BROWN COUNTY GENERAL HOSPITAL

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 1, 2011 AND DECEMBER 31, 2010

CPAs / ADVISORS

blue

Dave Yost • 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, prepared by Blue & Co., LLC, for the audit period January 1, 2011 through June 1, 2011. 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.

Dave Yost
Auditor of State

January 14, 2013

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BROWN COUNTY GENERAL HOSPITAL

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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 June 1, 2011 and December 31, 2010, and the related statements of operations and changes in net assets and cash flows for the period January 1, 2011 to June 1, 2011 and the year ended December 31, 2010. 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.

Except as discussed in the following paragraph, 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.

Because of the inadequacy of accounting records for the period January 1, 2011 to June 1, 2011, we were unable to form an opinion regarding the amounts to support inventory stated at $409,202 in the accompanying balance sheet as of June 1, 2011 or the amount of supplies expense of $4,307,736. We were also unable to obtain support for accounts receivable on the June 1, 2011 accounts receivable balance of $2,931,486 or the net patient service revenue of $13,008,901.

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.

Board of Trustees
BROWN COUNTY GENERAL HOSPITAL

In our opinion, except for the effects on the 2011 financial statements of such adjustments, if any, as might have been determined to be necessary if we had been able to satisfy ourselves about valuation as discussed in the third paragraph, the financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of Brown County General Hospital as of June 1, 2011 and December 31, 2010, and its results of operations, changes in net assets and cash flows for the period January 1, 2011 to June 1, 2011 and for the year ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the financial statements, the Hospital sold the majority of its assets and transferred its long-term debt to an unrelated party on June 2, 2011. The Hospital continues to wind down the activities related to its former operations in 2011 and 2012.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through v be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Blue & Co., LLC

November 13, 2012

The discussion and analysis of Brown County General Hospital (the Hospital) financial performance provides an overview of the Hospital's financial activities for the period January 1, 2011 to June 1, 2011 and the year ended December 31, 2010. 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 financial statements and the notes to the basic financial statements to enhance their understanding of the financial performance.

Financial Highlights

- The Hospital's net assets decreased approximately $325,000 from 2010 to June 1, 2011.
- For the period January 1, 2011 to June 1, 2011 the result is a loss from operations of approximately $1,541,000 compared to a loss from operations of $4,402,000 in 2010.
- The Hospital did not meet certain covenants related to its debt outstanding at June 1, 2011 and at December 31, 2010.

Sale of Hospital's Assets and Liabilities

On January 12, 2011, the Hospital's Board of Trustees recommended to the Brown Country Commissioners to accept the bid from Southwest Healthcare Services, LLC to purchase substantially all of the Hospital's assets and assume the Hospital's liabilities. On January 14, 2011, the Brown County Commissioners accepted the bid from Southwest Healthcare Services, LLC. On June 2, 2011, the Hospital sold the majority of its assets and transferred substantially all liabilities to Southwest Healthcare of Brown County Ohio, LLC, and a Delaware limited liability company, located in Scottsdale, Arizona.

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.

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 June 1, 2011, December 31, 2010, and December 31, 2009 is presented below (in thousands):

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

	6/1/2011	12/31/2010	12/31/2009
Assets			
Cash and cash equivalents	$ 783	$ 680	$ 1,273
Capital assets	7,367	8,082	9,452
Patient accounts receivable, net	2,931	2,663	3,564
Other assets	2,094	1,327	1,025
Total assets	$ 13,175	$ 12,751	$ 15,314
Liabilities			
Current portion of long-term liabilities	$ 1,682	$ 1,499	$ 913
Other current liabilities	8,294	7,546	5,150
Long-term liabilities	1,034	1,216	2,415
Total liabilities	11,010	10,262	8,478
Net assets			
Invested in capital assets, net of related debt	4,651	5,367	6,124
Unrestricted	(2,674)	(3,078)	534
Restricted	188	202	178
Total net assets	2,165	2,490	6,836
Total liabilities and net assets	$ 13,175	$ 12,751	$ 15,314

Net assets decreased to approximately $2,165,000 at June 1, 2011, down from $2,490,000 in 2010.

Total assets increased 3%. Total liabilities increased 7% during the year primarily due to an increase in current liabilities of approximately $931,000 caused by increases in accounts payable. Total net assets decreased $325,000 primarily due to the combination of the operating loss of $1,541,000 offset by the increase of gifts, grants and donations $990,000.

Capital Assets

At June 1, 2011, the Hospital had $7.4 million invested in capital assets, while it had capital assets of $8.1 million in 2010. This amount represents a net decrease (including additions, deletions, and depreciation expense) of $714,000, or 9%, from last year.

Debt Administration

The Hospital had $3.5 million and $3.7 million in outstanding debt (including capital lease obligations and a line of credit) at June 1, 2011 and December 31, 2010, respectively. 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 summary of the Hospital's revenues, expenses and changes in net assets for the period January 1, 2011 to June 1, 2011 and the years ended December 31, 2010 and 2009 presented below (in thousands):

	6/1/2011	12/31/2010	12/31/2009
Operating revenues			
Net patient service revenues	$ 13,009	$ 28,774	$ 32,017
Other revenues	92	417	424
Total revenues	13,101	29,191	32,441
Operating expenses			
Salaries and benefits	7,413	17,981	18,665
Supplies and other	5,108	9,175	9,304
Purchased services and professional fees	1,393	4,592	4,913
Depreciation	728	1,845	2,011
Total operating expenses	14,642	33,593	34,893
Loss from discontinued operations	(1,541)	(4,402)	(2,452)
Non-operating (expenses) revenues	1,216	56	(331)
Change in net assets	$ (325)	$ (4,346)	$ (2,783)

Operating Gains/Losses

The Hospital generated 55% less net revenues from patients in 2011 compared to 2010, due mainly to having only approximately 5 months of operations in 2011 compared to a full year in 2010. The Hospital continued to have a loss from operations of $1,541,000 in 2011. This section will discuss highlights of 2011 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.

Operating revenue changes were a result of the following factors:

- Net patient service revenue decreased to $13,009,000. This was attributable primarily to a partial year of operations in 2011 compared to a full year in 2010. 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 55% to 58% as a percentage of gross revenue.

Expenses

Operating expenses are the costs necessary to perform and conduct the services and primary purposes of the Hospital. Total operating expenses decreased in 2011 to $14,642,000. The operating expense changes were the result of the following factors:

- The hospital had approximately five months of operations in 2011 compared to a full year in 2010.

Statement of Cash Flows

Net cash flows provided by operating activities decreased from $338,593 in 2010 to ($851,288). The Hospital paid down debt $118,000. Overall, the Hospital's cash increased by $103,000 in 2011 compared to a decrease in cash of $593,000 in 2010.

Other Economic Factors

The Hospital's Board voted to sell the Hospital to Southwest Healthcare of Brown County Ohio, LLC effective June 2, 2011.

Contacting the Hospital's Management

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

BROWN COUNTY GENERAL HOSPITAL

CONSOLIDATED BALANCE SHEETS
JUNE 1, 2011 AND DECEMBER 31, 2010

ASSETS

	2011	2010
Current assets		
Cash and cash equivalents	$ 594,299	$ 478,129
Patient accounts receivable, net of allowance for doubtful accounts of $1,481,524 in 2011 and $1,832,870 in 2010	2,931,486	2,663,241
Notes, contracts, and other accounts receivable	1,445,503	449,981
Inventories	409,202	614,309
Prepaid expenses and other current assets	239,044	262,275
Total current assets	5,619,534	4,467,935
Assets whose use is limited	188,257	201,673
Capital assets, net	7,367,491	8,081,848
Total assets	$ 13,175,282	$ 12,751,456

See accompanying notes to consolidated financial statements.

BROWN COUNTY GENERAL HOSPITAL

CONSOLIDATED BALANCE SHEETS
JUNE 1, 2011 AND DECEMBER 31, 2010

LIABILITIES AND NET ASSETS

	2011	2010
Current liabilities		
Line of credit	$ 750,000	$ 1,000,000
Current portion of long-term debt	795,630	783,720
Current portion of capital lease obligations	886,624	715,409
Accounts payable	3,628,634	3,274,707
Estimated third-party settlements	308,724	166,403
Accrued expenses		
Salaries, wages, withholdings, and benefits	772,025	901,641
Compensated absences	712,122	755,424
Other	2,122,248	1,448,126
Total current liabilities	9,976,007	9,045,430
Long-term liabilities		
Capital lease obligations, net of current portion	1,034,181	1,216,192
Total liabilities	11,010,188	10,261,622
Net assets		
Invested in capital assets, net of related debt	4,651,056	5,366,527
Unrestricted	(2,674,219)	(3,078,366)
Restricted	188,257	201,673
Total net assets	2,165,094	2,489,834
Total liabilities and net assets	$ 13,175,282	$ 12,751,456

See accompanying notes to consolidated financial statements.

BROWN COUNTY GENERAL HOSPITAL

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE PERIOD JANUARY 1, 2011 TO JUNE 1, 2011 AND THE YEAR ENDED
DECEMBER 31, 2010

	2011	2010
Operating revenues		
Net patient service revenue	$ 13,008,901	$ 28,774,351
Other operating revenue	91,869	416,504
Total operating revenues	13,100,770	29,190,855
Operating expenses		
Salaries and wages	5,651,523	14,139,760
Employee benefits	1,761,329	3,841,540
Supplies and other	4,307,736	7,977,945
Depreciation	727,899	1,845,038
Purchased services and professional fees	1,393,348	4,591,613
Utilities	250,452	585,135
Insurance	549,693	611,724
Total operating expenses	14,641,980	33,592,755
Loss from discontinued operations	(1,541,210)	(4,401,900)
Non-operating (expenses) revenues		
Investment income	1,122	2,518
Interest	(70,011)	(197,941)
Gifts, grants, and donations	1,286,130	296,375
Non-operating (expense) revenue	(771)	(44,955)
Total non-operating expenses	1,216,470	55,997
Change in net assets	(324,740)	(4,345,903)
Net assets beginning of year	2,489,834	6,835,737
Net assets, end of year	$ 2,165,094	$ 2,489,834

See accompanying notes to consolidated financial statements.

BROWN COUNTY GENERAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIOD JANUARY 1, 2011 TO JUNE 1, 2011 AND THE YEAR ENDED DECEMBER 31, 2010

	2011	2010
Cash flow from operating activities		
Cash received from patients	$ 12,882,977	$ 29,733,777
Cash payments to suppliers for goods and services	(6,240,364)	(11,587,397)
Cash payments to employees for services	(7,585,770)	(18,024,291)
Other receipts and payments, net	91,869	216,504
Net cash from operating activities	(851,288)	338,593
Cash flow from non-capital financing activities		
Investment income	1,122	2,518
Gifts, grants, and donations	1,286,130	296,375
Non-operating expenses	(771)	(44,955)
Net cash from non-capital financing activities	1,286,481	253,938
Cash flow from capital and related financing activities		
Acquisition of capital assets	(17,121)	(549,406)
Borrowings from Brown County	-	300,000
Finance charges incurred on existing debt	119,139	-
Principal paid on long-term debt and capital leases	(118,025)	(912,564)
Net change in line of credit	(250,000)	100,000
Interest paid on long term debt	(70,011)	(197,941)
Loss on disposal of capital assets	3,579	74,161
Net cash from capital and related financing activities	(332,439)	(1,185,750)
Net change in cash and cash equivalents	102,754	(593,219)
Cash and cash equivalents		
Beginning of year	679,802	1,273,021
End of year	$ 782,556	$ 679,802
Recap of cash and cash equivalents		
Cash and cash equivalents	$ 594,299	$ 478,129
Assets whose use is limited	188,257	201,673
Total cash and cash equivalents	$ 782,556	$ 679,802

See accompanying notes to consolidated financial statements.

BROWN COUNTY GENERAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
FOR THE PERIOD JANUARY 1, 2011 TO JUNE 1, 2011 AND THE YEAR ENDED
DECEMBER 31, 2010

	2011	2010
Reconciliation of loss from operations to net cash from operating activities		
Loss from discontinued operations	$ (1,541,210)	$ (4,401,900)
Adjustment to reconcile loss from discontinued operations to net cash from operating activities		
Depreciation	727,899	1,845,038
Bad debts	1,498,956	4,232,786
Changes in operating assets and liabilities		
Patient accounts receivable	(1,767,201)	(3,332,299)
Notes, contracts, grants, and other receivables	(995,522)	(326,702)
Inventories	205,107	(63,213)
Prepaid expenses and other current assets	23,231	89,020
Accounts payable	353,927	1,967,084
Estimated third-party settlements	142,321	58,939
Deferred grant revenue	-	(200,000)
Accrued expenses	501,204	469,840
Net cash from operating activities	$ (851,288)	$ 338,593

See accompanying notes to consolidated financial statements.

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 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 June 1, 2011 and December 31, 2010, the changes in its financial position or, where applicable, its cash flows for the period January 1, 2011 to June 1, 2011 and the year ended December 31, 2010.

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 a blended component unit 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.

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 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.

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.

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 uncollectible accounts is established on an aggregate basis by using historical write-off 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

Of the Hospital's total reported operating expenses (approximately $14,642,000 and $33,593,000 during 2011 and 2010, respectively), an estimated $421,000 and $873,000 arose from providing services to charity patients during 2011 and 2010, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses (less bad debt expense) divided by gross patient service revenue. The Hospital participates in the Hospital Care Assurance Program (HCAP) which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled approximately $434,000 and $398,000 for 2011 and 2010, respectively.

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 non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating 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:

	2011	2010
Foundation (scholarships)	$ 188,257	$ 201,673

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 November 13, 2012.

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).

At June 1, 2011, the carrying amount of the Hospital's deposits was $782,556 and the bank balance was $673,707. Of the bank balances for 2011, $367,029 was covered by federal depository insurance, respectively and would belong in the risk category "insured or collateralized"; $306,678 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 of the Ohio Revised Code; 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.

3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	June 1, 2011	December 31, 2010
Total patient accounts receivable	$ 9,417,426	$ 8,381,799
Less allowance for:		
Contractual adjustments	5,004,416	3,885,688
Uncollectible accounts	1,481,524	1,832,870
Net patient accounts receivable	$ 2,931,486	$ 2,663,241

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

	2011		2010	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	29%	40%	20%	41%
Medicaid	25%	32%	30%	26%
Commercial and other	19%	20%	22%	26%
Self-pay	27%	8%	28%	7%
	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.

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 2006.

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 includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

5. CAPITAL ASSETS

Capital assets activity for the period January 1, 2011 to June 1, 2011 and year ended December 31, 2010 follows:

	12/31/10	Additions	Transfers/ Disposals	6/1/11
Capital assets not being depreciated				
Construction in progress	$ 35,557	$ -	$ -	$ 35,557
Depreciable capital assets				
Land and land improvements	1,272,271	-	-	1,272,271
Buildings and building improvements	11,999,985	-	-	11,999,985
Fixed equipment	8,800,697	-	-	8,800,697
Major moveable equipment	12,937,951	17,121	8,367	12,946,705
Vehicles	184,933	-	-	184,933
Total property, plant, and equipment at historical cost	35,231,394	17,121	8,367	35,240,148
Less accumulated depreciation				
Land improvements	797,692	5,026	-	802,718
Buildings and building improvements	8,652,732	131,205	-	8,783,937
Fixed equipment	7,317,624	155,493	-	7,473,117
Major moveable equipment	10,203,050	435,644	4,788	10,633,906
Vehicles	178,448	531	-	178,979
Total accumulated depreciation	27,149,546	727,899	4,788	27,872,657
Capital assets, net	$ 8,081,848	$ (710,778)	$ (3,579)	$ 7,367,491

	12/31/09	Additions	Transfers/ Disposals	12/31/10
Capital assets not being depreciated				
Construction in progress	$ 200,982	$ 35,439	$ 200,864	$ 35,557
Depreciable capital assets				
Land and land improvements	1,272,271	-	-	1,272,271
Buildings and building improvements	11,999,985	-	-	11,999,985
Fixed equipment	8,800,697	-	-	8,800,697
Major moveable equipment	12,437,298	513,967	13,314	12,937,951
Vehicles	184,933	-	-	184,933
Total property, plant, and equipment at historical cost	34,896,166	549,406	214,178	35,231,394
Less accumulated depreciation				
Land improvements	784,146	13,546	-	797,692
Buildings and building improvements	8,340,690	312,042	-	8,652,732
Fixed equipment	6,940,235	377,389	-	7,317,624
Major moveable equipment	9,202,174	1,140,893	140,017	10,203,050
Vehicles	177,280	1,168	-	178,448
Total accumulated depreciation	25,444,525	1,845,038	140,017	27,149,546
Capital assets, net	$ 9,451,641	$ (1,295,632)	$ (74,161)	$ 8,081,848

Property, buildings, and equipment at June 1, 2011 are considered long lived assets available for sale.

6. LINE OF CREDIT

At June 1, 2011, the Hospital owed $750,000 on a line of credit with First State Bank that matured as of June 1, 2011. The line charges interest at 6.0% at June 1, 2011 and is collateralized by the accounts receivable of the Hospital. The amount drawn on the line of credit was $1,000,000 as of December 31, 2010.

7. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

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

	June 1, 2011	
	Bonds/notes payable	Capital lease obligations
Debt outstanding January 1, 2011	$ 783,720	$ 1,931,601
Accrued interest	11,910	107,229
Repayments	-	(118,025)
Debt outstanding June 1, 2011	$ 795,630	$ 1,920,805
Expected to be paid within one year	$ 795,630	$ 886,624

	December 31, 2010	
	Bonds/notes payable	Capital lease obligations
Debt outstanding January 1, 2010	$ 723,638	$ 2,604,247
Additions of new debt	300,000	-
Repayments	(239,918)	(672,646)
Debt outstanding December 31, 2010	$ 783,720	$ 1,931,601
Expected to be paid within one year	$ 783,720	$ 715,409

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

		2011	2010
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.	*	$ 495,630	$ 483,720
Note payable issued in 2010, unsecured, interest at 6.50%, with no specific repayment terms.		300,000	300,000
Capital lease for Ultrasound equipment collateralized by equipment purchased, interest at 5.25% through June 2013.		25,226	30,158
Capital lease for MRI equipment and building collateralized by equipment purchased, interest at 3.8% through May 2013.	*	1,008,459	970,428
Capital lease for a telephone system collateralized by equipment purchased, interest at 4.47% through July 2013.		314,559	344,129
Capital lease for copier machines collateralized by equipment purchased, interest at 7.5% through December 2013.	*	217,722	169,905
Capital lease for computer software and equipment (PACS) collateralized by the equipment purchased, interest at 7.5% through September 2011.		85,876	110,765
Capital lease for CT Scanner collateralized by equipment purchased, interest at 1.3% through July 2014.		225,098	254,052
Capital lease for digital imaging storage equipment collateralized by equipment purchased, interest at 7.4% through June 2012.		43,865	52,164
		2,716,435	2,715,321
Less current portion		1,682,254	1,499,129
		$ 1,034,181	$ 1,216,192

* The Hospital was behind on payments which resulted in increased debt balances.

The unsecured note payable of $300,000 issued in 2010 was provided by Brown County, Ohio. Brown County, Ohio was the owner of the Hospital at the time of issuance.

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 were not met as of June 1, 2011 for the 2006 Revenue bonds. The 2006 Revenue bonds have been classified as current.

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:

2012	$ 1,080,570
2013	706,255
2014	211,732
2015	12,459
2016	-
Total net future minimum lease payments	2,011,016
Less: amount representing interest	90,211
Total capital lease obligations	1,920,805
Less: current portion	886,624
Long-term capital lease obligations	$ 1,034,181

The total cost and related accumulated depreciation of the equipment under capital lease as of June 1, 2011 and December 31, 2010 follows:

	June 1 2011	December 31 2010
Cost of equipment under capital lease	$ 3,326,274	$ 3,326,274
Less: Accumulated depreciation	1,856,333	1,564,459
Net carrying amount	$ 1,469,941	$ 1,761,815

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 period January 1, 2011 through June 1, 2011 and the year ended December 31, 2010 were as follows:

	2011	2010
Gross patient service charges at established rates (including charity care)	$ 36,154,464	$ 77,035,702
less:		
Contractual allowances	20,650,801	42,026,293
Charity care	995,806	2,002,272
Bad debts	1,498,956	4,232,786
Net patient service revenues	$ 13,008,901	$ 28,774,351

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 June 1,	
2012	$ 296,792
2013	225,516
2014	105,126
2015	4,656
Total	$ 632,090

Total rental expense for operating leases, including those with terms of one year or less, for the period January 1, 2011 through ended June 1, 2011 and the year ended December 31, 2010 was $204,183 and $353,564 respectively, and is included within supplies and 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 is a cost sharing multiple-employer defined benefit pension plan. The Member-Directed Plan (MD) is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). The Combined Plan (CO) is a cost sharing multiple-employer defined benefit pension 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. OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and 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.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. The 2011 member contribution rates were 10.0% of covered payroll for members in state and local classifications.

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 2011, 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.

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 for members in the Traditional Plan was 4% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. 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 fiscal periods follow:

Years	Contribution
2011	$ 644,524
2010	1,978,596
2009	2,051,300

The portion of the Hospital's contribution in the above table was made to fund post-employment health care benefits approximated $184,000, $989,000 and $907,000 for 2011, 2010, and 2009, 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 maintained malpractice insurance coverage on a per occurrence basis through June 1, 2011. The Hospital subsequently purchased tail coverage for incidents that occurred prior to June 1, 2011.

Professional liability claims are currently pending against the Hospital. A provision for loss of $299,254 has been recorded in the accompanying financial statements for possible future deductibles payable by the Hospital for claims incurred.

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 period January 1, 2011 through June 1, 2011 and the year ended 2010:

	2011	2010
Assets		
Cash and cash equivalents	$ 188,257	$ 201,673
Total assets	188,257	201,673
Net assets		
Restricted by donors for specific uses	188,257	201,673
Unrestricted	-	-
Total net assets	$ 188,257	$ 201,673
Income		
Contributions	$ 29,296	$ 92,767
Other	9,995	25,991
Total income	39,291	118,758
Expenses		
Contributions to hospital	-	150,000
Other	52,707	85,216
Total expenses	52,707	235,216
Excess expenses over revenues	(13,416)	(116,458)
Net assets, beginning of year	201,673	318,131
Net assets, end of year	$ 188,257	$ 201,673

13. SUBSEQUENT EVENT AND DISCONTINUED OPERATIONS

Effective June 2, 2011, the Hospital was purchased by Southwest Healthcare of Brown County Ohio, LLC, a Delaware limited liability company, located in Scottsdale, Arizona. The transaction included transferring the majority of its assets of approximately $10 million and substantially all liabilities of approximately $10 million of the Hospital to Southwest Healthcare of Brown County Ohio, LLC.

The Foundation's assets and liabilities were excluded from the sale. The Hospital will continue to be liable for any unknown liabilities at closing, obligations for severance with respect to Hospital employees that result from the transaction, and other liabilities that existed from acts prior to closing that were unknown at closing. Certain receivables, totaling approximately $1.2 million, held by the Hospital at the time of sale were not purchased by Southwest Healthcare of Brown County Ohio, LLC, and are being used for the wind down operations of the former county hospital.

Any excess funds after the wind down of the Hospital's former operations are anticipated to be transferred to a Foundation for the benefit of residents of Brown County, Ohio.

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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 (the Hospital), an enterprise fund of Brown County, Ohio, for the period January 1, 2011 through June 1, 2011, and have issued our report thereon dated November 13, 2012. In our report on the financial statements, our opinion on the Hospital was qualified because we were unable to satisfy ourselves about the existence and valuation of the Hospital's inventory and accounts receivable in the financial statements.

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 June 1, 2011, the changes in its financial position, or, where applicable, its cash flows for the period January 1, 2011 through June 1, 2011 in conformity with accounting principles generally accepted in the United States of America.

Our report also included additional language relating to sale of the Hospital's primary assets as discussed in Note 13 to the financial statements. 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

Management of the Hospital is responsible for establishing and maintaining effective 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 audit procedures for the purpose of expressing our opinion on the consolidated 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 control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 Hospital's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (2011-1 through 2011-9).

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency (2011-10).

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 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 responses as item 2011-11.

We noted certain matters that we reported to management of the Hospital in a separate letter dated November 13, 2012.

The Hospital's responses to the findings identified in our audit are described in the accompanying schedules of findings and responses. We did not audit the Hospital's responses and, accordingly, we express no opinion on them.

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

November 13, 2012

Brown County General Hospital
Schedule of Findings and Responses
June 1, 2011

2011-1: Maintaining Inventory Counts (Material Weakness)

Condition: During the audit, documentation of a physical inventory at June 1, 2011 could not be located.

Criteria: Physical inventory counts should be performed at period end to adjust the balance sheet to actual amounts on hand and documentation kept in support of those counts.

Cause: The Hospital incurred significant turnover in 2010 and 2011. As a result of this turnover, certain documents could not be located.

Effect: The potential impact is a misstatement of inventory balances at year end and a misstatement of supplies expense.

Recommendation: We recommend that an annual inventory be conducted at period end and information be maintained to support the balances.

Management's response: Inventory counts will be performed at period end to assure that the inventory is accurately stated.

2011-2: Information Technology Maintenance and Review (Material Weakness)

Condition: As a result of a review of the Information technology area (IT) during the audit, we noted that several policies had not been updated for over a year and many best-practices policies could not be located such as IT risk assessment, confidentiality and non-disclosure agreements, IT security, employee termination procedures, authorization of new IT components, disciplinary policy, data encryption, passwords and annual testing of disaster recovery.

Criteria: Policies and procedures should be put in place and updated regularly to ensure the security and integrity of the IT environment.

Cause: The policies have not been updated.

Effect: Potential effect is unmitigated risks in IT including unauthorized access.

Recommendation: We recommend that a thorough review be done of the entire IT area to include annual testing and updates of existing policies and procedures as well as implementation of new policies that are considered critical to data integrity and security.

Management's response: A formal review of the internal controls of the information technology department will be prepared in 2012.

Brown County General Hospital
Schedule of Findings and Responses
June 1, 2011

2011-3: Maintaining Journal Entry Support (Material Weakness)

Condition: As a result of a review of journal entries, we noted support for five of our five journal entry selections could not be located.

Criteria: Policies and procedures should be put in place and updated regularly to ensure that support for journal entries is maintained and reviewed by a member of management.

Cause: Management believes the journal entry support was discarded as a result of employee turnover during the year.

Effect: Potential effect is posting of journal entries to the general ledger without support or review by a member of management.

Recommendation: We recommend support for journal entries be maintained and that journal entries with support be reviewed by a member of management.

Management's response: All journal entries are now being approved and filed at the end of each month.

2011-4: Performing Reconciliations (Material Weakness)

Condition: During our audit, we noted that reconciliations had not been performed consistently throughout the year.

Criteria: This process is vital in order to appropriately state the balances each period. Errors are likely if the control is not performed.

Cause: The Hospital incurred significant turnover in 2010 and 2011. As a result of this turnover, there were not sufficient resources to perform daily duties.

Effect: During the year the potential impact is a misstatement of balances.

Recommendation: We recommend the reconciliation process be monitored with preparer and reviewer sign offs on the reconciliation each month, and ensure it is referenced on the month end close process checklist.

Management's response: Reconciliations will be performed and reviewed monthly and referenced on the month end close process checklist.

Brown County General Hospital
Schedule of Findings and Responses
June 1, 2011

2011-5: Performance of Billing Audits (Material Weakness)

Condition: In our review of the control process around the revenue cycle of the Hospital, it came to our attention that billing audits had not been performed for during the past year.

Criteria: This process is vital in order to appropriately review charges and bills during a period. Errors in billings are likely if the control is not performed which could significantly impact revenue.

Cause: The Hospital incurred significant turnover in 2010 and 2011. As a result of this turnover, there were not sufficient resources to perform daily duties.

Effect: The potential impact is misstated receivable and revenue accounts during the year.

Recommendation: We recommend that billing audits be performed on a periodic basis and at least once a year to ensure services are appropriately captured and charged.

Management's response: Billing audits will be performed in 2012.

2011-6: Segregation of Duties (Material Weakness)

Condition: During our planning and process documentation procedures, we performed a walkthrough of the cash receipt process. In our walkthroughs of controls, we noted the same person had access to cash receipts and was also performing record keeping.

Criteria: The same person should not have access to cash receipts who is also performing the record keeping of receipts.

Cause: The Hospital incurred significant turnover in 2010 and 2011. As a result of this turnover, there were not sufficient resources to segregate daily duties.

Effect: The lack of controls over this process can yield misappropriate of assets.

Recommendation: We recommend those responsibilities be separated amongst different employees.

Management's response: Duties will be separated to different employees.

2011-7: Chargemaster Access (Material Weakness)

Condition: In reviewing the chargemaster access list, we noted numerous current employees as well as some former employees with access rights.

Criteria: Access to the system should be limited to a few individuals with authorization responsibilities.

Cause: A formal review of access rights has not been done recently.

Effect: The chargemaster drives revenue reporting at hospitals. Numerous employees having access exposes the Hospital to unauthorized changes, potential compliance issues and/or inappropriate reporting of revenue.

Recommendation: We recommend that access use be reviewed and limited to those with specific authorization to make changes. This should be limited to only a few individuals who have the requisite knowledge of coding and billing regulations.

Management's response: The access to the chargemaster will be reviewed and changed to include current employees who need access to perform their job duties.

2011-8: Documentation Records (Material Weakness)

Condition: The Hospital was unable to provide invoices for various selections of disbursements made after the period under audit to test the cut-off assertion.

Criteria: Supporting documentation should be retained.

Cause: The Hospital incurred significant turnover in 2010 and 2011. As a result of this turnover, certain documents could not be located.

Effect: This indicates a weakness in the control environment and could result in misappropriation of assets or fraudulent disbursements or other transactions.

Recommendation: We recommend the Hospital implement controls around the disbursement process and document retention overall.

Management's response: Invoices and check copies will be retained.

2011-9: Audit Adjustments (Material Weakness)

Condition: Numerous audit adjustments were posted relating to cash, accounts receivable, contractual allowances, accruals, debt, capital leases, health care assurance program (HCAP), and the hospital franchise fee, among others.

Criteria: Balance sheet and income statement accounts should be reconciled to support on a monthly basis.

Cause: General ledger balances were not adjusted to related reconciliations and support.

Effect: The general ledger was not reconciled to the related resulting in several audit adjustments.

Recommendation: We recommend that a formal closing process be implemented to include monthly reconciliations and related adjustments.

Management's response: A formal process has been implemented to calculate, record, and review the monthly cash, accounts receivable, contractual allowances, accruals, debt, capital leases, health care assurance program (HCAP), and hospital franchise fee. This process wasn't performed monthly due to staff turnover. This process will be implemented and followed going forward.

2011-10: Financial Statement Close Process (Significant Deficiency)

Condition: During our planning and process documentation procedures, we performed a walkthrough of the financial statement close process. A control identified in the process is the use of a journal entry and close checklist. This checklist provides a basis for the month-end close process to ensure any manual journal entries and other control activities are completed. We note the checklist was not used.

Criteria: Due to the high staff turnover, process documentation and understanding of the period end activities is important to ensure the financial statements are consistent from period to period

Cause: The Hospital incurred significant turnover in 2010 and 2011. As a result of this turnover, there were not sufficient resources to perform daily duties.

Effect: This indicates a weakness in the control environment and could result in misappropriation of assets or fraudulent reporting.

Recommendation: We recommend the Hospital update the checklist and utilize it each period.

Management's response: A checklist will be created and used monthly.

2011-11: Budget Submission (Compliance and Other Matters)

Condition: During the audit, we noted the 2011 budget wasn't submitted to the Brown County Board of Commissioners for approval.

Criteria: Per chapter 1 of the Ohio Compliance Supplement, the Hospital was required to submit the 2011 budget to the Brown County Board of Commissioners for approval by November 1, 2010.

Cause: The Hospital incurred significant turnover in 2010 and 2011. As a result of this turnover, the 2011 budget wasn't submitted to the Brown County Board of Commissioners for approval.

Effect: The Hospital wasn't in compliance with the Ohio Compliance Supplement.

Recommendation: We recommend the hospital obtain budget approval from the Brown County Board of Commissioners to be in compliance with the Ohio Compliance Supplement.

Management's response: Since the Hospital was sold to a non-governmental entity; this requirement is no longer applicable.

Brown County General Hospital
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2010-1: Chargemaster Access (Material Weakness)

Condition: In reviewing the chargemaster access list, we noted numerous current employees as well as some former employees with access rights.

Criteria: Access to the system should be limited to a few individuals with authorization responsibilities.

Cause: A formal review of access rights has not been done recently.

Effect: The chargemaster drives revenue reporting at hospitals. Numerous employees having access exposes the Hospital to unauthorized changes, potential compliance issues and/or inappropriate reporting of revenue.

Recommendation: We recommend that access use be reviewed and limited to those with specific authorization to make changes. This should be limited to only a few individuals who have the requisite knowledge of coding and billing regulations.

Current status: This item was not addressed at June 1, 2011.

2010-2: Accounts Receivable and Third-party Adjustments (Material Weakness)

Condition: Several audit adjustments were posted relating to accounts receivable, contractual allowances, health care assurance program (HCAP), and the hospital franchise fee.

Criteria: Balance sheet and income statement accounts should be reconciled to support on a monthly basis.

Cause: General ledger balances were not adjusted to related reconciliations and support.

Effect: The general ledger was not reconciled to the related support for accounts receivable, contractual allowances, health care assurance program (HCAP), and the hospital franchise fee resulting in several audit adjustments.

Recommendation: We recommend that a formal closing process be implemented to include monthly reconciliations and related adjustments.

Current status: A formal closing process was not implemented as of June 1, 2011 to include monthly reconciliations and related adjustments.

Brown County General Hospital
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2010-3: Information Technology Maintenance and Review (Material Weakness)

Condition: As a result of a review of the Information technology area (IT) during the audit, we noted that several policies had not been updated for over a year and many best-practices policies could not be located such as IT risk assessment, confidentiality and non-disclosure agreements, IT security, employee termination procedures, authorization of new IT components, disciplinary policy, data encryption, passwords and annual testing of disaster recovery.

Criteria: Policies and procedures should be put in place and updated regularly to ensure the security and integrity of the IT environment.

Cause: The policies have not been updated.

Effect: Potential effect is unmitigated risks in IT including unauthorized access.

Recommendation: We recommend that a thorough review be done of the entire IT area to include annual testing and updates of existing policies and procedures as well as implementation of new policies that are considered critical to data integrity and security.

Current status: This was not addressed as of June 1, 2011.

2010-4: Maintaining Journal Entry Support (Material Weakness)

Condition: As a result of a review of journal entries, we noted support for four of our five journal entry selections could not be located.

Criteria: Policies and procedures should be put in place and updated regularly to ensure that support for journal entries is maintained and reviewed by a member of management.

Cause: Management believes the journal entry support was discarded as a result of employee turnover during the year.

Effect: Potential effect is posting of journal entries to the general ledger without support or review by a member of management.

Recommendation: We recommend support for journal entries be maintained and that journal entries with support be reviewed by a member of management.

Current status: This was not performed as of June 1, 2011.

2010-5: Maintaining Inventory Counts (Material Weakness)

Condition: During the audit, documentation of a physical inventory at year end could not be located.

Criteria: Physical inventory counts should be performed at period end to adjust the balance sheet to actual amounts on hand and documentation kept in support of those counts.

Cause: The Hospital incurred significant turnover in 2010 and 2011. As a result of this turnover, certain documents could not be located.

Effect: The potential impact is a misstatement of inventory balances at year end.

Recommendation: We recommend that an annual inventory be conducted at year end and information be maintained to support the balances.

Current status: Inventory counts were not performed at June 1, 2011.

2010-6: Budget Submission (Compliance and Other Matters)

Condition: During the audit, we noted the 2011 budget wasn't submitted to the Brown County Board of Commissioners for approval.

Criteria: Per chapter 1 of the Ohio Compliance Supplement, the hospital was required to submit the 2011 budget to the Brown County Board of Commissioners for approval by November 1, 2010.

Cause: The Hospital incurred significant turnover in 2010 and 2011. As a result of this turnover, the 2011 budget wasn't submitted to the Brown County Board of Commissioners for approval.

Effect: The Hospital wasn't in compliance with the Ohio Compliance Supplement.

Recommendation: We recommend the hospital obtain budget approval from the Brown County Board of Commissioners to be in compliance with the Ohio Compliance Supplement.

Current status: This was not done as of June 1, 2011.

Dave Yost • Auditor of State

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
JANUARY 24, 2013

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