

BROWN COUNTY GENERAL HOSPITAL

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009



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, 2010 through December 31, 2010. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 9, 2012

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BROWN COUNTY GENERAL HOSPITAL

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FORTY YEARS & COUNTING

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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 and for the years ended December 31, 2010 and 2009, and the related statement of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

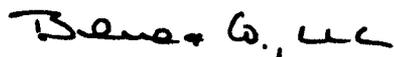
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brown County General Hospital as of December 31, 2010 and 2009, and its results of operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees
BROWN COUNTY GENERAL HOSPITAL

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011, 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 vi 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.

As discussed in Note 13 to the financial statements, the Hospital sold its primary assets in June 2011.



December 8, 2011

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 years ended December 31, 2010 and 2009. The intent of this discussion and analysis is to provide further information on the Hospital's financial performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the financial performance.

Financial Highlights

- The Hospital's net assets decreased approximately \$4,346,000 from 2009 to 2010.
- During 2010, the Hospital's operating revenues decreased 10% to approximately \$29,191,000 while operating expenses decreased 4% to \$33,593,000. The result is a loss from operations of approximately \$4,402,000 compared to a loss from operations of \$2,452,000 in 2009.
- Significant capital acquisitions included a digital mammography machine, an eye machine, and a bone densitometry machine.
- The Hospital did not meet certain covenants related to its debt outstanding at December 31, 2010.
- In June 2011, the Hospital was purchased by Southwest Healthcare of Brown County Ohio, LLC which is described in footnote 13.

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.

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, 2010, 2009 and 2008 is presented below (in thousands):

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

| | 2010 | 2009 | 2008 |
|---|------------------|------------------|------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 680 | \$ 1,273 | \$ 1,007 |
| Capital assets | 8,082 | 9,452 | 11,268 |
| Patient accounts receivable, net | 2,663 | 3,564 | 4,146 |
| Other assets | 1,327 | 1,026 | 936 |
| Total assets | <u>\$ 12,751</u> | <u>\$ 15,314</u> | <u>\$ 17,357</u> |
| Liabilities | | | |
| Current portion of long-term liabilities | \$ 1,499 | \$ 913 | \$ 732 |
| Other current liabilities | 7,546 | 5,150 | 4,487 |
| Long-term liabilities | 1,216 | 2,415 | 2,519 |
| Total liabilities | <u>10,262</u> | <u>8,478</u> | <u>7,738</u> |
| Net assets | | | |
| Invested in capital assets, net of related debt | 5,367 | 6,124 | 8,017 |
| Unrestricted | (3,078) | 534 | 1,441 |
| Restricted | 202 | 178 | 161 |
| Total net assets | <u>2,490</u> | <u>6,836</u> | <u>9,619</u> |
| Total liabilities and net assets | <u>\$ 12,751</u> | <u>\$ 15,314</u> | <u>\$ 17,357</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 \$2,490,000 in 2010, down from \$6,836,000 in 2009.

Total assets decreased 17%, primarily from decreases in patient accounts receivables, capital assets, and cash and cash equivalents. Total liabilities increased 21% during the year primarily due to an increase in accounts payable of approximately \$1,967,000 resulting from cash flow, other liabilities which increased approximately \$513,000 primarily related to a payable to Brown County, Ohio, offset by payments of long-term debt and capital leases. Total net assets decreased primarily due to the combination of the operating loss and non-operating expenses. Total net assets decreased approximately \$4,346,000 in 2010 and \$2,783,000 in 2009.

Capital Assets

At year-end 2010, the Hospital had \$8.1 million invested in capital assets, while it had capital assets of \$9.5 million in 2009. This amount represents a net decrease (including additions, deletions, and depreciation expense) of \$1.4 million, or 14%, from last year.

Debt Administration

The Hospital had \$3.7 million and \$4.2 million in outstanding debt (including capital lease obligations and a line of credit) at December 31, 2010 and 2009, 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.

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, 2010, 2009 and 2008 presented below (in thousands):

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|-------------------|-------------------|-------------------|
| Operating revenues | | | |
| Net patient service revenues | \$ 28,774 | \$ 32,017 | \$ 33,630 |
| Other revenues | 417 | 424 | 306 |
| Total revenues | 29,191 | 32,441 | 33,936 |
| Operating expenses | | | |
| Salaries and benefits | 17,981 | 18,665 | 21,303 |
| Supplies and other | 9,175 | 9,304 | 9,798 |
| Purchased services and professional fees | 4,592 | 4,913 | 3,986 |
| Depreciation | 1,845 | 2,010 | 1,904 |
| Total operating expenses | 33,593 | 34,893 | 36,991 |
| Loss from operations | (4,402) | (2,452) | (3,055) |
| Non-operating (expenses) revenues | 56 | (331) | (431) |
| Change in net assets | <u>\$ (4,346)</u> | <u>\$ (2,783)</u> | <u>\$ (3,486)</u> |

Operating Gains/Losses

The Hospital generated 10% less net revenues from patients in 2010 compared to 2009, and continued to have a loss from operations due to increases in contractual allowances and bad debts. This section will discuss highlights of 2010 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 \$3,243,000. 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 52% to 55% 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 2010 to \$33,593,000, a \$1,300,000 decrease from 2009. The operating expense changes were the result of the following factors:

- Salary and benefits costs decreased 4% due to changes in staffing levels and health insurance costs.

Statement of Cash Flows

Net cash flows provided by operating activities decreased from prior year due to a decrease in revenue by the Hospital. The Hospital also purchased capital assets of \$549,000, paid down debt \$913,000 and entered into a note with Brown County, Ohio for \$300,000. Overall, the Hospital's cash declined by \$593,000 in 2010 compared to an increase in cash of \$266,000 in 2009.

BROWN COUNTY GENERAL HOSPITAL

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

Other Economic Factors

The Hospital's Board voted to sell the Hospital to Southwest Healthcare of Brown County Ohio, LLC effective June 2011. The primary focus in 2011 by the board and management is on the sale of the Hospital.

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 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 DECEMBER 31, 2010 AND 2009

ASSETS

| | <u>2010</u> | <u>2009</u> |
|--|-----------------------------|-----------------------------|
| Current assets | | |
| Cash and cash equivalents | \$ 478,129 | \$ 894,890 |
| Restricted cash | - | 200,000 |
| Patient accounts receivable, net of allowance for doubtful accounts of \$1,832,870 in 2010 and \$1,520,287 in 2009 | 2,663,241 | 3,563,728 |
| Notes, contracts, and other accounts receivable | 449,981 | 123,279 |
| Inventories | 614,309 | 551,096 |
| Prepaid expenses and other current assets | <u>262,275</u> | <u>351,295</u> |
| Total current assets | 4,467,935 | 5,684,288 |
| Assets whose use is limited | 201,673 | 178,131 |
| Capital assets, net | <u>8,081,848</u> | <u>9,451,641</u> |
| Total assets | <u><u>\$ 12,751,456</u></u> | <u><u>\$ 15,314,060</u></u> |

See accompanying notes to financial statements.

BROWN COUNTY GENERAL HOSPITAL

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2010 AND 2009

LIABILITIES AND NET ASSETS

| | <u>2010</u> | <u>2009</u> |
|---|----------------------|----------------------|
| Current liabilities | | |
| Line of credit | \$ 1,000,000 | \$ 900,000 |
| Current portion of long-term debt | 783,720 | 239,918 |
| Current portion of capital lease obligations | 715,409 | 672,652 |
| Accounts payable | 3,274,707 | 1,307,623 |
| Estimated third-party settlements | 166,403 | 107,464 |
| Deferred grant revenue | - | 200,000 |
| Accrued expenses | | |
| Salaries, wages, withholdings, and benefits | 901,641 | 906,507 |
| Compensated absences | 755,424 | 793,549 |
| Other | 1,448,126 | 935,295 |
| Total current liabilities | <u>9,045,430</u> | <u>6,063,008</u> |
| Long-term liabilities | | |
| Long-term debt, net of current portion | - | 483,720 |
| Capital lease obligations, net of current portion | 1,216,192 | 1,931,595 |
| Total long-term liabilities | <u>1,216,192</u> | <u>2,415,315</u> |
| Total liabilities | <u>10,261,622</u> | <u>8,478,323</u> |
| Net assets | | |
| Invested in capital assets, net of related debt | 5,366,527 | 6,123,756 |
| Unrestricted | (3,078,366) | 533,850 |
| Restricted | 201,673 | 178,131 |
| Total net assets | <u>2,489,834</u> | <u>6,835,737</u> |
| Total liabilities and net assets | <u>\$ 12,751,456</u> | <u>\$ 15,314,060</u> |

See accompanying notes to financial statements.

BROWN COUNTY GENERAL HOSPITAL

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2010 AND 2009

| | <u>2010</u> | <u>2009</u> |
|--|---------------------|---------------------|
| Operating revenues | | |
| Net patient service revenue | \$ 28,774,351 | \$ 32,017,353 |
| Other operating revenue | 416,504 | 423,672 |
| Total operating revenues | <u>29,190,855</u> | <u>32,441,025</u> |
| Operating expenses | | |
| Salaries and wages | 14,139,760 | 14,848,833 |
| Employee benefits | 3,841,540 | 3,816,649 |
| Supplies and other | 7,977,945 | 8,010,373 |
| Depreciation | 1,845,038 | 2,010,364 |
| Purchased services and professional fees | 4,591,613 | 4,913,052 |
| Utilities | 585,135 | 563,062 |
| Insurance | 611,724 | 730,540 |
| Total operating expenses | <u>33,592,755</u> | <u>34,892,873</u> |
| Loss from operations | (4,401,900) | (2,451,848) |
| Non-operating (expenses) revenues | | |
| Investment income | 2,518 | 3,934 |
| Interest | (197,941) | (225,974) |
| Gifts, grants, and donations | 296,375 | 54,675 |
| Non-operating expenses | (44,955) | (163,445) |
| Total non-operating (expenses) revenues | <u>55,997</u> | <u>(330,810)</u> |
| Change in net assets | (4,345,903) | (2,782,658) |
| Net assets beginning of year | <u>6,835,737</u> | <u>9,618,395</u> |
| Net assets, end of year | <u>\$ 2,489,834</u> | <u>\$ 6,835,737</u> |

See accompanying notes to financial statements.

BROWN COUNTY GENERAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009

| | 2010 | 2009 |
|--|---------------|---------------|
| Cash flow from operating activities | | |
| Cash received from patients | \$ 29,733,777 | \$ 32,760,367 |
| Cash payments to suppliers for goods and services | (11,587,397) | (13,861,727) |
| Cash payments to employees for services | (18,024,291) | (18,808,428) |
| Other receipts and payments, net | 216,504 | 623,672 |
| Net cash from operating activities | 338,593 | 713,884 |
| Cash flow from non-capital financing activities | | |
| Investment income | 2,518 | 3,934 |
| Gifts, grants, and donations | 296,375 | 54,675 |
| Non-operating expenses | (44,955) | (163,445) |
| Net cash from non-capital financing activities | 253,938 | (104,836) |
| Cash flow from capital and related financing activities | | |
| Acquisition of capital assets | (549,406) | (264,301) |
| Borrowings from Brown County | 300,000 | - |
| Principal paid on long-term debt and capital leases | (912,564) | (819,737) |
| Net change in line of credit | 100,000 | - |
| Interest paid on long term debt | (197,941) | (225,974) |
| Loss on disposal of capital assets | 74,161 | 197,938 |
| Proceeds from sale of capital assets | - | 768,737 |
| Net cash from capital and related financing activities | (1,185,750) | (343,337) |
| Net change in cash and cash equivalents | (593,219) | 265,711 |
| Cash and cash equivalents | | |
| Beginning of year | 1,273,021 | 1,007,310 |
| End of year | \$ 679,802 | \$ 1,273,021 |
| Recap of cash and cash equivalents | | |
| Cash and cash equivalents | \$ 478,129 | \$ 894,890 |
| Restricted cash | - | 200,000 |
| Assets whose use is limited | 201,673 | 178,131 |
| Total cash and cash equivalents | \$ 679,802 | \$ 1,273,021 |

See accompanying notes to financial statements.

BROWN COUNTY GENERAL HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued) YEARS ENDED DECEMBER 31, 2010 AND 2009

| | <u>2010</u> | <u>2009</u> |
|---|-------------------|-------------------|
| Reconciliation of loss from operations to net cash from operating activities | | |
| Loss from operations | \$ (4,401,900) | \$ (2,451,848) |
| Adjustment to reconcile loss from operations to net cash from operating activities | | |
| Depreciation | 1,845,038 | 2,010,364 |
| Bad debts | 4,232,786 | 5,635,652 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable | (3,332,299) | (5,053,604) |
| Notes, contracts, grants, and other receivables | (326,702) | (30,080) |
| Inventory | (63,213) | (106,418) |
| Prepaid expenses and other current assets | 89,020 | (7,279) |
| Accounts payable | 1,967,084 | 54,686 |
| Estimated third-party settlement | 58,939 | 160,966 |
| Deferred grant revenue | (200,000) | 200,000 |
| Accrued expenses | 469,840 | 301,445 |
| Net cash from operating activities | <u>\$ 338,593</u> | <u>\$ 713,884</u> |
| Supplemental cash flow information | | |
| Equipment acquired under capital lease | \$ - | \$ 896,137 |

See accompanying notes to financial statements.

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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 December 31, 2010 and 2009, the changes in its financial position or, where applicable, its cash flows for the years then ended.

Basis of Presentation

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

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

Blended Component Units

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

Use of Estimates

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

Cash and Cash Equivalents

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

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

Assets Whose Use is Limited

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

Inventory

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

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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.

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

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 \$2,002,272, and \$1,960,945 for patients meeting the charity care criteria for the years ended December 31, 2010, and 2009 respectively.

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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:

| | <u>2010</u> | <u>2009</u> |
|---------------------------|-------------|-------------|
| Foundation (scholarships) | \$ 201,673 | \$ 178,131 |

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 December 8, 2011.

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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 2010, the carrying amount of the Hospital's deposits was \$679,802 and the bank balance was \$679,064. Of the bank balances for 2010, \$326,194 was covered by federal depository insurance, respectively and would belong in the risk category "insured or collateralized"; \$352,870 was covered by collateral held by third-party trustees pursuant to Section 135.181 of the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, and belongs in the risk uncollateralized category"; and there were no uninsured and un-collateralized deposits at year-end.

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

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

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

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

| | December 31 | |
|-----------------------------------|--------------|--------------|
| | 2010 | 2009 |
| Total patient accounts receivable | \$ 8,381,799 | \$ 8,190,620 |
| Less allowance for: | | |
| Contractual adjustments | 3,885,688 | 3,106,605 |
| Uncollectible accounts | 1,832,870 | 1,520,287 |
| Net patient accounts receivable | \$ 2,663,241 | \$ 3,563,728 |

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

| | 2010 | | 2009 | |
|----------------------|------------------------|------------------|------------------------|------------------|
| | Accounts Receivable | Gross Revenue | Accounts Receivable | Gross Revenue |
| Medicare | 20% | 41% | 40% | 39% |
| Medicaid | 30% | 26% | 25% | 25% |
| Commercial and other | 22% | 26% | 27% | 28% |
| Self-pay | 28% | 7% | 8% | 8% |
| | 100% | 100% | 100% | 100% |

4. PATIENT SERVICE REVENUE

The Hospital has agreements with payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for service and amounts reimbursed by third-party payors. The basis of reimbursements with these third-party payors follows:

Medicare - Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain outpatient services, including ambulatory surgery, radiology, and laboratory services are reimbursed on an established fee-for-service methodology. Reimbursement for other outpatient services is based on the prospectively determined ambulatory payment classification system.

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

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

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

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

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

5. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2010 and 2009 follows:

| | 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 | <u>34,896,166</u> | <u>549,406</u> | <u>214,178</u> | <u>35,231,394</u> |
| 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 | <u>25,444,525</u> | <u>1,845,038</u> | <u>140,017</u> | <u>27,149,546</u> |
| Capital assets, net | <u>\$ 9,451,641</u> | <u>\$ (1,295,632)</u> | <u>\$ (74,161)</u> | <u>\$ 8,081,848</u> |
| | <u>12/31/08</u> | <u>Additions</u> | <u>Transfers/ Disposals</u> | <u>12/31/09</u> |
| Capital assets not being depreciated | | | | |
| Construction in progress | \$ 116,289 | \$ 21,761 | \$ (62,932) | \$ 200,982 |
| Depreciable capital assets | | | | |
| Land and land improvements | 2,234,954 | - | 962,683 | 1,272,271 |
| Buildings and building improvements | 12,001,297 | - | 1,312 | 11,999,985 |
| Fixed equipment | 8,759,419 | 41,278 | - | 8,800,697 |
| Major moveable equipment | 11,946,696 | 1,097,399 | 606,797 | 12,437,298 |
| Vehicles | 324,536 | - | 139,603 | 184,933 |
| Total property, plant, and equipment at historical cost | <u>35,383,191</u> | <u>1,160,438</u> | <u>1,647,463</u> | <u>34,896,166</u> |
| Less accumulated depreciation | | | | |
| Land improvements | 764,758 | 22,851 | 3,463 | 784,146 |
| Buildings and building improvements | 7,958,898 | 382,462 | 670 | 8,340,690 |
| Fixed equipment | 6,491,506 | 448,494 | (235) | 6,940,235 |
| Major moveable equipment | 8,600,041 | 1,142,381 | 540,248 | 9,202,174 |
| Vehicles | 299,746 | 14,176 | 136,642 | 177,280 |
| Total accumulated depreciation | <u>24,114,949</u> | <u>2,010,364</u> | <u>680,788</u> | <u>25,444,525</u> |
| Capital assets, net | <u>\$ 11,268,242</u> | <u>\$ (849,926)</u> | <u>\$ (966,675)</u> | <u>\$ 9,451,641</u> |

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

6. LINE OF CREDIT

The Hospital renewed a line of credit with First State bank that matures in March 2011. 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, 2010) and is collateralized by the accounts receivable of the Hospital. The amount drawn on the line of credit was \$1,000,000 and \$900,000 as of December 31, 2010 and 2009, respectively.

7. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

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

| | 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 | <u>\$ 783,720</u> | <u>\$ 1,931,601</u> |
| Expected to be paid within one year | <u>\$ 783,720</u> | <u>\$ 715,409</u> |

| | December 31, 2009 | |
|-------------------------------------|---------------------|---------------------------|
| | Bonds/notes payable | Capital lease obligations |
| Debt outstanding January 1, 2009 | \$ 1,009,933 | \$ 2,241,552 |
| Additions of new debt | - | 896,137 |
| Repayments | (286,295) | (533,442) |
| Debt outstanding December 31, 2009 | <u>\$ 723,638</u> | <u>\$ 2,604,247</u> |
| Expected to be paid within one year | <u>\$ 239,918</u> | <u>\$ 672,652</u> |

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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

| | 2010 | 2009 |
|--|--------------|--------------|
| 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. | \$ 483,720 | \$ 558,720 |
| Note payable issued in 2010, collateralized by Hospital assets, interest at 6.50%, with no specific repayment terms. | 300,000 | - |
| Note payable issued in 2005, collateralized by equipment purchased with the proceeds, interest at 4.6% and maturing in September 2010. | - | 164,918 |
| Capital lease for Ultrasound equipment collateralized by equipment purchased, interest at 5.25% through June 2013. | 30,158 | 41,563 |
| Capital lease for MRI equipment and building collateralized by equipment purchased, interest at 3.8% through May 2013. | 970,428 | 1,310,394 |
| Capital lease for a telephone system collateralized by equipment purchased, interest at 4.47% through July 2013. | 344,129 | 459,167 |
| Capital lease for copier machines collateralized by equipment purchased, interest at 7.5% through December 2013. | 169,905 | 218,584 |
| Capital lease for computer software and equipment (PACS) collateralized by the equipment purchased, interest at 7.5% through September 2011. | 110,765 | 167,743 |
| Capital lease for CT Scanner collateralized by equipment purchased, interest at 1.3% through July 2014. | 254,052 | 322,923 |
| Capital lease for digital imaging storage equipment collateralized by equipment purchased, interest at 7.4% through June 2012. | 52,164 | 83,873 |
| | 2,715,321 | 3,327,885 |
| Less current portion | 1,499,129 | 912,570 |
| | \$ 1,216,192 | \$ 2,415,315 |

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The 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 December 31, 2010 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:

| Years ending <u>December 31,</u> | | \$ |
|---|--|--------------|
| 2011 | | 785,911 |
| 2012 | | 750,575 |
| 2013 | | 481,236 |
| 2014 | | 42,322 |
| 2015 | | - |
| Total net future minimum lease payments | | 2,060,044 |
| Less: amount representing interest | | 128,443 |
| Total capital lease obligations | | 1,931,601 |
| Less: current portion | | 715,409 |
| Long-term capital lease obligations | | \$ 1,216,192 |

The total cost and related accumulated depreciation of the equipment under capital lease as of December 31, 2010 and 2009 follows:

| | December 31 | |
|---------------------------------------|--------------|--------------|
| | 2010 | 2009 |
| Cost of equipment under capital lease | \$ 3,326,274 | \$ 3,326,274 |
| Less: Accumulated depreciation | 1,564,459 | 605,740 |
| Net carrying amount | \$ 1,761,815 | \$ 2,720,534 |

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

8. NET PATIENT SERVICE REVENUES

The Hospital has agreements with third-party payors that provide payments to the Hospital at amounts different from its established rates. Total gross patient service revenues and related allowances for the years ended December 31, 2010 and 2009 were as follows:

| | <u>2010</u> | <u>2009</u> |
|---|----------------------|----------------------|
| Gross patient service charges at established rates (including charity care) | \$ 77,035,702 | \$ 82,524,344 |
| less: | | |
| Contractual allowances | 42,026,293 | 42,910,394 |
| Charity care | 2,002,272 | 1,960,945 |
| Bad debts | 4,232,786 | 5,635,652 |
| Net patient service revenues | <u>\$ 28,774,351</u> | <u>\$ 32,017,353</u> |

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:

| <u>Year ending December 31,</u> | |
|-------------------------------------|-------------------|
| 2011 | \$ 296,792 |
| 2012 | 296,792 |
| 2013 | 177,728 |
| 2014 | 30,980 |
| Total | <u>\$ 802,292</u> |

Total rental expense for operating leases, including those with terms of one year or less, for the years ended December 31, 2010 and 2009 was \$353,564 and \$303,448 respectively, and is included within supplies and other expenses on the statements of operations and changes in net assets.

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

10. PENSION PLANS

The Hospital contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

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

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

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

Funding Policy

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, 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.

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 5.5% from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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

| <u>Years</u> | <u>Contribution</u> |
|--------------|---------------------|
| 2010 | \$ 1,978,596 |
| 2009 | 2,051,300 |
| 2008 | 2,409,611 |

The portion of the Hospital's contribution in the above table was made to fund post-employment health care benefits approximated \$989,000, \$907,000 and \$1,205,000 for 2010, 2009, and 2008, respectively.

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

11. PROFESSIONAL LIABILITY INSURANCE

The Hospital maintains malpractice insurance coverage on a per occurrence basis. Professional liability claims are currently pending against the Hospital. A provision for loss of \$216,000 has been recorded in the accompanying financial statements for possible future deductibles payable by the Hospital for claims incurred.

BROWN COUNTY GENERAL HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

12. BLENDED COMPONENT UNIT

The consolidated financial statements include the Foundation as a blended component unit. The following summarizes the financial position and activities of the Foundation for the years ended December 31, 2010 and 2009:

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|-------------------|
| Assets | | |
| Cash and cash equivalents | \$ 201,673 | \$ 318,131 |
| Total assets | <u>201,673</u> | <u>318,131</u> |
| Net assets | | |
| Restricted by donors for specific uses | 201,673 | 178,131 |
| Unrestricted | - | 140,000 |
| Total net assets | <u>\$ 201,673</u> | <u>\$ 318,131</u> |
| Income | | |
| Contributions | \$ 92,767 | \$ 71,579 |
| Other | 25,991 | 28,088 |
| Total income | <u>118,758</u> | <u>99,667</u> |
| Expenses | | |
| Contributions to hospital | 150,000 | - |
| Other | 85,216 | 58,919 |
| Total expenses | <u>235,216</u> | <u>58,919</u> |
| Excess expenses over revenues | <u>(116,458)</u> | <u>40,748</u> |
| Net assets, beginning of year | <u>318,131</u> | <u>277,383</u> |
| Net assets, end of year | <u>\$ 201,673</u> | <u>\$ 318,131</u> |

13. SUBSEQUENT EVENT

In June 2011, the Hospital sold substantially all assets and transferred substantially all liabilities to Southwest Healthcare of Brown County Ohio, LLC., a Delaware limited liability company, located in Scottsdale Arizona.

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.



FORTY YEARS & COUNTING

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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, as of and for the year ended December 31, 2010, and have issued our report thereon dated December 8, 2011. Our report included additional language stating the financial statements of the Hospital are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Brown County that is attributable to the transactions of the Hospital. Those financial statements do not purport to, and do not, present fairly the financial position of Brown County as of December 31, 2010, 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. 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 entity'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 (2010-1 through 2010-4).

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 to those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be significant deficiencies (2010-5).

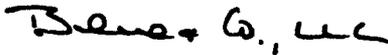
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 2010-6.

We noted certain matters that we reported to management of the Hospital in a separate letter dated December 8, 2011.

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.



December 8, 2011

**Brown County General Hospital
Schedule of Findings and Responses
December 31, 2010**

2010-1: Chargemaster Access

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 charge master has been reviewed and changed to include current employees who need access to perform their job duties.

2010-2: Accounts Receivable and Third-party Adjustments

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 allowance, HCAP and franchise fee 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 contractual and doubtful account allowances, HCAP receivables and franchise fees.

**Brown County General Hospital
Schedule of Findings and Responses
December 31, 2010**

2010-3: Information Technology Maintenance and Review

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 the first quarter of 2012.

2010-4: Maintaining Journal Entry Support

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.

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

**Brown County General Hospital
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2010-5: Maintaining Inventory Counts

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

Criteria: Physical inventory counts should be performed at year 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.

Management's response: Inventory counts will be performed at least once a year to assure that the inventory is accurately stated.

2010-6: Budget Submission

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: A strategic plan and budget will be prepared and submitted to the county, if required by regulations at the time it is adopted.



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 19, 2012**