

BROWN COUNTY GENERAL HOSPITAL

December 31, 2006

*CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT*



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Brown County General Hospital, Brown County, prepared by VonLehman & Company Inc., for the audit period January 1, 2006 through December 31, 2006. 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

August 20, 2007

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Brown County General Hospital
Georgetown, Ohio

We have audited the accompanying basic financial statements of Brown County General Hospital as of and for the years ended December 31, 2006 and 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the basic financial statements present only the Hospital and do not purport to, and do not present fairly the financial position of Brown County, Ohio as of December 31, 2006 and 2005, and the changes in its financial position for the years then ended in accordance with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brown County General Hospital as of December 31, 2006 and 2005, and the results of its operations, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2007, on our consideration of Brown County General Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

VonLehman & Company Inc.

Fort Mitchell, Kentucky
June 21, 2007

**BROWN COUNTY GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

This section of Brown County General Hospital's (the Hospital) annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance during the year ended December 31, 2006. This MD&A includes a discussion and analysis of the activities and results of the Hospital.

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

FINANCIAL HIGHLIGHTS

- The Hospital's net assets decreased by approximately \$2.4 million mainly due to a loss from operations for 2006 of \$2.5 million.
- During the year, the Hospital's net operating revenues decreased 3.5% to \$38.0 million and operating expenses decreased 0.7% to \$40.4 million. The result is a loss from operations of \$2.4 million compared to a loss from operations in 2005 of \$1.4 million.
- During the year, the Hospital made the following significant capital acquisitions and improvements:

Bethel Building Project
Laboratory Equipment

The primary source of funding for these projects was revenue bonds and other long-term debt.

FINANCIAL STATEMENTS

The financial statements of the Hospital present information about the Hospital using financial reporting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information. The Statements of Net Assets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the financial results of the Hospital's operations and present revenues earned and expenses incurred. The final financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Hospital's cash flows from operating activities, capital and related financing activities, and investing activities, and to provide information on the sources and uses of cash during the year. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided. The notes to the financial statements can be found beginning on page 8 of this report.

**BROWN COUNTY GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)
(Continued)**

FINANCIAL ANALYSIS

The Statements of Net Assets and Revenues, Expenses and Changes in Net Assets report information about the Hospital's net assets and the Hospital's changes in net assets. Increases or decreases in the Hospital's net assets are one indicator of whether the Hospital's financial health is improving or deteriorating. However, other non-financial factors, such as changes in economic conditions, population growth (including uninsured and medically indigent individuals and families), new or changed government legislation and the Hospital's strategic plan should also be considered.

A summary of the Hospital's Statements of Net Assets as of December 31, 2006, 2005 and 2004 is presented below (in thousands):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS			
Cash and Cash Equivalents	\$ 1,309	\$ 2,942	\$ 1,379
Patient Accounts Receivable, Net	5,362	4,699	5,073
Property, Plant and Equipment, Net	12,272	12,482	13,178
Other Assets	<u>1,336</u>	<u>2,019</u>	<u>2,599</u>
Total Assets	<u>\$ 20,279</u>	<u>\$ 22,142</u>	<u>\$ 22,229</u>
LIABILITIES AND NET ASSETS			
Current Portion of Long-Term Liabilities	\$ 304	\$ 244	\$ 837
Other Current Liabilities	4,063	4,097	2,862
Long-Term Liabilities	<u>1,602</u>	<u>1,136</u>	<u>407</u>
Total Liabilities	5,969	5,477	4,106
Invested in Property, Plant and Equipment, Net of Related Debt	11,465	11,431	12,245
Unrestricted	2,704	4,446	5,788
Restricted	<u>141</u>	<u>788</u>	<u>90</u>
Total Net Assets	<u>14,310</u>	<u>16,665</u>	<u>18,123</u>
Total Liabilities and Net Assets	<u>\$ 20,279</u>	<u>\$ 22,142</u>	<u>\$ 22,229</u>

**BROWN COUNTY GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)
(Continued)**

A summary of the Hospital's Revenues, Expenses and Changes in Net Assets for the years ended December 31, 2006, 2005 and 2004 is presented below (in thousands):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues			
Net Patient Service Revenues	\$ 37,635	\$ 38,938	\$ 35,095
Other Revenues	<u>402</u>	<u>475</u>	<u>476</u>
Total Revenues	<u>38,037</u>	<u>39,413</u>	<u>35,571</u>
Expenses			
Salaries and Benefits	20,778	20,391	18,977
Purchased Services and Professional Fees	3,076	4,298	3,449
Provision for Bad Debts	4,585	3,547	2,906
Depreciation and Amortization	1,905	1,825	1,759
Supplies and Other	<u>10,106</u>	<u>10,745</u>	<u>9,237</u>
Total Expenses	<u>40,450</u>	<u>40,806</u>	<u>36,328</u>
Loss from Operations	<u>(2,413)</u>	<u>(1,393)</u>	<u>(757)</u>
Non-Operating Revenues (Expenses)	<u>21</u>	<u>(229)</u>	<u>62</u>
Changes in Net Assets	<u>\$ (2,392)</u>	<u>\$ (1,622)</u>	<u>\$ (695)</u>

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

Sources of Revenues

During 2006, the Hospital derived substantially all of its revenues from patient services and other related activities. Revenues include, among other items, revenues from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

Payer Mix

The Hospital provides care to patients under payment arrangements with Medicare, Medicaid, and various commercial programs. Services provided under those arrangements are paid at predetermined rates and/or reimbursable costs as defined. Provisions have been made in the financial statements for contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payment.

OPERATING AND FINANCIAL PERFORMANCE

The Hospital generated slightly more gross revenues from patients in 2006, but sustained a loss from operations due to an increase in its contractual allowances and bad debts. This section will discuss highlights of 2006 operations and changes in activity.

**BROWN COUNTY GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)
(Continued)**

Revenues

Net patient service revenues decreased \$1.3 million in 2006 primarily due to an overall increase in revenue deductions for contractual allowances.

Expenses

Total operating expenses decreased \$0.4 million in 2006 which was attributed to a decrease in costs for purchased services, supplies and professional fees, combined with increases in bad debt expenses, salaries and employee benefits.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year-end, the Hospital had \$12.3 million invested in property, plant and equipment. This amount represents a net decrease (including additions, deletions, and depreciation expense) of \$0.2 million, or 1.7%, from last year. See page one of the MD & A for a description of the significant capital acquisitions during 2006 and the notes to the basic financial statements for a detailed presentation of the acquisitions and deletions for the year.

Debt Administration

At year-end, the Hospital had \$2.1 million in outstanding debt (including capital lease obligations and a line of credit) versus \$1.1 million last year, an increase of 98.9%. Interest rates varied from 4.0% to 8.0%. 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.

ECONOMIC FACTORS AND 2007 BUDGET

The Hospital's Board and management considered many factors when setting the 2007 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
- Expansion and costs related to increasing the Hospital's visibility in the community
- Continuously increasing expectations for quality improvement
- Advances in medical equipment technology and the need to replace obsolete equipment
- Privacy legislation – Health Insurance Portability and Accountability Act (HIPAA)
- Increasing emphasis on the integrity of financial information
- Increasing number of uninsured patients
- Increasing cost of medical supplies
- Access to additional capital
- Increasing drug costs

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

**BROWN COUNTY GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)
(Continued)**

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
CONSOLIDATED STATEMENTS OF NET ASSETS**

ASSETS

	December 31,	
	2006	2005
Current Assets		
Cash and Cash Equivalents (Includes Restricted Cash of \$140,615 and \$788,536 as of December 31, 2006 and 2005, Respectively)	\$ 1,294,716	\$ 2,927,481
Patient Accounts Receivable, Net of Allowance for Doubtful Accounts and Contractual Adjustments of \$6,028,488 for 2006 and \$4,031,813 for 2005	5,361,712	4,698,660
Grant Receivable	246,498	230,751
Notes, Contracts and Other Accounts Receivable, Net of Allowance for Doubtful Accounts of \$-0- for 2006 and \$329,061 for 2005	333,482	970,768
Supplies Inventory	362,918	276,955
Prepaid Expenses and Other Assets	392,592	540,410
Total Current Assets	7,991,918	9,645,025
Cash and Cash Equivalents Whose Use is Limited		
By Board for Plant Renewal and Replacement	14,763	14,630
Property, Plant and Equipment, Net	12,272,029	12,482,421
 Total Assets	 \$ 20,278,710	 \$ 22,142,076

See accompanying notes.

LIABILITIES AND NET ASSETS

	December 31,	
	2006	2005
Current Liabilities		
Line of Credit	\$ 499,688	\$ -
Revenue Bond, Current	75,000	-
Current Portion of Long-Term Debt	229,183	244,007
Accounts Payable	1,204,973	1,388,867
Estimated Settlement Amounts Due to Third-Party Payors	41,287	685,955
Deferred Income	26,912	19,972
Accrued Expenses		
Salaries, Wages, Withholdings and Benefits	945,912	841,370
Compensated Absences	781,967	706,032
Other	562,431	454,308
	4,367,353	4,340,511
Long-Term Liabilities		
Accrued Compensated Absences, Less Current Portion	315,000	329,052
Revenue Bond, Net of Current Portion	708,720	-
Long-Term Debt, Net of Current Portion	578,086	807,268
	1,601,806	1,136,320
	5,969,159	5,476,831
Net Assets		
Invested in Property, Plant and Equipment, Net of Related Debt	11,464,760	11,431,146
Unrestricted	2,704,176	4,445,563
Restricted	140,615	788,536
	14,309,551	16,665,245
Total Liabilities and Net Assets	\$ 20,278,710	\$ 22,142,076

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

	Years Ended December 31,			
	2006		2005	
	Amount	Percent	Amount	Percent
Net Patient Service Revenues	\$ 37,634,849	98.9 %	\$ 38,937,972	98.8 %
Other Operating Revenues	<u>401,970</u>	<u>1.1</u>	<u>475,431</u>	<u>1.2</u>
Total Operating Revenues	<u>38,036,819</u>	<u>100.0</u>	<u>39,413,403</u>	<u>100.0</u>
Operating Expenses				
Salaries and Wages	15,938,386	41.9	15,627,138	39.6
Employee Benefits	4,839,760	12.7	4,763,408	12.1
Supplies and Other	8,768,800	23.1	9,246,407	23.5
Provision for Bad Debts	4,584,589	12.1	3,546,745	9.0
Depreciation and Amortization	1,905,188	5.0	1,824,670	4.6
Purchased Services and Professional Fees	3,076,161	8.1	4,297,979	10.9
Utilities	631,687	1.7	694,787	1.8
Insurance	625,753	1.6	747,562	1.9
Interest	<u>79,535</u>	<u>0.2</u>	<u>57,175</u>	<u>0.1</u>
Total Operating Expenses	<u>40,449,859</u>	<u>106.4</u>	<u>40,805,871</u>	<u>103.5</u>
Loss from Operations	<u>(2,413,040)</u>	<u>(6.4)</u>	<u>(1,392,468)</u>	<u>(3.5)</u>
Non-Operating Revenues (Expenses)				
Investment Income	42,255	0.1	33,842	0.1
Gifts, Grants and Donations	21,940	0.1	10,198	0.0
Non-Operating Expenses	<u>(43,067)</u>	<u>(0.1)</u>	<u>(273,538)</u>	<u>(0.7)</u>
Total Non-Operating Revenues (Expenses)	<u>21,128</u>	<u>0.1</u>	<u>(229,498)</u>	<u>(0.6)</u>
Change in Net Assets	(2,391,912)	<u>(6.3) %</u>	(1,621,966)	<u>(4.1) %</u>
Net Assets, Beginning of Year	16,665,245		18,122,990	
Donations of Property, Plant and Equipment	<u>36,218</u>		<u>164,221</u>	
Net Assets, End of Year	<u>\$ 14,309,551</u>		<u>\$ 16,665,245</u>	

See accompanying notes.

**BROWN COUNTY GENERAL HOSPITAL
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2006	2005
Cash Flows from Operating Activities		
Cash Received from Patients	\$ 36,971,797	\$ 39,511,878
Cash Payments to Suppliers for Goods and Services	(17,820,372)	(17,007,601)
Cash Payments to Employees for Services	(20,611,721)	(20,317,230)
Other Operating Revenues	401,970	475,431
Net Cash (Used) Provided by Operating Activities	(1,058,326)	2,662,478
Cash Flows from Non-Capital Financing Activities		
Investment Income	42,255	33,842
Gifts, Grants and Donations	21,940	10,198
Non-Operating Expenses	(43,067)	(273,538)
Net Cash Provided (Used) by Non-Capital Financing Activities	21,128	(229,498)
Cash Flows from Capital and Related Financing Activities		
Acquisition of Property, Plant and Equipment	(1,639,266)	(990,473)
Principal Paid on Long-Term Debt	(244,006)	(881,468)
Proceeds from Line of Credit	499,688	-
Proceeds from Note Payable	783,720	1,000,000
Proceeds from Sale of Property, Plant and Equipment	4,430	1,609
Net Cash Used by Capital and Related Financing Activities	(595,434)	(870,332)
Net Change in Cash and Cash Equivalents	(1,632,632)	1,562,648
Cash and Cash Equivalents at Beginning of Year	2,942,111	1,379,463
Cash and Cash Equivalents at End of Year	\$ 1,309,479	\$ 2,942,111
Recap of Cash and Cash Equivalents		
Undesignated Cash	1,154,101	2,138,945
Designated Cash	14,763	14,630
Restricted Cash	140,615	788,536
Total Cash and Cash Equivalents	\$ 1,309,479	\$ 2,942,111
Reconciliation of Loss from Operations to Net Cash (Used) Provided by Operating Activities		
Loss from Operations	\$ (2,413,040)	\$ (1,392,468)
Adjustments to Reconcile Loss from Operations to Net Cash Provided by Operating Activities		
Depreciation	1,905,188	1,816,565
Amortization	-	8,105
Provision for Bad Debts	4,584,589	3,546,745
(Gain) Loss on Disposal of Property, Plant and Equipment	(23,742)	32,423
Changes in		
Patient Accounts Receivable	(5,247,641)	(3,172,839)
Notes, Contracts, Grants and Other Receivables	621,539	496,775
Supplies Inventory	(85,963)	(19,591)
Prepaid Expenses and Other Assets	147,818	94,286
Accounts Payable	(183,894)	552,244
Estimated Settlement Amounts Due to Third-Party Payors	(644,668)	565,955
Deferred Income	6,940	(14,561)
Accrued Expenses	274,548	148,839
Net Cash (Used) Provided by Operating Activities	\$ (1,058,326)	\$ 2,662,478
Supplemental Cash Flow Information		
Cash Paid for Interest	\$ 75,953	\$ 73,045

See accompanying notes.

**BROWN COUNTY GENERAL HOSPITAL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 and the surrounding area. The Hospital is operated under the provisions of the Ohio Revised Code.

The Hospital's reporting entity is composed of the Hospital, component units, and other organizations that are included to ensure that the financial statements are not misleading. Component units are legally separate organizations for which the Hospital is financially accountable. The Hospital is financially accountable for an organization if the Hospital appoints a voting majority of the organization's governing board and the Hospital is able to significantly influence the programs or services performed or provided by the organization; or the Hospital is legally entitled to or can otherwise access the organization's resources; or the Hospital is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the Hospital is obligated for the debt of the organization. Component units may also include organizations for which the Hospital approves the budget, the issuance of debt, or the levying of taxes. Accordingly, the Hospital has no component units.

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

Method of Consolidation

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

Basis of Accounting

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

Accounting Standards

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

Estimates

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

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

Cash and Cash Equivalents

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

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

Assets Whose Use is Limited

Assets whose use is limited primarily consists of certificates of deposit, money market accounts and United States Treasury notes. Certain amounts have been designated by the Board of Trustees for future property, plant and equipment renewal and replacement.

Supplies Inventory

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

Property, Plant and Equipment

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

Land Improvements	5 – 20 Years
Buildings and Building Improvements	5 – 40 Years
Other Fixed and Major Movable Equipment	2 – 20 Years
Leased Equipment	3 – 15 Years
Vehicles	5 – 7 Years

It is the Hospital's policy to capitalize donations of property, plant and equipment greater than \$500 at their fair market value at the date of the donation. These donations are recorded directly to the Hospital's fund balance. For the years 2006 and 2005, these types of donations amounted to \$36,218 and \$164,221, respectively, and are non-cash financing activities.

Lease Agreements

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

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, 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.

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

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.

Net Patient Service Revenues

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 as previously described in Note 1.

Also, 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.

Charity Care

Hospital patients who meet certain criteria under its charity care policy are provided care without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. Hospital services at normal established rates totaled \$1,579,027 and \$1,007,202 for patients meeting the charity care criteria for the years ended December 31, 2006 and 2005, respectively.

Governmental Accounting Standards Board (Statement) No. 34

The Hospital has implemented Statement of Governmental Accounting Standards Board (Statement) No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", as amended by Statement No.'s 37 and 38. These statements established new financial reporting requirements for state and local governments.

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

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 creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Restricted net assets include amounts that must be held in perpetuity with the income unrestricted as to use. Restricted net assets were restricted to the following:

	<u>2006</u>	<u>2005</u>
Equipment Purchases	\$ -	\$ 678,460
Revenue Bond	16,512	-
Foundation	119,103	105,076
Other Endowments	<u>5,000</u>	<u>5,000</u>
Total	<u>\$ 140,615</u>	<u>\$ 788,536</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.

Contributions

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

Gifts and Donated Services

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

Risk Management

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

NOTE 2 – CASH AND CASH EQUIVALENTS

State statutes classify monies held by the Hospital into three categories.

Active deposits are public deposits necessary to meet current demands. Such monies must be maintained either as cash in the Hospital, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Hospital has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of the Hospital deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States.
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Hospital, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Board or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

As of December 31, 2006 and 2005, the Hospital had \$2,635 and \$2,633, respectively in undeposited cash on hand which is included on the financial statements of the Hospital as part of "Cash and Cash Equivalents".

B. Deposits with Financial Institutions

As of December 31, 2006 the carrying amount of all Hospital deposits was \$1,309,479. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2006, \$1,248,383 of the Hospital's bank balance of \$1,556,018 was exposed to custodial credit risk as discussed below, while \$307,635 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Hospital's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Hospital.

The Hospital had the following non-cash transactions:

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Donated Property, Plant and Equipment	\$ <u>36,218</u>	\$ <u>164,221</u>

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

In addition to those patients unable to pay, there are patients receiving services who will not pay. The Hospital has established credit and collection policies to hold this cost to a minimum. Provisions for bad debts are recorded as operating expenses in the statements of revenues, expenses 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 years December 31, 2006 and 2005 for Medicare and the year December 31, 2006 for Medicaid remain unsettled as of December 31, 2006.

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

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

	<u>2006</u>	<u>2005</u>
Federal Government: Medicare	\$ 1,150,687	\$ 1,075,111
State of Ohio: Medicaid, Workers Compensation	1,270,221	653,944
Commercial Insurance, Self-Pay and Other	<u>2,940,804</u>	<u>2,969,605</u>
 Total	 <u>\$ 5,361,712</u>	 <u>\$ 4,698,660</u>

NOTE 4 – GRANT RECEIVABLE

The Hospital was awarded a grant in 2003 from the US Department of Housing and Urban Development that is restricted for construction and the purchase of equipment. The original grant amount was \$390,000. At December 31, 2006 and 2005 the grant receivable was \$246,498, which represents the amount not drawn by the Hospital.

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment transactions for the year ended December 31, 2006 were as follows:

	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance December 31, 2006</u>
Property, Plant and Equipment Not Being Depreciated				
Construction in Progress	\$ 234,812	\$ -	\$ 1,697	\$ 233,115
Depreciable Property, Plant and Equipment				
Land and Land Improvements	2,097,933	4,619	-	2,102,552
Buildings and Building Improvements	10,804,256	739,321	-	11,543,577
Fixed Equipment	8,578,630	82,483	-	8,661,113
Major Movable Equipment	10,081,731	873,331	242,196	10,712,866
Vehicles	<u>320,086</u>	<u>-</u>	<u>-</u>	<u>320,086</u>
Total Property, Plant and Equipment at Historical Cost	<u>32,117,448</u>	<u>1,699,754</u>	<u>243,893</u>	<u>33,573,309</u>
Less Accumulated Depreciation				
Land and Land Improvements	644,352	45,357	-	689,709
Buildings and Building Improvements	6,885,085	340,858	-	7,225,943
Fixed Equipment	5,568,023	472,933	-	6,040,956
Major Movable Equipment	6,347,923	1,007,898	238,935	7,116,886
Vehicles	<u>189,644</u>	<u>38,142</u>	<u>-</u>	<u>227,786</u>
Total Accumulated Depreciation	<u>19,635,027</u>	<u>1,905,188</u>	<u>238,935</u>	<u>21,301,280</u>
Property, Plant and Equipment - Net	<u>\$ 12,482,421</u>	<u>\$ (205,434)</u>	<u>\$ 4,958</u>	<u>\$ 12,272,029</u>

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT (Continued)

Property, plant and equipment transactions for the year ended December 31, 2005 were as follows:

	Balance January 1, 2005	Additions	Transfers/ Disposals	Balance December 31, 2005
Property, Plant and Equipment Not Being Depreciated				
Construction in Progress	\$ 456,616	\$ 60,699	\$ 282,503	\$ 234,812
Depreciable Property, Plant and Equipment				
Land and Land Improvements	2,091,433	6,500	-	2,097,933
Buildings and Building Improvements	10,446,087	358,169	-	10,804,256
Fixed Equipment	8,523,345	55,285	-	8,578,630
Major Movable Equipment	9,618,758	834,137	371,164	10,081,731
Vehicles	207,354	122,408	9,676	320,086
Total Property, Plant and Equipment at Historical Cost	<u>31,343,593</u>	<u>1,437,198</u>	<u>663,343</u>	<u>32,117,448</u>
Less Accumulated Depreciation				
Land and Land Improvements	593,083	51,269	-	644,352
Buildings and Building Improvements	6,411,269	473,816	-	6,885,085
Fixed Equipment	5,140,866	427,157	-	5,568,023
Major Movable Equipment	5,842,972	842,043	337,132	6,347,883
Vehicles	177,079	22,280	9,675	189,684
Total Accumulated Depreciation	<u>18,165,269</u>	<u>1,816,565</u>	<u>346,807</u>	<u>19,635,027</u>
Property, Plant and Equipment - Net	<u>\$ 13,178,324</u>	<u>\$ (379,367)</u>	<u>\$ 316,536</u>	<u>\$ 12,482,421</u>

NOTE 6 – LINE OF CREDIT

The Hospital had a line of credit with a bank that matured in February, 2007. The Hospital could borrow up to \$500,000. The line charged interest at 175 basis points below prime rate (the prime rate was 8.25% at December 31, 2006) and was collateralized by the accounts receivable of the Hospital. The amount drawn on the line of credit was \$499,688 as of December 31, 2006. The line was paid off upon maturity and a new line of credit arrangement was entered into (see subsequent event note).

NOTE 7 – LONG-TERM DEBT

	<u>December 31, 2006</u>	
	<u>Bonds and Notes Payable</u>	<u>Capital Lease Obligations</u>
Debt Outstanding January 1, 2006	\$ 955,230	\$ 96,045
Additions of New Debt	783,720	-
Repayments	<u>(184,272)</u>	<u>(59,734)</u>
Debt Outstanding December 31, 2006	<u>\$ 1,554,678</u>	<u>\$ 36,311</u>
Expected to be Paid Within One Year	<u>\$ 267,872</u>	<u>\$ 36,311</u>

NOTE 7 – LONG-TERM DEBT (Continued)

	<u>December 31, 2005</u>	
	<u>Bonds and Notes Payable</u>	<u>Capital Lease Obligations</u>
Debt Outstanding January 1, 2005	\$ 780,000	\$ 152,743
Additions of New Debt	1,000,000	-
Repayments	<u>(824,770)</u>	<u>(56,698)</u>
Debt Outstanding December 31, 2005	<u>\$ 955,230</u>	<u>\$ 96,045</u>
Expected to be Paid Within One Year	<u>\$ 184,273</u>	<u>\$ 59,734</u>

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

	<u>2006</u>	<u>2005</u>
Construction Revenue Bond issued on May 3, 2006 at par value, collateralized by a pledge of all net revenues, charging interest at 5.54% and maturing in June, 2016.	\$ 783,720	\$ -
Note Payable issued in 2005, collateralized by equipment purchased with the proceeds, charging interest at 4.57% and maturing in September, 2010.	770,958	955,230
Capital lease obligations, at various effective interest rates between 4.0% and 8.0% collateralized by leased equipment and maturing at various dates through June, 2007.	<u>36,311</u>	<u>96,045</u>
	1,590,989	1,051,275
Less Current Portion	<u>304,183</u>	<u>244,007</u>
	<u>\$ 1,286,806</u>	<u>\$ 807,268</u>

The Hospital's Long-Term Debt is subject to certain financial and administrative covenants. The Debt Service Coverage Ratio and Maximum Total Liabilities to Unrestricted Fund Balance covenants that were not met as of December 31, 2006 were waived by the bank.

NOTE 7 – LONG-TERM DEBT (Continued)

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

<u>Years Ending December 31,</u>	<u>Long-Term Debt</u>	<u>Capital Lease Obligations</u>
2007	\$ 267,872	\$ 36,946
2008	276,873	-
2009	286,295	-
2010	239,918	-
2011	75,000	-
Thereafter	<u>408,720</u>	<u>-</u>
	<u>\$ 1,554,678</u>	36,946
Less Amount Representing Interest		<u>(635)</u>
		36,311
Present Value of Minimum Lease Payments		-
Less Current Portion		<u>36,311</u>
Non-Current Portion		<u>\$ -</u>

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

The cost of assets under capital lease obligations was approximately \$393,000 at December 31, 2006 and 2005, (with accumulated depreciation of approximately \$393,000 at December 31, 2006 and 2005) and is included in property, plant and equipment in the accompanying consolidated statements of net assets.

NOTE 8 – NET PATIENT SERVICE REVENUES

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

	<u>2006</u>	<u>2005</u>
Gross Patient Service Charges at Established Rates (Including Charity Care)	\$ 70,418,322	\$ 67,092,502
Less		
Contractual Allowances	(31,204,446)	(27,147,328)
Charity Care	<u>(1,579,027)</u>	<u>(1,007,202)</u>
Net Patient Service Revenue	<u>\$ 37,634,849</u>	<u>\$ 38,937,972</u>

NOTE 9 – OPERATING LEASES

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

Minimum future payments for these leases are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2007	\$ <u>21,696</u>

Lease expense for the years ended December 31, 2006 and 2005 was \$227,832 and \$143,105, respectively.

NOTE 10 – RETIREMENT PLAN

The Hospital participates in a state pension plan, the Ohio Public Employees Retirement System (OPERS), which covers 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 the Combined Plan; however healthcare benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment healthcare 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 42315, Telephone (614) 466-2085.

The Ohio Revised Code provides OPERS statutory authority for employer and employee contributions. The required, actuarially-determined contribution rates for the Hospital and for the employee are 13.70% and 8.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years are as follows:

<u>Years</u>	<u>Contribution</u>
2006	\$ 2,170,947
2005	2,076,827
2004	1,969,265

NOTE 11 – OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in the previous note, OPERS also provides postretirement health care coverage, commonly referred to as OPEB (Other Post-Employment Benefits). The Ohio Revised Code provides the authority for public employers to fund postretirement health care through their contributions. The following information is based on data obtained from OPERS for the periods ended December 31, 2006 and 2005.

NOTE 11 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

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 2006 employer rate for employees' coverage by OPERS was 13.70%, of which 4.5% was used to fund health care. The total Hospital contribution used to fund health care was \$717,227 and \$613,086 for the years ended December 31, 2006 and 2005, respectively.

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

OPEB are advanced-funded on an actuarially-determined basis. The number of active contributing participants at December 31, 2006 was 369,214. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2005 was approximately \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively, as of December 31, 2005. The actuarial assumptions used to calculate these amounts are as follows:

- Funding Method – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.
- Assets Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets, not to exceed a 12% corridor.
- Investment Return – The investment assumption rate for 2005 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 0.5% to 6.3%.
- Health Care – Health care costs were assumed to increase 4.0% annually.

NOTE 12 – 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 \$150,000 has been recorded in the accompanying financial statements for possible future deductibles payable by the Hospital for claims incurred.

NOTE 13 – CONCENTRATIONS

Medicare and Medicaid accounted for approximately 62.7% and 62.3% of the Hospital's gross patient service revenues during 2006 and 2005, respectively.

NOTE 14 – SUBSEQUENT EVENT

The Hospital paid off its existing line of credit at December 31, 2006 on February 9, 2007. On the same day, the Hospital obtained another line of credit with a different bank. The Hospital may borrow up to \$1.0 million with interest at the prime rate. The line is collateralized by substantially all of the Hospital's accounts receivable.



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

To the Board of Trustees
Brown County General Hospital

We have audited the financial statements of Brown County General Hospital as of and for the year ended December 31, 2006, and have issued our report thereon dated June 21, 2007. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 Brown County General 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.

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 Hospital'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 Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control.

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 Hospital's internal control.

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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 for 2005 disclosed an instance of noncompliance that was required to be reported under Government Auditing Standards, and which is described in the accompanying schedule of noncompliance citations as item 2005-001.

To the Board of Trustees
Brown County General Hospital
Page 2

We noted certain other matters that we reported to management of Brown County General Hospital in a separate letter dated June 21, 2007.

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of noncompliance citations. We did not audit the Hospital's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, 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.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
June 21, 2007

**BROWN COUNTY GENERAL HOSPITAL
NONCOMPLIANCE CITATIONS - OHIO REVISED CODE
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

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

No findings as of and for the year ended December 31, 2006.

**BROWN COUNTY GENERAL HOSPITAL
STATUS OF PRIOR AUDIT CITATIONS**

Finding Number 2005-001

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

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

Ohio Rev. Code Sections 102.03(D) and (E) which provide:

- (D) No public official or employee shall use or authorize the use of the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.
- (E) No public official or employee shall solicit or accept anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

Additionally, Section 18 of the Hospital's Policy Manual states in pertinent part that Hospital employees should avoid all potential conflicts of interest. Adherence to this policy ensures that the Hospital's employees act with total objectivity in carrying out their duties for the Hospital. Also, this section states that employees may not use Hospital assets for personal benefit or for personal business purposes. The Hospital's Foundation president, Carl Beck, authorized purchases for both the Hospital and the Foundation from Ad Works, a company owned by his wife. These purchases were obtainable through other vendors. Mr. Beck indirectly monetarily benefited from these transactions.

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

Status

This matter has been referred to the Ohio Ethics Commission.

Finding Number 2004-001

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

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

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

Status

This matter has been referred to the Ohio Ethics Commission.



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
AUGUST 30, 2007**