

BROWN COUNTY GENERAL HOSPITAL

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 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, 2008 through December 31, 2008. 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 Taylor

Mary Taylor, CPA
Auditor of State

May 29, 2009

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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") as of and for the year ended December 31, 2008, and the related statement of operations and changes in net assets and cash flows for the year 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 audit.

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. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

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, 2008, and the results of its operations, changes in net assets and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in footnote 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 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, 2008, 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.

Board of Trustees
BROWN COUNTY GENERAL HOSPITAL

The accompanying consolidated financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in footnote 14 to the consolidated financial statements, the Hospital has suffered a loss from operations and did not meet certain covenants related to the bonds outstanding at December 31, 2008 (footnote 6). 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 footnote 14. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2009, on our consideration of Brown County General Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

May 12, 2009

Blue & Co., LLC

BROWN COUNTY GENERAL HOSPITAL

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 year ended December 31, 2008. Please read it in conjunction with the Hospital's financial statements, which begin on page 3.

Financial Highlights

- The Hospital's net assets decreased approximately \$3,486,000 and \$1,487,000 in 2008 and 2007, respectively.
- During the year, the Hospital's operating revenues decreased 2% to approximately \$33,936,000 while operating expenses increased 3% to \$36,991,000. The result is a loss from operations of approximately \$3,054,000 compared to an operating loss of \$1,438,000 in 2007.
- Significant capital acquisitions included a modular building that will house the Hospital's new MRI unit. The source of funding for this project was through a capital lease.
- The Hospital did not meet certain covenants related to its debt outstanding at December 31, 2008. Management of the Hospital intends to return the Hospital to profitability through evaluation of contribution margins of certain lines of business, rates charged and evaluation of staffing levels consistent with service level needs, among other plans.
- 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

The analysis of the Hospital finances begins on page ii. 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.

BROWN COUNTY GENERAL HOSPITAL

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, 2008, 2007 and 2006 is presented below (in thousands):

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets			
Cash and cash equivalents	\$ 1,007	\$ 1,801	\$ 1,309
Capital assets	11,268	10,530	12,272
Patient accounts receivable, net	4,146	4,966	5,362
Other assets	935	1,201	1,617
Total assets	<u>\$ 17,357</u>	<u>\$ 18,500</u>	<u>\$ 20,560</u>
Liabilities			
Current portion of long-term liabilities	\$ 732	\$ 277	\$ 304
Other current liabilities	4,487	4,109	4,063
Long-term liabilities	2,519	1,010	1,602
Total liabilities	<u>7,738</u>	<u>5,396</u>	<u>5,969</u>
Net assets			
Invested in capital assets, net of related debt	8,017	9,244	11,465
Unrestricted	1,459	3,675	2,985
Restricted	143	185	141
Total net assets	<u>9,618</u>	<u>13,104</u>	<u>14,591</u>
Total liabilities and net assets	<u>\$ 17,357</u>	<u>\$ 18,500</u>	<u>\$ 20,560</u>

BROWN COUNTY GENERAL HOSPITAL

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

Net assets decreased to approximately \$9,618,000 in 2008, down from \$13,104,000 in 2007.

Total assets decreased 6%, primarily from decreases in cash, patient accounts receivables and other assets. Total liabilities increased 43% during the year due to new capital leases entered into during the year approximating \$2,447,000 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, which totaled approximately \$3,486,000.

Capital Assets

At year-end, the Hospital had \$11.3 million invested in capital assets. This amount represents a net increase (including additions, deletions, and depreciation expense) of \$738,000, or 7%, from last year. Refer to page one of the MD&A for a description of the significant capital acquisitions, disposals and depreciation during the year.

Debt Administration

At year-end, the Hospital had \$3.3 million in outstanding debt (including capital lease obligations and a line of credit) versus \$1.3 million last year, an increase of 154%. The increase in outstanding debt is due to the leasing of the following new capital assets: an ultrasound machine; an MRI machine and a related building to house the MRI. Interest rates for these capital leases vary from 3.8% to 5.54%. For a breakdown of the interest payment schedule and a detailed presentation of debt acquisitions and retirements for the year, refer to the notes to the basic financial statements.

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.

BROWN COUNTY GENERAL HOSPITAL

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, 2008, 2007 and 2006 presented below (in thousands):

	2008	2007	2006
Operating revenues			
Net patient service revenues	\$ 33,630	\$ 34,004	\$ 33,050
Other revenues	306	489	402
Total revenues	33,936	34,493	33,452
Operating expenses			
Salaries and benefits	21,303	20,804	20,778
Supplies and other	9,798	10,128	10,106
Purchased services and professional fees	3,986	3,164	3,076
Depreciation	1,904	1,835	1,905
Total operating expenses	36,991	35,931	35,865
Loss from operations	(3,054)	(1,438)	(2,413)
Non-operating (expenses) revenues	(431)	(49)	21
Change in net assets	\$ (3,486)	\$ (1,487)	\$ (2,392)

Operating Gains/Losses

The Hospital generated 4.6% more gross revenues from patients in 2008 compared to 2007, but continued to have a loss from operations due to increases in contractual allowances, bad debts and increases in operating expenses. This section will discuss highlights of 2008 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.

BROWN COUNTY GENERAL HOSPITAL

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 \$374,000. 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 47% to 50% as a percentage of gross revenue.
- Other operating revenue decreased approximately \$183,000 due to a decrease in worker's compensation settlements and the termination of the Life Alert System during the year.

Expenses

Operating expenses are the costs necessary to perform and conduct the services and primary purposes of the Hospital. Total operating expenses increased in 2008 to \$36,991,000, a \$1,060,000 increase over 2007. The operating expense changes were the result of the following factors:

- Salary and benefits costs increased 2% due to changes in staffing levels and health insurance costs.
- Purchased services increased 26% due to new service agreements in 2008 relating to emergency room physician fees, a hospitalist and pain management.

ECONOMIC FACTORS AND 2009 BUDGET

The Hospital's Board and management considered many factors when setting the 2009 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

BROWN COUNTY GENERAL HOSPITAL

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

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.

BROWN COUNTY GENERAL HOSPITAL

BALANCE SHEET
DECEMBER 31, 2008

ASSETS

Current assets

Cash and cash equivalents	\$	849,078
Patient accounts receivable, net of allowance for doubtful accounts of \$2,594,137		4,145,776
Notes, contracts, and other accounts receivable		93,199
Inventories		444,678
Estimated settlement amounts due from third-party		53,502
Prepaid expenses and other current assets		<u>344,016</u>
Total current assets		5,930,249

Assets whose use is limited 158,232

Capital assets, net 11,268,242

Total assets \$ 17,356,723

See accompanying notes to financial statements.

BROWN COUNTY GENERAL HOSPITAL

BALANCE SHEET
DECEMBER 31, 2008

LIABILITIES AND NET ASSETS

Current liabilities

Line of credit	\$	900,000
Current portion of long-term debt		286,295
Current portion of capital lease obligations		446,176
Accounts payable		1,252,937
Accrued expenses		
Salaries, wages, withholdings, and benefits		932,142
Compensated absences		910,860
Other		490,904
Total current liabilities		<u>5,219,314</u>

Long-term liabilities

Long-term debt, net of current portion		723,638
Capital lease obligations, net of current portion		<u>1,795,376</u>
Total long-term liabilities		<u>2,519,014</u>

Total liabilities 7,738,328

Net assets

Invested in capital assets, net of related debt		8,016,757
Unrestricted		1,458,837
Restricted		<u>142,801</u>

Total net assets 9,618,395

Total liabilities and net assets \$ 17,356,723

See accompanying notes to financial statements.

BROWN COUNTY GENERAL HOSPITAL

CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2008

Operating revenues	
Net patient service revenue	\$ 33,630,263
Other operating revenue	<u>306,100</u>
Total operating revenues	33,936,363
Operating expenses	
Salaries and wages	16,948,864
Employee benefits	4,354,143
Supplies and other	8,498,135
Depreciation	1,903,872
Purchased services and professional fees	3,986,087
Utilities	711,309
Insurance	<u>588,442</u>
Total operating expenses	<u>36,990,852</u>
Loss from operations	(3,054,489)
Non-operating (expenses) revenues	
Investment income	8,567
Interest	(154,861)
Gifts, grants, and donations	(30,238)
Non-operating expenses	<u>(254,489)</u>
Total non-operating (expenses) revenues	<u>(431,021)</u>
Change in net assets	(3,485,510)
Net assets beginning of year	<u>13,103,905</u>
Net assets, end of year	<u><u>\$ 9,618,395</u></u>

See accompanying notes to financial statements.

BROWN COUNTY GENERAL HOSPITAL
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2008

Cash flow from operating activities

Cash received from patients	\$ 34,375,876
Cash payments to suppliers for goods and services	(13,380,607)
Cash payments to employees for services	(21,387,503)
Other operating revenues	306,100
Net cash from operating activities	<u>(86,134)</u>

Cash flow from non-capital financing activities

Investment income	8,567
Gifts, grants, and donations	(30,238)
Non-operating expenses	(254,489)
Net cash from non-capital financing activities	<u>(276,160)</u>

Cash flow from capital and related financing activities

Acquisition of capital assets	(420,403)
Principal paid on long-term debt and capital leases	(481,947)
Net change in line of credit	400,000
Interest paid on long term debt	(154,861)
Loss on sale of capital assets	209,457
Proceeds from sale of capital assets	15,879
Net cash from capital and related financing activities	<u>(431,875)</u>

Net change in cash and cash equivalents	(794,169)
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Cash and cash equivalents

Beginning of year	<u>1,801,479</u>
End of year	<u><u>\$ 1,007,310</u></u>

Recap of cash and cash equivalents

Cash and cash equivalents	\$ 849,078
Assets whose use is limited	158,232
Total cash and cash equivalents	<u><u>\$ 1,007,310</u></u>

See accompanying notes to financial statements.

BROWN COUNTY GENERAL HOSPITAL
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
YEAR ENDED DECEMBER 31, 2008

**Reconciliation of loss from operations to net cash
from operating activities**

Loss from operations	\$ (3,054,489)
Adjustment to reconcile loss from operations to net cash from operating activities	
Depreciation	1,903,872
Bad debts	6,751,777
Changes in operating assets and liabilities	
Patient accounts receivable	(5,931,236)
Notes, contracts, grants, and other receivables	264,105
Inventory	(94,320)
Prepaid expenses and other current assets	149,664
Accounts payable	65,550
Estimated third-party settlement	(74,928)
Accrued expenses	(66,129)
Net cash provided (used) by operating activities	<u>\$ (86,134)</u>

Supplemental cash flow information

Cash paid for interest	\$ 154,861
Equipment acquired under capital lease	\$ 2,446,627

See accompanying notes to financial statements.

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 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.

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.

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 and gains and losses from sale of assets.

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008

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 combined 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 are defined as those funds on deposit which are considered short term.

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 costs 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.

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008

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 OPERS.

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008

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.

Net Patient Service Revenue

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

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

Medicare. Inpatient 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. Outpatient services are reimbursed on a prospective rate scale based on Ambulatory Patient Classifications (APC's). Home Health Services are reimbursed on a prospective basis for episodes of care spanning 60 days. There are exceptions which could adjust the 60-day payment period. The payment rates are based on a clinical assessment system called OASIS (the Outcome and Assessment Information Set). Final settlements are determined upon submission of the annual cost report by the Hospital and audits thereof by the Medicare Fiscal Intermediary.

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

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

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008

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 \$1,007,733 for patients meeting the charity care criteria for the year ended December 31, 2008.

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:

	<u>2008</u>
Foundation (scholarships)	\$ 137,801
Other Endowments	<u>5,000</u>
	<u>\$ 142,801</u>

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.

Gifts and Donated Services

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

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008

Accounting for Uncertainty in Income Taxes

The Financial Accounting Standards Board ("FASB") has issued Interpretation No. 48 ("FIN 48"), which clarifies generally acceptable accounting principles for recognition, measurement, presentation and disclosure relating to uncertain tax positions. FIN 48 applies to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. As permitted by FIN 48 (as amended), the Company has elected to defer the application of FIN 48 until issuance of its December 31, 2009 financial statements. For financial statements covering periods prior to calendar 2009, the Company evaluates uncertain tax positions in accordance with existing generally accepted accounting principles and makes such accruals and disclosures as might be required there under.

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 2008, the carrying amount of the Hospital's deposits was \$1,007,310 and the bank balance was \$1,618,270. Of the bank balances for 2008, \$800,979 was covered by federal depository insurance, respectively and would belong in the risk category "insured or collateralized"; \$472,105 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 \$345,186 was uninsured and un-collateralized 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.

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008

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.

3. THIRD-PARTY SETTLEMENTS AND PATIENT ACCOUNTS RECEIVABLE

In addition to those patients unable to pay, there are patients receiving services who will not pay. The Hospital has established credit and collection policies to hold this cost to a minimum. Provisions for bad debts are recorded as deductions from gross revenues in the statements of operations and changes in net assets.

Estimated third-party settlements for the Medicare and Medicaid programs reflect differences between interim reimbursement and reimbursement as determined by cost reports filed after the end of each year. Such third-party settlements reflect differences owed to or by the Hospital. The 2008 Medicare cost report is unsettled and Medicaid remains unsettled from 2004 thru 2008 as of December 31, 2008.

The Hospital's net patient accounts receivable (unsecured) were concentrated in the following major payor classes at December 31, 2008:

Medicare	17%
Medicaid	21%
Commercial and other	19%
Self-pay	43%
	<u>100%</u>

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008

4. CAPITAL ASSETS

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

	12/31/07	Additions	Transfers/ Disposals	12/31/08
Capital assets not being depreciated				
Construction in progress	\$ 294,717	\$ (36,122)	\$ 142,306	\$ 116,289
Depreciable capital assets				
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 at historical cost	<u>33,329,708</u>	<u>2,867,030</u>	<u>813,547</u>	<u>35,383,191</u>
Less accumulated depreciation				
Land improvements	728,902	35,856	-	764,758
Buildings and building improvements	7,570,915	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	<u>22,799,288</u>	<u>1,903,872</u>	<u>588,211</u>	<u>24,114,949</u>
Capital assets, net	<u>\$ 10,530,420</u>	<u>\$ 963,158</u>	<u>\$ (225,336)</u>	<u>\$ 11,268,242</u>

5. LINE OF CREDIT

The Hospital has a line of credit with a bank that matures in July 2009. 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, 2008) 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, 2008.

6. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

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

	December 31, 2008	
	Bonds/notes payable	Capital lease 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	<u>\$ 1,009,933</u>	<u>\$ 2,241,552</u>
Expected to be paid within one year	<u>\$ 286,295</u>	<u>\$ 446,176</u>

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008

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

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.	\$ 633,720
Note payable issued in 2005, collateralized by equipment purchased with the proceeds, interest at 4.6% and maturing in September 2010.	376,213
Capital lease for Ultrasound collateralized by equipment purchased, interest at 5.25% through June 2013	52,386
Capital lease for MRI equipment and building collateralized by equipment purchased, interest at 3.8% through May 2013	1,619,977
Capital lease for a telephone system collateralized by equipment purchased, interest at 4.47% through July 2013	<u>569,189</u>
	<u>3,251,485</u>
Less Current Portion	<u>732,471</u>
	<u><u>\$ 2,519,014</u></u>

The Hospital's Long-Term Debt is subject to certain financial and administrative covenants. The Debt Service Coverage ratio and Current Ratio covenants that were not met as of December 31, 2008 were waived by the bank.

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

	Principal	Interest	Total
2009	\$ 286,295	\$ 45,488	\$ 331,783
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
Thereafter	<u>258,720</u>	<u>22,173</u>	<u>280,893</u>
	<u><u>\$ 1,009,933</u></u>	<u><u>\$ 160,003</u></u>	<u><u>\$ 1,169,936</u></u>

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008

Capital lease obligations

The Hospital leases certain equipment under capital lease obligations. Interest rates range from 3.8% to 5.25%. The following are the net minimum future lease payments under these leases:

<u>Years ending December 31,</u>	<u>December 31 2008</u>
2009	\$ 545,437
2010	545,437
2011	545,437
2012	545,437
2013	<u>321,409</u>
Total net future minimum lease payments	2,503,157
Less: amount representing interest	<u>261,605</u>
Total capital lease obligations	2,241,552
Less: current portion	<u>446,176</u>
Long-term capital lease obligations	<u><u>\$ 1,795,376</u></u>

The total cost of the equipment under capital lease as of December 31, 2008 was \$2,129,589 and the total accumulated depreciation was \$300,548.

7. 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 year ended December 31, 2008 were as follows:

	<u>2008</u>
Gross patient service charges at established rates (including charity care)	\$ 82,180,064
less:	
Contractual allowances	(41,026,430)
Charity care	(1,007,733)
Bad debts	<u>(6,515,638)</u>
Net patient service revenues	<u><u>\$ 33,630,263</u></u>

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008

8. OPERATING LEASES

The Hospital has operating leases for facilities and medical equipment. These obligations extend through December 2013.

Minimum future payments for these leases are as follows:

<u>Year ending December 31,</u>	
2009	\$ 272,656
2010	214,362
2011	172,961
2012	172,961
2013	<u>79,107</u>
Total	<u>\$ 912,047</u>

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

9. RETIREMENT PLAN

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

OPERS administers three separate pension plans; The Traditional Pension Plan (TP)- a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD)- a defined contribution plan; and the Combined Plan (CO)- a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and death benefits, annual cost of living adjustments, and post-retirement healthcare benefits to qualifying members of both the Traditional and Combined Plan; however healthcare benefits are not statutorily guaranteed.

Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS Board of Trustees.

The plan issues a separate, publicly available financial report that includes a balance sheet and required supplementary information. This report may be obtained by contacting: Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215, Telephone 1-800-222-7377.

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008

The Ohio Revised Code provides OPERS statutory authority for employer and employee contributions. The required, actuarially-determined contribution rates for the Hospital and for the employee are 14.0% and 10.0%, respectively. The Hospital's contributions, representing 100% employer contributions, for the last three years are as follows:

<u>Years</u>	<u>Contribution</u>
2008	\$ 2,409,611
2007	2,256,335
2006	2,170,947

10. POSTEMPLOYMENT HEALTHCARE BENEFITS

In addition to the pension benefits described in Note 9 above, OPERS also provides post-retirement health care coverage, commonly referred to as OPEB (Other Post-Employment Benefits). The Ohio Revised Code provides the authority for public employers to fund post-retirement health care through their contributions.

OPERS provides post-retirement health care coverage to age and service retirees and dependents with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The portion of the 2008 employer contribution rate of 14.0% used to fund healthcare was 7.0%. The total Hospital contribution used to fund health care was approximately \$1,205,000 for the year ended December 31, 2008.

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

OPEB are advanced-funded on an actuarially-determined basis. The number of active contributing participants at December 31, 2008 was 363,503. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2008 was approximately \$12.8 billion. The actuarially accrued liability and the unfunded actuarially accrued liability, based on the actuarial cost method used, were approximately \$29.8 billion and \$17.0 billion, respectively, as of December 31, 2008.

The actuarial assumptions used to calculate these amounts are as follows:

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

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008

- **Assets Valuations Method-** All investments are carried at market value. For actuarial valuations purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.
- **Investment Return-** The investment assumption rate for 2008 was 6.5%.
- **Active Employee Total Payroll-** An annual increase of 4.0% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from .5% to 6.3%.
- **Health Care-** Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.5% to 4.0% for the next 7 years. In subsequent years, (8 and beyond) health care costs were assumed to increase at 4.0% (the projected wage inflation rate).
- **Preservation Plan-** The Health Care Preservation Plan (HCPP) adopted by OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contributions rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the healthcare 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 \$75,000 has been recorded in the accompanying financial statements for possible future deductibles payable by the Hospital for claims incurred.

12. CONCENTRATIONS

Medicare and Medicaid accounted for approximately 65% of the Hospital's net patient service revenues during 2008.

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008

13. BLENDED COMPONENT UNIT

The combined financial statements include the Foundation as a blended component unit. The following summarizes the financial position and activities of the Foundation for 2008:

Assets	
Cash and cash equivalents	\$ 277,383
Other assets	120,794
Total assets	<u>398,177</u>
Liabilities	
Payables	<u>120,794</u>
Net assets	
Restricted by donors for specific uses	139,999
Unrestricted	137,384
Total net assets	<u>\$ 277,383</u>
Income	
Contributions	\$ 19,423
Other	43,140
Total income	<u>62,563</u>
Expenses	
Other	<u>109,534</u>
Total expenses	<u>109,534</u>
Excess expenses over revenues	(46,971)
Net assets, beginning of year	<u>324,354</u>
Net assets, end of year	<u>\$ 277,383</u>

14. GOING CONCERN AND MANAGEMENT'S PLANS

The Hospital did not meet certain covenants related to the debt outstanding at December 31, 2008 (footnote 6). The Hospital experienced operating losses in 2008 and 2007, which could be indicative of an entity's inability to continue as a going concern.

The Hospital's net assets decreased approximately \$3,486,000 in 2008. Further, the Hospital's operating revenues decreased by 1.5% to approximately \$33,979,000 while operating expenses increased 3% to \$37,033,000. The result is a loss from operations of approximately \$3,054,000 in 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, 2008.

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2008

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.



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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, an enterprise fund of Brown County, Ohio, as of and for the year ended December 31, 2008, and have issued our report thereon dated May 12, 2009. 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 Brown County General 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 Brown County General Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Brown County General 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses 2008:1 and 2008:2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008:1 and 2008:2 to be material weaknesses.

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 Brown County General Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 Brown County General Hospital in a separate letter dated May 12, 2009.

Brown County General Hospital's response to the finding identified in our audit are described in the accompanying schedule of audit findings and responses. We did not audit Brown County General Hospital's response and, accordingly, we express no opinion on it.

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 these specified parties.

Blue & Co., LLC

May 12, 2009

**Brown County General Hospital
Schedule of Audit Findings and Responses
December 31, 2008**

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:

We will implement a review by the Chief Financial Officer of the allowance model on a regular basis to ensure accurate interim financial reporting. We will also continue to develop reports to capture actual payment history for self pay classes to form the basis for allowing for bad debt reserves.

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:

We will formulate and implement a bond covenants monitoring policy. This policy will include the calculation of the bond covenants and review of results to ensure proactive communication of instances of noncompliance with the bond covenants. Where an instance of noncompliance exists, we will develop a corrective action plan to address deficiencies and present the plan to the relevant parties.



Mary Taylor, CPA
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
JUNE 11, 2009**