

**BROWN COUNTY
GENERAL HOSPITAL**

**Report on Audit of Financial Statements,
Internal Control and Compliance with Laws
and Regulations**

For the year ended December 31, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
Columbus, Ohio 43215

Telephone 614-466-4514
800-282-0370

Facsimile 614-728-7398
www.auditor.state.oh.us

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

We have reviewed the Independent Auditor's Report of the Brown County Hospital, Brown County, prepared by PricewaterhouseCoopers LLP, for the audit period January 1, 2001 through December 31, 2001. 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 Hospital is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

June 12, 2002

This Page is Intentionally Left Blank.

CONTENTS

Section

Report on Financial Statements A

Report of Independent Accountants on Compliance and on
Internal Control over Financial Reporting Based on
an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards* B

This Page is Intentionally Left Blank.

BROWN COUNTY GENERAL HOSPITAL

SECTION A

REPORT ON FINANCIAL STATEMENTS

CONTENTS

	Pages
Report of Independent Accountants	1
Financial Statements:	
Balance Sheets as of December 31, 2001 and 2000	2-3
Statements of Revenues and Expenses of General Funds for the years ended December 31, 2001 and 2000	4
Statements of Changes in Fund Balances for the years ended December 31, 2001 and 2000	5
Statements of Cash Flows of General Funds for the years ended December 31, 2001 and 2000	6-7
Notes to Financial Statements.....	8-18

Report of Independent Accountants

To the Board of Trustees
Brown County General Hospital

In our opinion, the accompanying balance sheets and the related statements of revenues and expenses of general funds, changes in fund balances, and cash flows of general funds present fairly, in all material respects, the financial position of Brown County General Hospital, a component unit of Brown County, at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These 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 of these statements 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, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2002 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants for the year ended December 31, 2001. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

PricewaterhouseCoopers LLP

April 19, 2002

Brown County General Hospital
Balance Sheets
As of December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Assets		
<u>General Funds</u>		
Current assets:		
Cash and cash equivalents	\$ 3,876,409	\$ 2,745,850
Accounts receivable, less allowance for doubtful accounts and contractual adjustments of \$3,060,723 in 2001 and \$3,334,325 in 2000	3,295,950	4,138,909
Supplies inventory	220,150	231,274
Prepaid expenses and other assets	1,262,744	550,441
Due from restricted funds	-	18,000
	<hr/>	<hr/>
Total current assets	8,655,253	7,684,474
Assets whose use is limited:		
By Board for plant renewal and replacement	1,609,822	1,437,252
By County for debt issuance	662,714	624,299
Property, plant and equipment, net	11,526,591	12,234,446
Other assets	300,987	141,731
	<hr/>	<hr/>
Total	<u>\$ 22,755,367</u>	<u>\$ 22,122,202</u>
<u>Restricted Funds</u>		
Temporarily restricted:		
Cash	\$ 24,417	\$ -
Certificates of deposit	5,000	5,000
Pledges receivable	2,876	18,000
Due from General Funds	1,442	3,331
	<hr/>	<hr/>
Total	<u>\$ 33,735</u>	<u>\$ 26,331</u>

The accompanying notes are an integral part of these financial statements.

Brown County General Hospital
Balance Sheets, Continued
As of December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Liabilities and Fund Balances		
<u>General Funds</u>		
Current liabilities:		
Current portion of long-term debt	\$ 599,776	\$ 582,793
Trade accounts payable	716,175	642,680
Estimated settlement amounts due to third-party payors	577,886	363,658
Deferred income	20,793	604,329
Accrued expenses:		
Salaries, wages and withholdings	939,775	733,094
Accrued compensated absences	512,184	532,367
Other	138,168	235,993
Due to restricted funds	1,442	3,331
Total current liabilities	3,506,199	3,698,245
Accrued compensated absences, less current portion	242,407	236,985
Long-term debt, net of current portion	1,702,982	2,302,388
Total liabilities	5,451,588	6,237,618
Fund balance	17,303,779	15,884,584
Total	\$ 22,755,367	\$ 22,122,202
<u>Restricted Funds</u>		
Temporarily restricted:		
Due to general funds	\$ -	\$ 18,000
Total liabilities	-	18,000
Fund balance	33,735	8,331
Total	\$ 33,735	\$ 26,331

The accompanying notes are an integral part of these financial statements.

Brown County General Hospital
Statements of Revenues and Expenses of General Funds
For the years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Net patient service revenue	\$ 26,225,731	\$ 24,636,916
Other operating revenue	383,778	296,177
 Total operating revenues	 <u>26,609,509</u>	 <u>24,933,093</u>
Operating expenses:		
Salaries and wages	10,060,025	9,564,279
Employee benefits	2,431,873	2,214,803
Supplies and other	6,324,164	5,762,071
Provision for bad debts	2,293,558	2,310,561
Depreciation and amortization	1,530,180	1,534,292
Professional fees	1,990,585	1,760,889
Utilities	500,675	475,450
Insurance	194,627	154,466
Interest	192,500	237,955
 Total operating expenses	 <u>25,518,187</u>	 <u>24,014,766</u>
 Income from operations	 <u>1,091,322</u>	 <u>918,327</u>
Non-operating gains/(losses):		
Investment income	205,346	196,209
Other, net	12,004	(36,229)
 Total non-operating gains, net	 <u>217,350</u>	 <u>159,980</u>
 Excess of revenues and gains over expenses and losses	 <u>\$ 1,308,672</u>	 <u>\$ 1,078,307</u>

The accompanying notes are an integral part of these financial statements.

Brown County General Hospital
Statements of Changes in Fund Balances
For the years ended December 31, 2001 and 2000

	<u>General Funds</u>	<u>Restricted Funds</u>
Fund balances, December 31, 1999	\$ 14,791,333	\$ 13,051
Excess of revenues and gains over expenses and losses	1,078,307	-
Release from restrictions	4,919	(4,919)
Investment income	-	199
Interfund transfer	(199)	-
Donations for capital addition	<u>10,224</u>	<u>-</u>
Fund balances, December 31, 2000	15,884,584	8,331
Excess of revenues and gains over expenses and losses	1,308,672	-
Release from restrictions	200	(200)
Contributions	-	27,494
Investment income	-	200
Interfund transfer	1,890	(2,090)
Donations for capital addition	<u>108,433</u>	<u>-</u>
Fund balances, December 31, 2001	<u>\$ 17,303,779</u>	<u>\$ 33,735</u>

The accompanying notes are an integral part of these financial statements.

Brown County General Hospital
Statements of Cash Flows of General Funds
For the years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Income from operations	\$ 1,091,322	\$ 918,327
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation and amortization	1,530,180	1,534,292
Decrease (increase) in accounts receivable	842,959	(151,686)
Decrease in supplies inventory	11,124	53,356
Increase in prepaid expenses and other assets	(881,351)	(324,375)
(Decrease) increase in trade accounts payable, deferred income and accrued expenses	(417,835)	881,898
Increase in settlement amounts payable to third parties	214,228	99,525
Net cash provided by operating activities	<u>2,390,627</u>	<u>3,011,337</u>
Cash flows from noncapital financing activities:		
Other	<u>12,325</u>	<u>3,831</u>
Net cash provided by noncapital financing activities	<u>12,325</u>	<u>3,831</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(702,341)	(877,211)
Repayment of long-term debt	(490,000)	(475,000)
Payments on capital lease obligations	(92,423)	(93,590)
Donations for capital additions	18,000	72,274
Proceeds from disposal of equipment	10	1,897
Net cash used in capital and related financing activities	<u>(1,266,754)</u>	<u>(1,371,630)</u>
Cash flows from investing activities:		
Income from investments	205,346	188,573
Purchase of investments, net	<u>767</u>	<u>(153,456)</u>
Net cash provided by investing activities	<u>206,113</u>	<u>35,117</u>
Net increase in cash and cash equivalents	1,342,311	1,678,655
Cash and cash equivalents, beginning of year	<u>4,203,017</u>	<u>2,524,362</u>
Cash and cash equivalents, end of year	<u>\$ 5,545,328</u>	<u>\$ 4,203,017</u>

The accompanying notes are an integral part of these financial statements.

Brown County General Hospital
Statements of Cash Flows of General Funds, Continued
For the years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents in current assets	\$ 3,876,409	\$ 2,745,850
Cash and cash equivalents in assets whose use is limited:		
By Board for plant renewal and replacement	1,609,822	1,437,252
By County for debt issuance	<u>59,097</u>	<u>19,915</u>
Total cash and cash equivalents	<u>\$ 5,545,328</u>	<u>\$ 4,203,017</u>
Supplemental disclosures:		
Interest paid during the year	<u>\$ 178,501</u>	<u>\$ 214,696</u>

The accompanying notes are an integral part of these financial statements.

Brown County General Hospital

Notes to the Financial Statements

1. Reporting Entity

Brown County General Hospital (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. As the Hospital is not legally separate from the County, it is included as a blended component unit in the general purpose financial statements of the County. 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 of the Hospital 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.

The Brown County General Hospital Foundation (Foundation) was created July, 2001 to provide services exclusively for the benefit of the Hospital. Although it is legally separate from the Hospital, it is reported as if it were part of the Hospital.

2. Summary of Significant Accounting Policies

Financial Statements

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles for hospitals contained in the "AIPCA Audit and Accounting Guide: Health Care Organizations" and for local governmental units as prescribed in statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Hospital also applies the Financial Accounting Standards Board's Statements and Interpretations issued prior to November 30, 1989 unless those pronouncements conflict with GASB pronouncements.

Proprietary Fund Accounting

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

Brown County General Hospital

Notes to the Financial Statements

Cash and Cash Equivalents

Cash and cash equivalents consist of cash, money market funds, and certificate of deposits that are short-term. Cash and cash equivalents are deposited with several regional banks.

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 approximately \$534,000 and \$406,000 for patients meeting the charity care criteria for the years ended December 31, 2001 and 2000, respectively.

Net Patient Service Revenue

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 revenue adjustments due to future audits, reviews, and investigations. 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 (see Note 4).

Substantially all revenue is recognized when service is rendered.

Supplies Inventory

Supplies inventory, consisting primarily of medical and surgical supplies and drugs, is stated at the lower of cost or market determined on a first-in, first-out basis.

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. In addition, certain amounts have been set aside in accordance with agreements with Brown County relating to the debt issuance.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, or estimates of fair market value at date of donation. Depreciation is calculated on the straight-line basis over the estimated service lives of individual assets. Equipment under capital leases is amortized on the straight-line basis over the shorter of the lease term or the estimated service lives of the leased assets.

Brown County General Hospital

Notes to the Financial Statements

Expenditures for maintenance and repairs are charged to operations as incurred; improvements are capitalized. Upon the sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are removed from the accounts and the difference between book value and any proceeds received on the sale are recorded in operations.

Fund Balances

In the accompanying financial statements, the fund balances are categorized as follows:

General Funds – Funds available for general use in operations of the Hospital.

Temporarily Restricted Funds – Funds whose use is subject to donor-imposed stipulations that can be fulfilled by actions of the Hospital and/or Foundation pursuant to those stipulations or that expire by the passage of time. The restrictions on the presently held temporarily restricted fund balance consist of supporting specific programs or establishment of new programs. Included in temporarily restricted funds are amounts previously reported as Specific Purpose and Endowment funds which consist of externally restricted donations in support of Hospital activities and scholarships.

Expirations of donor-imposed stipulations that simultaneously increase one class of funds and decrease another are reported as reclassifications between the applicable classes of fund balances.

Contributions with donor-imposed restrictions are reported as temporarily restricted revenues and are reclassified to unrestricted net assets when an expense is incurred that satisfies the donor-imposed restriction unless such donor-imposed restrictions are met within the period the contribution is made. In these cases, contributions are reported as unrestricted revenues.

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 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.

Brown County General Hospital

Notes to the Financial Statements

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management

The Hospital is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets; business interruption, error and omission, employee injuries and illnesses; 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 (see Note 10).

3. Deposits and Investments

GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement No. 3.

Deposits: The carrying amount of the Hospital's deposits were \$6,085,919 and \$4,187,131 as of December 31, 2001 and 2000, respectively. The bank balance of the Hospital's deposits were \$6,213,890 and \$4,689,301 as of December 31, 2001 and 2000, respectively. Of the bank balance:

1. \$500,000 and \$305,000 was covered by federal depository insurance as of December 31, 2001 and 2000, respectively.
2. \$5,713,890 and \$4,384,301 were collateralized with pooled securities held by the financial institutions, but not in the Hospital's name, as of December 31, 2001 and 2000, respectively.

Investments: The Hospital is authorized by state statute to make direct investments in certificates of deposit, money market accounts, and U.S. government, federal agency and federal instrumentality obligations.

GASB Statement No. 3 requires the use of three categories to classify investments. Category 1 includes investments that are insured or registered or are held by the Hospital or its agent in the Hospital's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Hospital's name. Category 3 includes

Brown County General Hospital
Notes to the Financial Statements

uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the Hospital's name. Money market accounts are unclassified investments since they are not evidenced by the securities in physical or book entry form.

	2001			
	<u>1</u>	<u>2</u>	<u>3</u>	Fair/Carrying Value
Common Stock	\$ 29,492	\$ -	\$ -	\$ 29,492
U.S. Treasury Notes	-	-	603,617	603,617
Money Market Accounts	-	-	-	59,097
	<hr/>	<hr/>	<hr/>	<hr/>
Total Investments	<u>\$ 29,492</u>	<u>\$ -</u>	<u>\$ 603,617</u>	<u>\$ 692,206</u>
	<hr/> 2000 <hr/>			
	<u>1</u>	<u>2</u>	<u>3</u>	Fair/Carrying Value
Common Stock	\$ 35,053	\$ -	\$ -	\$ 35,053
U.S. Treasury Notes	-	-	604,385	604,385
Money Market Accounts	-	-	-	19,915
	<hr/>	<hr/>	<hr/>	<hr/>
Total Investments	<u>\$ 35,053</u>	<u>\$ -</u>	<u>\$ 604,385</u>	<u>\$ 659,353</u>

Brown County General Hospital

Notes to the Financial Statements

4. Net Patient Service Revenue

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 services revenue and related allowances for the years ended December 31 were as follows:

	<u>2001</u>	<u>2000</u>
Gross patient service revenue at established rates (including charity care)	\$ 37,925,295	\$ 37,004,505
Less:		
Contractual allowances	(11,165,974)	(11,961,856)
Charity care	<u>(533,590)</u>	<u>(405,733)</u>
Net patient service revenue	<u>\$ 26,225,731</u>	<u>\$ 24,636,916</u>

A summary of the payment arrangements with major 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. Inpatient nonacute services, certain outpatient services, and defined capital costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology, subject to certain limitations. Effective August 1, 2000, Medicare changed its method of paying for outpatient services to a prospective payment methodology based on a system of ambulatory payment classifications (“APC”). The Hospital is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports prior to January 1, 1999 have been audited and finalized by the Medicare fiscal intermediary. Revenue from participation in the Medicare program amounted to 37% and 38% of operating revenues in 2001 and 2000, respectively.

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively-determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under cost reimbursement and fee schedule methodologies. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports prior to January 1, 1997 have been audited and finalized by the Medicaid fiscal intermediary. Revenue from participation in the Medicaid Program amounted to 21% and 19% of operating revenues in 2001 and 2000, respectively.

Brown County General Hospital

Notes to the Financial Statements

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Hospital under these agreements includes discounts from established charges.

5. Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31:

	<u>2001</u>	<u>2000</u>
Land and land improvements	\$ 921,083	\$ 783,551
Buildings and building improvements	11,232,462	11,189,435
Equipment	13,566,282	13,129,058
Construction in progress	<u>70,540</u>	<u>14,316</u>
Total	25,790,367	25,116,360
Less accumulated depreciation	<u>14,263,775</u>	<u>12,881,914</u>
Property, plant and equipment, net	<u>\$ 11,526,592</u>	<u>\$ 12,234,446</u>

Brown County General Hospital
Notes to the Financial Statements

6. Long-Term Debt

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

	<u>2001</u>	<u>2000</u>
Hospital improvement bonds issued in 1993, collateralized by a pledge of all revenues, investment income, accounts receivable, contracts and contract rights, bearing interest from 2.8% to 5.3%.	\$ 1,780,000	\$ 2,170,000
Hospital facilities revenue bonds issued in 1995, collateralized by a pledge of all revenues, investment income, accounts receivable, contracts, instruments and inventories, bearing interest at 5.5%	400,000	500,000
Capital lease obligations, at various effective interest rates between 6.5% and 12.6% collateralized by leased equipment	<u>122,758</u>	<u>215,181</u>
	2,302,758	2,885,181
Less current portion	<u>599,776</u>	<u>582,793</u>
	<u>\$ 1,702,982</u>	<u>\$ 2,302,388</u>

Under the terms of the improvement bond agreement, the Hospital is required by the County to maintain funds on deposit equal to the maximum annual debt service on the bonds. This reserve is included with assets whose use is limited in the financial statements.

Under the facilities revenue bond agreement, the Hospital is required to maintain a debt service coverage ratio and other financial ratios.

Brown County General Hospital
Notes to the Financial Statements

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

Year	Long-Term Debt	Obligations Under Capital Lease
2002	\$ 510,000	\$ 97,319
2003	535,000	33,834
2004	555,000	-
2005	580,000	-
	<u>\$ 2,180,000</u>	<u>131,153</u>
Less amount representing interest		<u>8,395</u>
Present value of minimum lease payments		122,758
Less current portion		<u>89,776</u>
Noncurrent portion		<u>\$ 32,982</u>

The Hospital is the lessee in various capital leases 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.

Assets under capital lease were approximately \$417,000 at December 31, 2001 and 2000 (with accumulated depreciation of approximately \$240,000 and \$187,000 at December 31, 2001 and 2000, respectively), and are included in property, plant and equipment in the accompanying balance sheets.

7. Commitments

In addition to the capital leases, the Hospital has operating leases for the computer system and two pieces of medical equipment. These obligations extend through 2004.

Brown County General Hospital

Notes to the Financial Statements

Minimum payments for operating leases for the next three years are as follows:

2002	\$ 323,097
2003	158,370
2004	124,344

Lease expense for the year ended December 31, 2001 and 2000 was \$339,770 and \$324,858, respectively.

8. Retirement Plan

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

The PERS plan is a cost sharing, multiple employer, defined benefit, public employee retirement plan. It provides retirement, disability and death benefits to plan members and beneficiaries. The PERS plan also provides health care benefits to vested retirees. Benefits provided under the plan are established by State Statute.

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: Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 42315, Telephone (614) 466-2085.

The Ohio Revised Code provides PERS statutory authority for employer and employee contributions. The required, actuarially-determined contribution rates for the Hospital and for the employee are 13.55% and 8.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years are as follows:

<u>Year</u>	<u>Contribution</u>
2001	\$ 1,355,249
2000	1,021,610
1999	1,163,365

Brown County General Hospital

Notes to the Financial Statements

9. Other Post-Employment Benefits

In addition to the pension benefits described in Note 8 above, PERS also provides post-retirement health care coverage, commonly referred to as OPEB (Other Post-Employment Benefits). The Ohio Revised Code provides the authority for public employers to fund post-retirement health care through their contributions.

PERS provides post-retirement health care coverage to age and service retirants 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 2001 employer rate for employees' coverage by PERS was 13.55%, of which 4.30% was used to fund health care. The total Hospital contribution used to fund health care was \$430,021.

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, 2001 was 411,076. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2000 was \$11,736 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,365 million and \$2,629 million, respectively, as of December 31, 2000. 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.
- **Investment Return** – The investment assumption rate for 2000 was 7.75%.

Brown County General Hospital

Notes to the Financial Statements

- Active Employee Total Payroll – An annual increase of 4.75% 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 4.75% base increase, were assumed to range from 0.54% to 5.1%.
- Health Care – Health care costs were assumed to increase 4.75% annually.

10. Professional Liability Insurance

The Hospital maintains malpractice insurance coverage on a per occurrence basis with Ohio Hospital Insurance Company. Professional liability claims are currently pending against the Hospital. No provision for loss has been made in the accompanying financial statements because management is of the opinion that the ultimate liability, if any, resulting from the lawsuits would be adequately covered by insurance and would not adversely affect the financial position of the Hospital.

BROWN COUNTY GENERAL HOSPITAL

SECTION B

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

**Report of Independent Accountants on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

The Board of Trustees
Brown County General Hospital

We have audited the financial statements of Brown County General Hospital (the "Hospital") as of and for the year ended December 31, 2001, and have issued our report thereon dated April 19, 2002. 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 of America.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the

The Board of Trustees
Brown County General Hospital

financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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.

PrivaWaterhouse Cooper LLP

April 19, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

BROWN COUNTY HOSPITAL

BROWN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 25, 2002**