

**BROWN COUNTY  
GENERAL HOSPITAL**

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

**For the year ended December 31, 2002**





**Auditor of State  
Betty Montgomery**

To the Board of Trustees  
Brown County General Hospital  
Georgetown, Ohio

We have reviewed the Independent Auditor's Report of the Brown County General Hospital, Brown County, prepared by PricewaterhouseCoopers LLP, for the audit period January 1, 2002 through December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Brown County General Hospital is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

May 23, 2003

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**BROWN COUNTY GENERAL HOSPITAL**

**SECTION A**

**REPORT ON FINANCIAL STATEMENTS**

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**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 unrestricted funds, changes in fund balances, and cash flows of unrestricted funds present fairly, in all material respects, the financial position of Brown County General Hospital, a component unit of Brown County, at December 31, 2002 and 2001, 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 18, 2003 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants for the year ended December 31, 2002. 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 18, 2003

**Brown County General Hospital**  
**Balance Sheets**  
**As of December 31, 2002 and 2001**

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	<u>2002</u>	<u>2001</u>
<b>Assets</b>		
<b><u>Unrestricted</u></b>		
Current assets:		
Cash and cash equivalents	\$ 2,473,636	\$ 3,876,409
Accounts receivable, less allowance for doubtful accounts and contractual adjustments of \$3,312,739 in 2002 and \$3,060,723 in 2001	3,383,544	3,295,950
Supplies inventory	217,893	220,150
Prepaid expenses and other assets	<u>1,403,983</u>	<u>1,262,744</u>
Total current assets	7,479,056	8,655,253
Assets whose use is limited:		
By Board for plant renewal and replacement	1,604,471	1,609,822
By County for debt issuance	724,820	662,714
Property, plant and equipment, net	11,997,754	11,526,591
Other assets	<u>841,959</u>	<u>300,987</u>
Total	<u>\$ 22,648,060</u>	<u>\$ 22,755,367</u>
<b><u>Restricted</u></b>		
Temporarily restricted:		
Cash	\$ 38,812	\$ 24,417
Certificates of deposit	5,000	5,000
Pledges receivable	2,770	2,876
Due from General Funds	<u>1,572</u>	<u>1,442</u>
Total	<u>\$ 48,154</u>	<u>\$ 33,735</u>

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

**Brown County General Hospital**  
**Balance Sheets, Continued**  
**As of December 31, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
<b>Liabilities and Fund Balances</b>		
<b><u>Unrestricted</u></b>		
Current liabilities:		
Current portion of long-term debt	\$ 613,981	\$ 599,776
Trade accounts payable	1,062,465	716,175
Estimated settlement amounts due to third-party payors	105,000	577,886
Deferred income	23,379	20,793
Accrued expenses:		
Salaries, wages and withholdings	928,920	939,775
Accrued compensated absences	510,630	512,184
Other	103,532	138,168
Due to Restricted Funds	<u>1,572</u>	<u>1,442</u>
Total current liabilities	3,349,479	3,506,199
Accrued compensated absences, less current portion	259,811	242,407
Long-term debt, net of current portion	<u>1,341,560</u>	<u>1,702,982</u>
Total liabilities	4,950,850	5,451,588
Fund balance	<u>17,697,210</u>	<u>17,303,779</u>
Total	<u>\$ 22,648,060</u>	<u>\$ 22,755,367</u>
<b><u>Restricted</u></b>		
Temporarily restricted:		
Fund balance	<u>\$ 48,154</u>	<u>\$ 33,735</u>
Total	<u>\$ 48,154</u>	<u>\$ 33,735</u>

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

**Brown County General Hospital**  
**Statements of Revenues and Expenses of Unrestricted Funds**  
**For the years ended December 31, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
Net patient service revenue	\$ 26,872,891	\$ 26,225,731
Other operating revenue	357,730	383,778
	<u>27,230,621</u>	<u>26,609,509</u>
Operating expenses:		
Salaries and wages	10,692,393	10,060,025
Employee benefits	2,736,991	2,431,873
Supplies and other	6,901,687	6,324,164
Provision for bad debts	2,225,532	2,293,558
Depreciation and amortization	1,538,473	1,530,180
Professional fees	2,134,593	1,990,585
Utilities	532,611	500,675
Insurance	265,123	194,627
Interest	145,628	192,500
	<u>27,173,031</u>	<u>25,518,187</u>
Income from operations	<u>57,590</u>	<u>1,091,322</u>
Non-operating gains:		
Investment income	179,062	205,346
Other, net	84,897	12,004
	<u>263,959</u>	<u>217,350</u>
Total non-operating gains, net	<u>263,959</u>	<u>217,350</u>
Excess of revenues and gains over expenses	<u>\$ 321,549</u>	<u>\$ 1,308,672</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, 2002 and 2001**

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	<u>General Funds</u>	<u>Restricted Funds</u>
Fund balances, December 31, 2000	\$ 15,884,584	\$ 8,331
Excess of revenues and gains over expenses	1,308,672	-
Release from restrictions	200	(200)
Contributions	-	27,494
Investment income	-	200
Interfund transfer	1,890	(2,090)
Donations for capital additions	<u>108,433</u>	<u>-</u>
Fund balances, December 31, 2001	17,303,779	33,735
Excess of revenues and gains over expenses	321,549	-
Release from restrictions	71,749	(71,749)
Contributions	-	85,771
Interfund transfer	(397)	397
Donations for capital additions	<u>530</u>	<u>-</u>
Fund balances, December 31, 2002	<u>\$ 17,697,210</u>	<u>\$ 48,154</u>

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

**Brown County General Hospital**  
**Statements of Cash Flows of Unrestricted Funds**  
**For the years ended December 31, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
<b>Cash flows from operating activities:</b>		
Income from operations	\$ 57,590	\$ 1,091,322
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,538,473	1,530,180
Loss (gain) on disposal of fixed assets	76,081	(1,768)
(Increase) decrease in accounts receivable	(87,594)	842,959
Decrease in supplies inventory	2,257	11,124
Increase in prepaid expenses and other assets	(691,853)	(881,351)
Increase (decrease) in trade accounts payable, deferred income accrued expenses and due to Restricted Funds	319,365	(417,835)
(Decrease) increase in settlement amounts payable to third parties	<u>(472,886)</u>	<u>214,228</u>
Net cash provided by operating activities	<u>741,433</u>	<u>2,388,859</u>
<b>Cash flows from noncapital financing activities:</b>		
Other, primarily gifts and grants	<u>141,440</u>	<u>14,093</u>
Net cash provided by noncapital financing activities	<u>141,440</u>	<u>14,093</u>
<b>Cash flows from capital and related financing activities:</b>		
Capital expenditures	(1,797,241)	(702,341)
Repayment of long-term debt	(510,000)	(490,000)
Payments on capital lease obligations	(116,581)	(92,423)
Donations for capital additions	530	18,000
Proceeds from disposal of equipment	<u>15,339</u>	<u>10</u>
Net cash used in capital and related financing activities	<u>(2,407,953)</u>	<u>(1,266,754)</u>
<b>Cash flows from investing activities:</b>		
Income from investments	179,062	205,346
(Purchase) sale of investments, net	<u>(95,426)</u>	<u>767</u>
Net cash provided by investing activities	<u>83,636</u>	<u>206,113</u>
Net (decrease) increase in cash and cash equivalents	(1,441,444)	1,342,311
Cash and cash equivalents, beginning of year	<u>5,545,328</u>	<u>4,203,017</u>
Cash and cash equivalents, end of year	<u>\$ 4,103,884</u>	<u>\$ 5,545,328</u>

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

**Brown County General Hospital**  
**Statements of Cash Flows of Unrestricted Funds, Continued**  
**For the years ended December 31, 2002 and 2001**

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	<u>2002</u>	<u>2001</u>
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents in current assets	\$ 2,473,636	\$ 3,876,409
Cash and cash equivalents in assets whose use is limited:		
By Board for plant renewal and replacement	1,604,471	1,609,822
By County for debt issuance	<u>25,777</u>	<u>59,097</u>
Total cash and cash equivalents	<u>\$ 4,103,884</u>	<u>\$ 5,545,328</u>
Supplemental disclosures:		
Interest paid during the year	\$ 142,542	\$ 178,501
Asset and debt acquired through a capital lease	279,364	-

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

# **Brown County General Hospital**

## **Notes to the Financial Statements**

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### **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) provides 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 "AICPA 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**

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### **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 \$990,000 and \$534,000 for patients meeting the charity care criteria for the years ended December 31, 2002 and 2001, 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**

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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:

**Unrestricted 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**

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### **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).

### **Reclassifications**

Certain 2001 financial statement amounts have been reclassified to conform to the 2002 presentation.

## **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 \$4,121,919 and \$5,515,648 as of December 31, 2002 and 2001, respectively. The bank balance of the Hospital's deposits were \$4,223,483 and \$5,641,432 as of December 31, 2002 and 2001, respectively. Of the bank balance:

1. \$500,000 was covered by federal depository insurance as of December 31, 2002 and 2001.
2. \$3,723,483 and \$5,141,432 were collateralized with pooled securities held by the financial institutions, but not in the Hospital's name, as of December 31, 2002 and 2001, 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.

**Brown County General Hospital**  
**Notes to the Financial Statements**

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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 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.

	<b>2002</b>			
	<u><b>1</b></u>	<u><b>2</b></u>	<u><b>3</b></u>	<u><b>Fair/Carrying Value</b></u>
Common Stock	\$ 19,085	\$ -	\$ -	\$ 19,085
U.S. Treasury Notes	-	-	699,043	699,043
Money Market Accounts	-	-	-	25,777
	<u>\$ 19,085</u>	<u>\$ -</u>	<u>\$ 699,043</u>	<u>\$ 743,905</u>
	<b>2001</b>			
	<u><b>1</b></u>	<u><b>2</b></u>	<u><b>3</b></u>	<u><b>Fair/Carrying Value</b></u>
Common Stock	\$ 29,492	\$ -	\$ -	\$ 29,492
U.S. Treasury Notes	-	-	603,617	603,617
Money Market Accounts	-	-	-	59,097
	<u>\$ 29,492</u>	<u>\$ -</u>	<u>\$ 603,617</u>	<u>\$ 692,206</u>

# Brown County General Hospital

## Notes to the Financial Statements

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### 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>2002</u>	<u>2001</u>
Gross patient service charges at established rates (including charity care)	\$ 40,957,953	\$ 37,925,295
Less:		
Contractual allowances	(13,095,544)	(11,165,974)
Charity care	<u>(989,518)</u>	<u>(533,590)</u>
Net patient service revenue	<u>\$ 26,872,891</u>	<u>\$ 26,225,731</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, 2001 have been audited and finalized by the Medicare fiscal intermediary. Revenue from participation in the Medicare program amounted to 37% of operating revenues for both 2002 and 2001.

**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, 1998 have been audited and finalized by the Medicaid fiscal intermediary. Revenue from participation in the Medicaid Program amounted to 23% and 21% of operating revenues in 2002 and 2001, respectively.

## Brown County General Hospital

### Notes to the Financial Statements

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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>2002</u>	<u>2001</u>
Land and land improvements	\$ 1,083,477	\$ 921,083
Buildings and building improvements	9,896,686	11,232,462
Equipment	16,314,857	13,566,281
Construction in progress	69,306	70,540
	<u>27,364,326</u>	<u>25,790,366</u>
Total	27,364,326	25,790,366
Less accumulated depreciation	<u>15,366,572</u>	<u>14,263,775</u>
Property, plant and equipment, net	<u>\$ 11,997,754</u>	<u>\$ 11,526,591</u>

Depreciation expense was \$1,528,831 and \$1,520,538 for the years ended December 31, 2002 and 2001, respectively.

**Brown County General Hospital**  
**Notes to the Financial Statements**

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**6. Long-Term Debt**

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

	<u>2002</u>	<u>2001</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% and mature in 2005	\$ 1,370,000	\$ 1,780,000
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% and mature in 2005	300,000	400,000
Capital lease obligations, at various effective interest rates between 6.5% and 12.6% collateralized by leased equipment and mature through 2007	<u>285,541</u>	<u>122,758</u>
	1,955,541	2,302,758
Less current portion	<u>613,981</u>	<u>599,776</u>
	<u>\$ 1,341,560</u>	<u>\$ 1,702,982</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 current ratio of at least 1.5 to 1.0 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	<u>Long-Term Debt</u>	<u>Obligations Under Capital Lease</u>
2003	\$ 535,000	\$ 91,888
2004	555,000	63,336
2005	580,000	63,336
2006	-	63,336
2007	-	36,946
	<u>\$ 1,670,000</u>	<u>318,842</u>
Less amount representing interest		<u>33,301</u>
Present value of minimum lease payments		285,541
Less current portion		<u>78,981</u>
Noncurrent portion		<u>\$ 206,560</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 \$393,000 and \$417,000 at December 31, 2002 and 2001, respectively, (with accumulated depreciation of approximately \$303,000 and \$240,000 at December 31, 2002 and 2001, 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 an operating lease for two pieces of medical equipment. These obligations extend through 2004.

# Brown County General Hospital

## Notes to the Financial Statements

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

2003	\$ 158,370
2004	124,344

Lease expense for the year ended December 31, 2002 and 2001 was \$323,097 and \$339,770, 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>
2002	\$ 1,468,007
2001	1,355,249
2000	1,021,610

## **Brown County General Hospital**

### **Notes to the Financial Statements**

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#### **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. The following information is based on data obtained from PERS for the periods ended December 31, 2002 and 2001.

PERS 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 2002 employer rate for employees' coverage by PERS was 13.55%, of which 5% was used to fund health care. The total Hospital contribution used to fund health care was \$541,695.

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, 2002 was 402,041. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2001 was \$11.6 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 million and \$4.8 million, respectively, as of December 31, 2001. 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 2001 was 8.00%.

## **Brown County General Hospital**

### **Notes to the Financial Statements**

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- Active Employee Total Payroll – An annual increase of 4% 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% base increase, were assumed to range from 0.50% to 6.30%.
- Health Care – Health care costs were assumed to increase 4% 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.

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**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***

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**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, 2002, and have issued our report thereon dated April 18, 2003. 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.

*PricewaterhouseCoopers LLP*

April 18, 2003



**Auditor of State  
Betty Montgomery**

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**BROWN COUNTY GENERAL HOSPITAL**

**BROWN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 5, 2003**