (GASB) 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) including those issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Other activities that result in gains or losses unrelated to the Hospital's primary mission are considered to be non-operating. Non-operating gains and losses include unrestricted contributions, interest earnings on investments, gains and losses from sale of assets, and interest expense.

Blended Component Units

In order to comply with the provisions of Statements No.14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, issued by the Governmental Accounting Standards Board, the accompanying consolidated financial statements include the accounts of Brown County General Hospital Foundation (the Foundation) as a blended component unit. The Foundation exists solely to support the operations of the Hospital. All significant inter-company transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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 include cash, certificates of deposits and investments in highly liquid investments purchased with original maturity of three months or less.

Assets Whose Use is Limited

Assets whose use is limited consists of amounts designated by the Board of Trustees for future property, plant and equipment renewal and replacement and scholarships and cash restricted by donors.

Inventory

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Capital Assets

Capital assets are reported on the basis of cost or at fair market value at the date received if acquired by gift. It is the Hospital's policy to capitalize acquired capital assets with a cost or fair market value of \$1,000 or greater. Expenditures for maintenance and repairs, which do not extend the life of the applicable assets, are charged to expenses as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of depreciable assets as follows:

Land improvements	5-20 Years
Buildings and building improvements	5-40 Years
Other fixed and major movable equipment	2-20 Years
Leased equipment	3-15 Years
Vehicles	5-7 Years

Lease agreements

The liability for lease obligations which are in substance installment purchases have been recorded in the financial statements and the leased equipment capitalized as capital 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. Depreciation of capital leases is included in depreciation expense on the statements of operations and changes in net assets. Annual rentals pertaining to leases which convey merely the right to use property are charged to current 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, the 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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 the Ohio Public Employees Retirement System (OPERS).

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.

Patient Accounts Receivable and Revenue

Patient accounts receivable and revenue are recorded when patient services are performed. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. An allowance for accounts is established on an aggregate basis by using historical write-off uncollectible rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affect the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments and interim payments advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

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 revenues. Hospital services at normal established rates totaled \$1,960,945, and \$1,007,733 for patients meeting the charity care criteria for the years ended December 31, 2009, and 2008 respectively.

Reclassifications

Certain amounts in 2008 consolidated financial statements have been reclassified to conform to the current year presentation. There were no changes in previously reported change in net assets as a result of these classifications.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Grants, Gifts and Donated Services

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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 into 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 grantors or contributors external to the Hospital. Restricted net assets were restricted to the following:

	2009	2008
Foundation (scholarships)	\$ 178,131	\$ 137,801
Other	-	23,066
	\$ 178,131	\$ 160,867

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

Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued on May 20, 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

2. DEPOSITS

The Governmental Accounting Standards Board has established risk categories for deposits as follows:

Insured or collateralized with securities held by the entity or by its agent in the entity's name;

Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name;

Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name).

For the year ending 2009, the carrying amount of the Hospital's deposits was \$1,273,021 and the bank balance was \$1,626,209. Of the bank balances for 2009, \$818,131 was covered by federal depository insurance, respectively and would belong in the risk category "insured or collateralized"; \$808,078 was covered by collateral held by third-party trustees pursuant to Section 135.181 of the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, and belongs in the risk uncollateralized category"; and there were no uninsured and un-collateralized deposits at year-end.

Interest rate risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – The Hospital may invest in United States obligations or any other obligation guaranteed by the United States; bonds, notes or any other obligations or securities issued by any federal government or instrumentality; time certificate of deposit or savings or deposit accounts, including passbook accounts, in any eligible institution mentioned in Section 135.32; bonds and other obligations of the State of Ohio or the political subdivisions of the state provided that such political subdivisions are located wholly or partly within the same county; and certain no load money market mutual funds; certain commercial paper; and certain repurchase agreements.

Concentration of credit risk – The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	December 31					
		2009		2008		
Total patient accounts receivable	\$	8,190,620	\$	10,143,155		
Less allowance for: Contractual adjustments		3,106,605		3,403,242		
Uncollectible accounts		1,520,287		2,594,137		
Net patient accounts receivable	\$	3,563,728	\$	4,145,776		

The Hospital provides services without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of revenue and receivables from patients and third-party payors follows:

	200	9	200)8
	Accounts	Gross	Accounts	Gross
	Receivable	Revenue	Receivable	Revenue
Medicare	40%	39%	41%	41%
Medicaid	25%	25%	23%	23%
Commercial and other	27%	28%	28%	28%
Self-pay	8%	8%	8%	8%
	100%	100%	100%	100%

4. PATIENT SERVICE REVENUE

The Hospital has agreements with payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for service and amounts reimbursed by third-party payors. The basis of reimbursements with these 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. Certain outpatient services, including ambulatory surgery, radiology, and laboratory services are reimbursed on an established fee-for-service methodology. Reimbursement for other outpatient services is based on the prospectively determined ambulatory payment classification system.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Medicaid - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients are paid on a cost reimbursement method. Outpatient and physician services are reimbursed on an established fee-for-service methodology.

The Medicaid payment system in Ohio is prospective, whereby rates for the following state fiscal year beginning July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant changes in rates, or the payment system itself, could have a material impact on the future Medicaid funding to providers.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements. Medicare cost reports have been settled through 2007 and Medicaid cost reports have been settled through 2004.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

5. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2009 follows:

	12/31/08	Additions	Transfers/ Disposals	12/31/09
Capital assets				
not being depreciated				
Construction in progress	\$ 116,289	\$ 21,761	\$ (62,932)	\$ 200,982
Depreciable capital assets				
Land and land improvements	2,234,954		962,683	1,272,271
Buildings and building improvements	12,001,297		1,312	11,999,985
Fixed equipment	8,759,419	41,278	-	8,800,697
Major moveable equipment	11,946,696	1,097,399	606,797	12,437,298
Vehicles	324,536	-	139,603	184,933
Total property, plant, and equipment				
at historical cost	35,383,191	1,160,438	1,647,463	34,896,166
Less accumulated depreciation				
Land improvements	764,758	22,851	3,463	784,146
Buildings and building improvements	7,958,898	382,462	670	8,340,690
Fixed equipment	6,491,506	448,494	(235)	6,940,235
Major moveable equipment	8,600,041	1,142,381	540,248	9,202,174
Vehicles	299,746	14,176	136,642	177,280
Total accumulated depreciation	24,114,949	2,010,364	680,788	25,444,525
Capital assets, net	\$ 11,268,242	\$ (849,926)	\$ (966,675)	\$ 9,451,641

Capital assets activity for the year ended December 31, 2008 follows:

Capital assets activity for the year c	Transfers/															
		12/31/07	A	Additions	D	isposals		12/31/08								
Property, plant and equipment not being depreciated		001 717		(00.400)		4.40,000	6	440.000								
Construction in progress	\$	294,717	\$	(36,122)	\$	142,306	\$	116,289								
Depreciable property, plant and equipment																
Land and land improvements		2,111,064		1,650		(122,240)		2,234,954								
Buildings and building improvements		11,545,007		456,290		-		12,001,297								
Fixed equipment		8,656,708		638,039		535,328		8,759,419								
Major moveable equipment		10,402,126		1,802,723		258,153		11,946,696								
Vehicles		320,086		4,450		-		324,536								
Total property, plant, and equipment		*****					incinitelianeconan									
at historical cost		33,329,708		2,867,030		813,547		35,383,191								
Less accumulated depreciation																
Land and land improvements		728,902		35,856		*		764,758								
Buildings and building improvements		7,570,915		387,983		387,983		387,983		387,983		387,983		-		7,958,898
Fixed equipment		6,440,262		415,666		364,422		6,491,506								
Major moveable equipment		7,793,241		1.030,589		223,789		8,600,041								
Vehicles		265,968		33,778		-		299,746								
Total accumulated depreciation		22,799,288		1,903,872		588,211		24,114,949								
Property, plant, and equipment, net		10,530,420	\$	963,158	\$	225,336		11,268,242								
e an la ser a s																

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

6. LINE OF CREDIT

The Hospital renewed a line of credit with First State bank that matures in December 2013. The Hospital may borrow up to \$1,000,000. The line charges interest at the prime rate (the prime rate was 3.25% at December 31, 2009) and is collateralized by the accounts receivable of the Hospital. The amount drawn on the line of credit was \$900,000 as of December 31, 2009 and 2008.

7. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

The following is a summary of the Hospital's long-term debt:

	December 31, 2009					
	В	onds/notes		apital lease		
		payable		bligations		
Debt outstanding January 1, 2009	\$	1,009,933	\$	2,241,552		
Additions of new debt		-		896,137		
Repayments		(286,295)		(533,442)		
Debt outstanding December 31, 2009	\$	723,638	\$	2,604,247		
Expected to be paid within one year	\$	239,918	\$	672,652		
	December			r 31, 2008		
	Bonds/notes			Capital lease		
		payable	obligations			
Debt outstanding January 1, 2008	\$	1,286,805	\$	-		
Additions of new debt		-		2,446,627		
Repayments		(276,872)		(205,075)		
Debt outstanding December 31, 2008	\$	1,009,933	\$	2,241,552		

Expected to be paid within one year

\$

286,295

\$

446,176

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Long-term debt and capital lease obligations consist of the following:

	2009	2008
Construction revenue bond issued on May 3, 2006 at par value, collateralized by a pledge of all net revenues, interest at 5.54% and maturing in June 2016. Note payable issued in 2005, collateralized by equipment purchased with the proceeds, interest at 4.6% and maturing in September 2010.	\$ 558,720 164,918	\$ 633,720 376,213
Capital lease for Ultrasound equipment collateralized by equipment purchased, interest at 5.25% through June 2013.	41,563	52,386
Capital lease for MRI equipment and building collateralized by equipment purchased, interest at 3.8% through May 2013.	1,310,394	1,619,977
Capital lease for a telephone system collateralized by equipment purchased, interest at 4.47% through July 2013.	459,167	569,189
Capital lease for copier machines collateralized by equipment purchased, interest at 7.5% through December 2013.	218,584	-
Capital lease for computer software and equipment (PACS) collateralized by the equipment purchased, interest at 7.5% through September 2011.	167,743	-
Capital lease for CT Scanner collateralized by equipment purchased, interest at 1.3% through July 2014.	322,923	-
Capital lease for digital imaging storage equipment collateralized by equipment purchased, interest at 7.4% through June 2012.	83,873_	
Less current portion	3,327,885 912,570	3,251,485 732,471
	\$ 2,415,315	\$ 2,519,014

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

The Hospital's long-term debt is subject to certain financial and administrative covenants. The debt service coverage ratio, current ratio, and maximum total liabilities to unrestricted fund balance covenants that were not met as of December 31, 2009 were waived by the bank.

Scheduled principal and interest repayments for the bonds and notes payable are as follows:

	F	Principal	Interest	Total		
2010	\$	239,918	\$ 31,685	\$	271,603	
2011		75,000	24,374		99,374	
2012		75,000	20,219		95,219	
2013		75,000	16,064		91,064	
2014		75,000	11,909		86,909	
Thereafter		183,720	 10,264		193,984	
	\$	723,638	\$ 114,515	\$	838,153	

Capital lease obligations

The Hospital leases certain equipment under capital lease obligations. Interest rates range from 1.3% to 7.5%. The following are the net minimum future lease payments under these leases:

Years ending December 31,	
2010	\$ 785,911
2011	785,911
2012	750,575
2013	481,236
2014	42,322
Total net future minimum lease payments	2,845,955
Less: amount representing interest	241,708
Total capital lease obigations	 2,604,247
Less: current portion	 672,652
Long-term capital lease obligations	\$ 1,931,595

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

The total cost and related accumulated depreciation of the equipment under capital lease as of December 31, 2009 and 2008 follows:

	December 31				
		2009	2008		
Cost of equipment under capital lease	\$	3,326,274	\$	2,430,137	
Less: Accumulated depreciation		605,740		300,548	
Net carrying amount	\$	2,720,534	\$	2,129,589	

8. NET PATIENT SERVICE REVENUES

The Hospital has agreements with third-party payors that provide payments to the Hospital at amounts different from its established rates. Total gross patient service revenues and related allowances for the years ended December 31, 2009 and 2008 were as follows:

	 2009	2008
Gross patient service charges at established rates (including charity care)	\$ 82,524,344	\$ 82,180,064
less:		
Contractual allowances	42,910,394	41,026,430
Charity care	1,960,945	1,007,733
Bad debts	5,635,652	6,515,638
Net patient service revenues	\$ 32,017,353	\$ 33,630,263

9. OPERATING LEASES

The Hospital has operating leases for facilities and medical equipment. These obligations extend through December 2014.

Minimum future payments for these leases are as follows:

Year ending	
December 31,	
2010	\$ 306,739
2011	265,339
2012	265,339
2013	171,484
2014	30,980
Total	\$ 1,039,881

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Total rental expense for operating leases, including those with terms of one year or less, for the years ended December 31, 2009 and 2008 was \$303,448 and \$292,025 respectively, and is included within other expenses on the statements of operations and changes in net assets.

10. PENSION PLANS

The Hospital contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – 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 maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2009, state and local employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 7.00% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Hospital's contributions, representing 100% of employer contributions, for the last three years follow:

Years	С	Contribution					
2009	\$	2,051,300					
2008		2,409,611					
2007		2,256,335					

The portion of the Hospital's contribution in the above table was made to fund postemployment health care benefits approximated \$907,000, \$1,205,000 and \$1,128,000 for 2009, 2008, and 2007, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

11. PROFESSIONAL LIABILITY INSURANCE

The Hospital maintains malpractice insurance coverage on a per occurrence basis with Ohio Hospital Association Insurance Solutions, Inc. Professional liability claims are currently pending against the Hospital. A provision for loss of \$300,000 has been recorded in the accompanying financial statements for possible future deductibles payable by the Hospital for claims incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

12. BLENDED COMPONENT UNIT

The consolidated financial statements include the Foundation as a blended component unit. The following summarizes the financial position and activities of the Foundation for the years ended December 31, 2009 and 2008:

	2009		2008	
Assets				
Cash and cash equivalents	\$	318,131	\$ 277,383	
Other assets		-	 120,794	
Total assets		318,131	398,177	
Liabilities				
Payables		-	 120,794	
Net assets				
Restricted by donors for specific uses		178,131	139,999	
Unrestricted		140,000	 137,384	
Total net assets	\$	318,131	\$ 277,383	
Income				
Contributions	\$	71,579	\$ 19,423	
Other		28,088	43,140	
Total income		99,667	62,563	
Expenses				
Other		58,919	 109,534	
Total expenses		58,919	 109,534	
Excess expenses over revenues		40,748	(46,971)	
Net assets, beginning of year		277,383	 324,354	
Net assets, end of year	\$	318,131	\$ 277,383	

13. GOING CONCERN AND MANAGEMENT'S PLANS

The Hospital did not meet certain covenants related to the debt outstanding at December 31, 2009 (note 7). The Hospital experienced operating losses in 2009 and 2008, which could be indicative of an entity's inability to continue as a going concern.

The Hospital's net assets decreased approximately \$2,783,000 in 2009. Further, the Hospital's operating revenues decreased by 4% to approximately \$32,441,000 while operating expenses decreased by 6% to \$34,893,000. The result is a loss from operations of approximately \$2,452,000 in 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

The Hospital issued a construction revenue bond in 2006 for a total of \$783,720 and a note payable in 2005 for a total of \$1,000,000. These agreements call for certain debt covenants to be met. The covenants include a minimum current ratio of 1.5 to 1; debt service coverage ratio of at least 1.25 and a maximum limit on total liabilities to unrestricted fund balance of 1.20. The Hospital did not meet the covenants regarding the minimum current ratio and debt service coverage ratio at December 31, 2009.

Management of the Hospital plans to return the Hospital to profitability through evaluation of contribution margins of certain lines of business, renegotiation of supplies contracts and vendor agreements, flexing staff levels consistent with inpatient census needs in addition to other cost containment initiatives. Management is also currently pursuing an affiliation agreement with another hospital or hospital system.

[<] blue

Blue & Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240 main: 614.885.BLUE (2583) tax 614.885.0580 email blue@blueandco.com

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

To the Board of Trustees Brown County General Hospital Georgetown, Ohio

We have audited the financial statements of Brown County General Hospital, an enterprise fund of Brown County, Ohio, as of and for the year ended December 31, 2009, and have issued our report thereon dated May 20, 2010. Our report included additional language stating the financial statements of the Hospital are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Brown County that is attributable to the transactions of the Hospital. Those financial statements do not purport to, and do not, present fairly the financial position of Brown County as of December 31, 2009, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the Hospital in a separate letter dated May 20, 2010.

This report is intended solely for the information and use of the Board of Trustees, management, and the auditor of the State of Ohio and is not intended to be and should not be used by anyone other than those specified parties.

Blue & Co., LLC

May 20, 2010

Brown County General Hospital Schedule of Prior Audit Findings December 31, 2009

2008 – 1: Bad Debt Allowances

Audit procedures for 2008 resulted in an adjustment to bad debt allowances relating to patient accounts receivable. We recommend that management review and update the allowance model on a regular basis to adjust patient accounts receivable to amounts expected to be received based on actual payment history. This will help ensure that interim and year-end financial reporting is accurate. We also recommend that management continue to develop reports to capture actual payment history for self pay classes to form the basis for allowing for bad debt reserves.

Management's Response:

Management implemented a review by the Chief Financial Officer of the allowance model on a regular basis to ensure accurate interim financial reporting. Management also develops reports to capture actual payment history for self pay classes to form the basis for allowing for bad debt reserves. Corrective action was taken.

2008 – 2: Monitoring Bond Covenants

The Hospital is required to maintain a current ratio of 1.50; maximum total liabilities to unrestricted fund balance of 1.20; and debt service coverage equal to at least 125% of maximum annual debt service. The Hospital did not meet the current ratio covenant or the debt service coverage ratio at December 31, 2008. Certain covenants were not met and not communicated to the respective parties. We recommend that the Hospital monitor and proactively communicate instances of default as required. This will allow the Hospital to develop a corrective action plan to address deficiencies and present the plan to relevant parties.

Management's Response:

Management implemented a policy that includes calculation of the bond covenants and review of results to ensure proactive communication of instances of noncompliance with the bond covenants. Corrective action was taken.





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 Babbett

CLERK OF THE BUREAU

CERTIFIED JUNE 17, 2010

> 88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506 Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490 www.auditor.state.oh.us