

BROWN COUNTY GENERAL HOSPITAL

December 31, 2003

*CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT*



**Auditor of State
Betty Montgomery**

Board of Trustees
Brown County General Hospital

We have reviewed the Independent Auditor's Report of the Brown County General Hospital, Brown County, prepared by VonLehman and Company, Inc. for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

September 27, 2004

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BROWN COUNTY GENERAL HOSPITAL

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Brown County General Hospital
Georgetown, Ohio

We have audited the accompanying basic consolidated financial statements of Brown County General Hospital as of December 31, 2003, as listed in the table of contents. These basic consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Brown County General Hospital as of December 31, 2002 were audited by other auditors whose report dated April 18, 2003 expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brown County General Hospital as of December 31, 2003, and the results of its operations, and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, in 2003 the Hospital has implemented a new financial model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of December 31, 2003.

The Management's Discussion and Analysis and Budgetary Comparison information are not a required part of the basic consolidated financial statements, but are 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 supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued a report dated April 13, 2004, 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 grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

VonLehman and Company Inc.

Fort Mitchell, Kentucky
April 13, 2004

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**BROWN COUNTY GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(UNAUDITED)**

Brown County General Hospital (Hospital) located in Georgetown, Ohio is a county-owned, tax exempt Ohio not-for-profit corporation that operates an acute care hospital facility providing quality inpatient and outpatient services to residents of Brown County and surrounding areas. The Hospital 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 reporting entity is comprised of the Hospital and the Brown County General Hospital Foundation, which provides services exclusively for the benefit of the Hospital.

In addition to inpatient services, the Hospital provides a vast array of outpatient services including diagnostic and lab testing; emergency, surgery and home care services; rehabilitation therapies; and a strong network of primary care clinics throughout the Hospital's service area. The following is a partial summary of activities for 2003:

	2003	% Increase
Admissions	1,838	11.1%
Lab Tests	104,271	7.4%
Diagnostic Imaging Procedures	25,839	9.3%
Surgeries	2,266	12.1%
Home Care Visits	12,116	6.5%
Emergency Room Visits	14,747	7.7%

The following is an analysis and discussion of specific financial information for 2003 and 2002.

Operating Revenues

Operating Revenues for the year ended December 31, 2003 were \$31,754,413. Revenues grew by \$4,523,792, which was a 16.6% increase over the prior year. Both inpatient and outpatient business contributed to this growth.

Operating Expenses

Operating Expenses for the year ended December 31, 2003 were \$30,849,627. Expenses increased by \$3,676,596, which was 13.5% increase over the prior year. The increase can be attributed to salary and benefit costs coupled with increases in supplies, purchased services and physician fee expense. The majority of the expense increase is directly related to the volume growth that occurred.

Operating Income

Operating Income for 2003 was \$904,786, an increase of \$847,196 over 2002. Volume growth coupled with a slowing of the expense growth rate led to the improvement in operations.

Non-Operating Revenues and (Expenses)

Non-Operating (Expense) Revenue for 2003 was (\$106,460). A write down of a physician receivable and related settlement was positively offset by \$390,000 of grant revenue and investment income.

Excess of Revenues over Expenses

Excess of Revenues over Expenses for 2003 was \$798,326, an increase of \$476,777 over 2002. The improvement in operations was partially offset by the non-operating loss.

Total Assets

Assets increased by \$987,222 to \$23,683,436. Accounts Receivable increased \$1,276,137 due to the increase in business volume and an accumulation of unbilled accounts receivable at year-end. Cash and cash equivalents decreased by \$352,480.

Capital Assets

Capital assets consist primarily of land, land improvements, buildings and building improvements, and equipment. Approximately \$1,500,000 of additions were purchased in 2003 and depreciation expense was approximately \$1,700,000.

Total Liabilities

Total liabilities increased \$27,938 in 2003 to \$4,978,788. The composition of this change was a timing issue related to payroll liabilities and other accounts payable and accrued expenses.

Long-Term Debt

Long-term debt consists primarily of bonds, capital lease obligations and compensated absences. Approximately \$600,000 of long-term debt was paid down in 2003.

Total Net Assets

Total Net Assets increased by \$959,284 in 2003 to \$18,704,648. The majority of this change was a result of the net income for 2003. Overall, the Hospital's financial position has improved drastically over the last year.

Cash Flow

Cash flows from operating activities were approximately \$1,900,000. This consisted primarily of cash received from patients and cash payments to employees and suppliers for goods and services. Other areas that impacted cash flow were acquisitions of property, plant and equipment, principal payments on long-term debt and the increase in accounts payable and accrued expenses.

**BROWN COUNTY GENERAL HOSPITAL
CONSOLIDATED BALANCE SHEETS**

ASSETS

	December 31,	
	2003	2002
Current Assets		
Cash and Cash Equivalents	\$ 2,164,968	\$ 2,517,448
Patient Accounts Receivable, Less Allowance for Doubtful Accounts and Contractual Adjustments of \$4,014,907 in 2003 and \$3,312,739 in 2002	4,659,681	3,383,544
Notes, Contracts and Grants Receivable	835,675	879,018
Accounts Receivable - Other	547,676	1,006,409
Grants Receivable	390,000	-
Supplies Inventory	245,095	217,893
Prepaid Expenses and Other Assets	517,973	364,857
Total Current Assets	9,361,068	8,369,169
Assets Whose Use is Limited		
By Board for Plant Renewal and Replacement	1,635,129	1,604,471
By County for Bond Issuance	743,676	724,820
Total Assets Whose Use is Limited	2,378,805	2,329,291
Property, Plant and Equipment, Net	11,943,563	11,997,754
 Total Assets	 \$ 23,683,436	 \$ 22,696,214

See accompanying notes.

LIABILITIES AND FUND BALANCES

	December 31,	
	2003	2002
Current Liabilities		
Current Portion of Long-Term Debt	609,051	613,982
Accounts Payable	976,228	1,062,001
Estimated Settlement Amounts Due to Third-Party Payors	166,033	105,000
Deferred Income	33,119	23,379
Accrued Expenses		
Salaries, Wages, Withholdings and Benefis	1,249,260	928,920
Compensated Absences	564,949	510,630
Other	361,327	103,995
Due to Restricted Funds	1,629	1,572
	3,961,596	3,349,479
Total Current Liabilities		
	3,961,596	3,349,479
Long-Term Liabilities		
Accrued Compensated Absences, Less Current Portion	289,061	259,811
Long-Term Debt, Net of Current Portion	728,131	1,341,560
	1,017,192	1,601,371
Total Long-Term Liabilities		
	1,017,192	1,601,371
Total Liabilities	4,978,788	4,950,850
Fund Balances	18,704,648	17,745,364
	18,704,648	17,745,364
Total Liabilities and Fund Balances	\$ 23,683,436	\$ 22,696,214
	\$ 23,683,436	\$ 22,696,214

**BROWN COUNTY GENERAL HOSPITAL
CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31,			
	2003		2002	
	Amount	Percent	Amount	Percent
Net Patient Service Revenues	\$ 31,354,018	98.7 %	\$ 26,872,891	98.7 %
Other Operating Revenues	400,395	1.3	357,730	1.3
Total Operating Revenues	<u>31,754,413</u>	<u>100.0</u>	<u>27,230,621</u>	<u>100.0</u>
Operating Expenses				
Salaries and Wages	11,986,399	37.7	10,692,393	39.3
Employee Benefits	3,266,128	10.3	2,736,991	10.1
Supplies and Other	7,571,840	23.8	6,901,687	25.3
Provision for Bad Debts	2,520,611	7.9	2,225,532	8.2
Depreciation and Amortization	1,687,363	5.3	1,538,473	5.6
Professional Fees	2,636,220	8.3	2,134,593	7.8
Utilities	661,392	2.1	532,611	2.0
Insurance	411,388	1.3	265,123	1.0
Interest	108,286	0.3	145,628	0.5
Total Operating Expenses	<u>30,849,627</u>	<u>97.2</u>	<u>27,173,031</u>	<u>99.8</u>
Income from Operations	<u>904,786</u>	<u>2.8</u>	<u>57,590</u>	<u>0.2</u>
Non-Operating Revenues (Expenses)				
Investment Income	82,255	0.3	179,062	0.7
Gifts, Grants and Other Non-Operating Revenues	391,770	1.2	146,170	0.5
Non-Operating Expenses	<u>(580,485)</u>	<u>(1.8)</u>	<u>(61,273)</u>	<u>(0.2)</u>
Total Non-Operating (Expenses) Revenues	<u>(106,460)</u>	<u>(0.3)</u>	<u>263,959</u>	<u>1.0</u>
Excess of Revenues Over Expenses	<u>\$ 798,326</u>	<u>2.5 %</u>	<u>\$ 321,549</u>	<u>1.2 %</u>

See accompanying notes.

**BROWN COUNTY GENERAL HOSPITAL
CONSOLIDATED STATEMENTS OF CHANGES IN FUND BALANCES**

	<u>General Fund</u>	<u>Restricted Funds</u>	<u>Total Funds</u>
Fund Balances, December 31, 2001	\$ 17,303,779	\$ 33,735	\$ 17,337,514
Excess of Revenues Over Expenses	307,527	-	307,527
Restricted Funds Excess of Revenues Over Expenses	14,022	-	14,022
Fund Balances Released from Restrictions	71,749	(71,749)	-
Contributions	-	85,771	85,771
Interfund Transfers	(397)	397	-
Donations for Acquisitions of Property, Plant and Equipment	<u>530</u>	<u>-</u>	<u>530</u>
Fund Balances, December 31, 2002	17,697,210	48,154	17,745,364
Excess of Revenues Over Expenses	407,178	-	407,178
Restricted Funds Excess of Revenues Over Expenses	1,148	-	1,148
Fund Balances Released from Restrictions	34,277	(34,277)	-
Contributions	-	425,425	425,425
Donations for Acquisitions of Property, Plant and Equipment	<u>125,533</u>	<u>-</u>	<u>125,533</u>
Fund Balances, December 31, 2003	<u>\$ 18,265,346</u>	<u>\$ 439,302</u>	<u>\$ 18,704,648</u>

See accompanying notes.

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

	December 31,	
	2003	2002
Cash Flows from Operating Activities		
Cash Received from Patients	\$ 30,077,881	\$ 26,785,297
Cash Payments to Suppliers for Goods and Services	(13,738,724)	(12,791,013)
Cash Payments to Employees for Services	(14,848,618)	(13,614,925)
Other Operating Revenues	400,395	357,730
	1,890,934	737,089
Cash Flows from Non-Capital Financing Activities		
Investment Income	82,255	179,062
Gifts, Grants and Other Non-Operating Revenue	391,770	146,170
Non-Operating Expenses	(580,485)	(61,273)
	(106,460)	263,959
Cash Flows from Capital and Related Financing Activities		
Acquisition of Property, Plant and Equipment	(1,505,922)	(1,793,178)
Fund Balances Released from Restrictions	34,277	71,749
Principal Paid on Long-Term Debt	(618,360)	(626,581)
Proceeds from Sale of Property, Plant and Equipment	2,565	15,339
Increase in Value of Assets Whose Use is Limited	(49,514)	(56,755)
	(2,136,954)	(2,389,426)
Net Change in Cash and Cash Equivalents	(352,480)	(1,388,378)
Cash and Cash Equivalents at Beginning of Year	2,517,448	3,905,826
Cash and Cash Equivalents at End of Year	\$ 2,164,968	\$ 2,517,448
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities		
Income from Operations	\$ 904,786	\$ 57,590
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation	1,678,471	1,528,831
Amortization	8,892	8,892
Provision for Bad Debts	2,520,611	2,225,532
(Gain) Loss on Disposal of Property, Plant and Equipment	(3,134)	76,081
Changes in		
Patient Accounts Receivable	(3,796,748)	(2,313,126)
Notes, Contracts, Grants and Other Receivables	502,076	(1,554,917)
Grants Receivable	(390,000)	-
Supplies Inventory	(27,202)	2,257
Prepaid Expenses and Other Assets	(153,116)	1,189,982
Accounts Payable	(85,773)	15,315
Estimated Settlement Amounts Due to Third-Party Payors	61,033	(472,886)
Deferred Income	9,740	2,586
Accrued Expenses	661,241	(29,178)
Due to Restricted Funds	57	130
	986,148	679,499
Net Cash Provided by Operating Activities	\$ 1,890,934	\$ 737,089

See accompanying notes.

**BROWN COUNTY GENERAL HOSPITAL
CONSOLIDATED STATEMENT OF OPERATIONS - BUDGET AND ACTUAL
Year Ended December 31, 2003**

	Budgeted Amounts (Unaudited)		Actual
	Original	Final	
Operating Revenues			
Net Patient Service Revenues	\$ 30,515,446	\$ 30,515,446	\$ 31,354,018
Other Operating Revenues	361,290	361,290	400,395
Total Operating Revenues	<u>30,876,736</u>	<u>30,876,736</u>	<u>31,754,413</u>
Operating Expenses			
Salaries and Wages	11,690,149	11,690,149	11,986,399
Employee Benefits	3,400,584	3,400,584	3,266,128
Supplies and Other	7,186,541	7,186,541	7,571,840
Provision for Bad Debts	2,520,148	2,520,148	2,520,611
Depreciation and Amortization	1,725,000	1,725,000	1,687,363
Professional Fees	2,076,428	2,076,428	2,636,220
Utilities	501,231	501,231	661,392
Insurance	331,586	331,586	411,388
Interest	210,000	210,000	108,286
Total Operating Expenses	<u>29,641,667</u>	<u>29,641,667</u>	<u>30,849,627</u>
Income from Operations	1,235,069	1,235,069	904,786
Non-Operating Revenues (Expenses)	<u>199,549</u>	<u>199,549</u>	<u>(106,460)</u>
Excess of Revenues Over Expenses	<u>\$ 1,434,618</u>	<u>\$ 1,434,618</u>	<u>\$ 798,326</u>

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 (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 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.

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 revenue 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.

Funds

In the accompanying consolidated financial statements, the funds used are categorized as follows:

General (Unrestricted) Fund – 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.

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

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.

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

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 is 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
Equipment	2 - 20 Years
Leased Equipment	3 - 15 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 2003 and 2002, these types of donations amounted to \$125,533 and \$530, respectively, and are non-cash financing activities.

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

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. 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 non-acute services are paid at a prospectively determined rate per day based on clerical, 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 with a final settlement to be determined after submission of the annual cost report by the Hospital and audits thereof by the Medicaid Fiscal Intermediary.

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 approximately \$910,000 and \$990,000 for patients meeting the charity care criteria for the years ended December 31, 2003 and 2002, respectively.

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

New Pronouncement

In 2003, the Hospital 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. As a result, certain prior year amounts have been reclassified to conform to the current year's presentation.

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 – 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 was \$3,800,098 and \$4,121,919 as of December 31, 2003 and 2002, respectively. The bank balance of the Hospital's deposits was \$5,024,609 and \$4,223,483 as of December 31, 2003 and 2002, respectively. Of the bank balance:

1. \$500,000 was covered by federal depository insurance as of December 31, 2003 and 2002.
2. \$4,524,609 and \$3,723,483 were collateralized with pooled securities held by the financial institutions, but not in the Hospital's name, as of December 31, 2003 and 2002, respectively.

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

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 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.

	<u>2003</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Fair/Carrying Value</u>
Common Stock	\$ 24,141	\$ -	\$ -	\$ 24,141
U.S. Treasury Notes	-	-	685,320	685,320
Money Market Accounts	-	-	-	58,355
	<u>\$ 24,141</u>	<u>\$ -</u>	<u>\$ 685,320</u>	<u>\$ 767,816</u>

	<u>2002</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Fair/Carrying Value</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>

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 on the financial statements.

Estimated third-party settlements for the Medicare and Medicaid programs reflect differences between interim reimbursement and reimbursement as determined by reports filed after the end of each year. Such third-party settlements reflect differences owed to or by the Hospital.

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

	<u>2003</u>	<u>2002</u>
Federal Government: Medicare	\$ 1,728,742	\$ 1,261,047
State of Ohio: Medicaid, Workers Compensation	1,106,208	768,742
Commercial Insurance, Self-Pay and Other	<u>1,824,731</u>	<u>1,353,755</u>
Total	<u>\$ 4,659,681</u>	<u>\$ 3,383,544</u>

NOTE 4 –NOTES, CONTRACTS AND GRANTS RECEIVABLE

The Hospital has various receivables that include notes, contracts and grants. The following is a description of those receivables:

<u>Notes Receivable</u>	<u>2003</u>	<u>2002</u>
The Hospital advances money to physicians for tuition payments. The agreements are stipulated in the physicians' employment contracts. A portion of the advances are earned by the physicians each month. If the physician leaves the Hospital prior to the date stated in the contract, the unearned portion is due to the hospital. No interest is charged on these notes.	\$ 48,480	\$ 92,800
<u>Contracts Receivable</u>		
The Hospital advances wages and other practice expenses to new physicians who join the Hospital. The contracts state that if the physician remains employed at the Hospital for four years, these advances will be forgiven. If the physician leaves prior to four years of employment, these advances are due to the Hospital. After two years of employment with the Hospital, 1/24 th of the amount advanced is forgiven monthly until the end of 24 months or until termination. Interest accrues on the principal balance of the advances annually at 1% plus the prime rate (4.00% and 4.25% respectively at December 31, 2003 and 2002.) Accrued interest is added to the principal balance after 24 months of employment. The receivable represents advances less amounts forgiven for two physicians who have not met their four year tenure requirement with the Hospital. The obligation to repay is secured by the physicians' practice accounts receivable.	\$ <u>787,195</u>	\$ <u>786,218</u>
Subtotal	\$ <u>835,675</u>	\$ <u>879,018</u>
<u>Grant Receivable (Restricted)</u>		
The Hospital was awarded a grant in 2003 from the US Department of Housing and Urban Development that is restricted for construction and equipment. No money was drawn on this grant in 2003.	\$ <u>390,000</u>	\$ <u>-</u>
Total Notes, Contracts and Grants Receivable	\$ <u>1,225,675</u>	\$ <u>879,018</u>

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

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

	<u>2003</u>	<u>2002</u>
Land and Improvements	\$ 1,250,990	\$1,083,477
Buildings and Building Improvements	10,000,225	9,896,686
Equipment	17,171,168	16,314,857
Construction in Progress	<u>5,846</u>	<u>69,306</u>
	28,428,229	27,364,326
Less Accumulated Depreciation	<u>16,484,666</u>	<u>15,366,572</u>
Property, Plant and Equipment, Net	<u>\$ 11,943,563</u>	<u>\$11,997,754</u>

Depreciation expense was \$1,678,471 and \$1,528,831 for the years ended December 31, 2003 and 2002, respectively.

NOTE 6 – LONG-TERM DEBT

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

	<u>2003</u>	<u>2002</u>
Hospital improvement bonds issued in 1993, collateralized by a pledge of all revenues, investment income, accounts receivable, contracts and contract rights, charging interest from 2.8% to 5.3% and maturing in 2005.	\$ 935,000	\$ 1,370,000
Hospital facilities revenue bonds issued in 1995, collateralized by a pledge of all revenues, investment income, accounts receivable, contracts, instruments and supplies inventory, charging interest at 5.5% and maturing in 2005.	200,000	300,000
Capital lease obligations, at various effective interest rates between 6.5% and 12.6% collateralized by leased equipment and maturing at various dates through 2007.	<u>202,182</u>	<u>285,542</u>
	1,337,182	1,955,542
Less Current Portion	<u>609,051</u>	<u>613,982</u>
	<u>\$ 728,131</u>	<u>\$ 1,341,560</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 amount is included with Assets Whose Use Is Limited on the consolidated balance sheets.

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, none of which were in violation as of December 31, 2003 or 2002.

NOTE 6 – 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>Year Ending December 31,</u>	<u>Long-Term Debt</u>	<u>Obligations Under Capital Lease</u>
2004	\$ 555,000	63,336
2005	580,000	63,336
2006	-	63,337
2007	<u>-</u>	<u>36,946</u>
	<u>\$ 1,135,000</u>	226,955
Less Amount Representing Interest		<u>(24,773)</u>
Present Value of Minimum Lease Payments		202,182
Less Current Portion		<u>54,051</u>
Non-Current Portion		<u>\$ 148,131</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 at December 31, 2003 and 2002 (with accumulated depreciation of approximately \$333,000 and \$303,000 at December 31, 2003 and 2002, respectively), and are included in property, plant and equipment in the accompanying consolidated balance sheets.

NOTE 7 – 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 services revenue and related allowances for the years ended December 31 were as follows:

	<u>2003</u>	<u>2002</u>
Gross Patient Service Charges at Established Rates (Including Charity Care)	\$ 50,691,993	\$40,957,953
Less		
Contractual Allowances	(18,424,740)	(13,095,544)
Charity Care	<u>(913,235)</u>	<u>(989,518)</u>
Net Patient Service Revenue	<u>\$ 31,354,018</u>	<u>\$26,872,891</u>

NOTE 8 – OPERATING LEASES

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

Minimum future payments for these leases are as follows:

2004	\$205,222
2005	59,249
2006	51,374
2007	<u>12,000</u>
Total	<u>\$327,845</u>

Lease expense for the years ended December 31, 2003 and 2002 was \$158,370 and \$323,097, respectively.

NOTE 9 – RETIREMENT PLAN

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

The OPERS 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 OPERS 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: 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 13.55% 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>
2003	\$ 1,599,188
2002	1,468,007
2001	1,355,249

NOTE 10 – 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 PERS for the periods ended December 31, 2003 and 2002.

OPERS 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 2003 employer rate for employees' coverage by PERS was 13.55%, of which 5.0% was used to fund health care. The total Hospital contribution used to fund health care was \$599,320 and \$541,695 for the years ended December 31, 2003 and 2002 respectively.

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

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, 2003 was 364,881. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2002 was approximately \$10,000,000,000. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18,700,000,000 and \$8,700,000,000, respectively, as of December 31, 2002. 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 2002 was 8.0%.
- 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 0.50% to 6.30%.
- Health Care – Health care costs were assumed to increase 4.0% annually.

NOTE 11 – 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.

NOTE 12 – CONCENTRATIONS

Medicare and Medicaid accounted for approximately 60.84% and 59.99% of the Hospital's gross patient service revenues during 2003 and 2002, respectively.



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

Board of Trustees
Brown County General Hospital

We have audited the general purpose financial statements of Brown County General Hospital as of and for the year ended December 31, 2003, and have issued our report thereon dated April 13, 2004. We conducted our audit 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.

Compliance

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 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 Brown County General 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 general purpose 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 these specified parties.

VonLehman and Company Inc.

Fort Mitchell, Kentucky
April 13, 2004

**BROWN COUNTY GENERAL HOSPITAL
NONCOMPLIANCE CITATIONS - OHIO REVISED CODE
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

NONE

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

NONE



**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
OCTOBER 7, 2004**