

**BROWN COUNTY
GENERAL HOSPITAL**

**Report on Audit of Financial Statements,
Internal Control and Compliance with
Laws and Regulations
For the year ended December 31, 2000**



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street,
1st Floor
Columbus, Ohio 43215
Telephone 614-466-4514
800-282-0370
Facsimile 614-728-7398
www.auditor.state.oh.us

Brown County General Hospital
425 Home Street
Georgetown, Ohio 45121

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, 2000 through December 31, 2000. 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.

JIM PETRO
Auditor of State

May 17, 2001

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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 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, 2000 and 1999, 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 March 30, 2001 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. 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

March 30, 2001

Brown County General Hospital
Balance Sheets
As of December 31, 2000 and 1999

	2000	1999
Assets		
General Funds		
Current assets:		
Cash and cash equivalents	\$ 2,745,850	\$ 1,643,080
Accounts receivable, less allowance for accounts and contractual adjustments of \$3,334,325 in 2000 and \$2,876,374 in	4,138,909	3,987,223
Supplies	231,274	284,630
Prepaid expenses and other assets	550,441	217,848
Due from Specific Purpose	18,000	70,000
Total current assets	7,684,474	6,202,781
Assets whose use is		
By Board for plant renewal and	1,437,252	741,995
By County for debt	624,299	590,216
Property, plant and equipment,	12,234,44	12,936,45
Other assets	141,731	144,469
Total	\$ 22,122,20	\$ 20,615,91
Restricted Funds		
Specific Purpose Funds		
Pledges receivable	\$ 18,000	\$ 70,000
Due from General Funds	3,331	3,132
Total	\$ 21,331	\$ 73,132
Endowment Funds		
Cash	\$ -	\$ 4,919
Certificates of deposit	5,000	5,000
Total	\$ 5,000	\$ 9,919

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

Brown County General Hospital
Balance Sheets, Continued
As of December 31, 2000 and 1999

	2000	1999
Liabilities and Fund Balances		
General Funds		
Current liabilities:		
Current portion of long-term debt	\$ 582,793	\$ 579,336
Trade accounts payable	642,680	606,423
Estimated settlement amounts due to third-party payors	363,658	264,133
Deferred income	604,329	-
Accrued expenses:		
Salaries, wages and withholdings	733,094	556,006
Accrued compensated absences	532,367	528,969
Other	235,993	189,676
Due to Specific Purpose Funds	3,331	3,132
Total current liabilities	3,698,245	2,727,675
Accrued compensated absences, less current portion	236,985	222,476
Long-term debt, net of current portion	2,302,388	2,874,435
Total liabilities	6,237,618	5,824,586
Fund balance	15,884,584	14,791,333
Total	<u>\$ 22,122,202</u>	<u>\$ 20,615,919</u>
Restricted Funds		
Specific Purpose Funds		
Due to General Funds	\$ 18,000	\$ 70,000
Total liabilities	18,000	70,000
Fund balance	3,331	3,132
Total	<u>\$ 21,331</u>	<u>\$ 73,132</u>
Endowment Funds		
Fund balance	<u>\$ 5,000</u>	<u>\$ 9,919</u>

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, 2000 and 1999

	2000	1999
Net patient service revenue	\$ 24,636,916	\$ 21,884,248
Other operating revenue	296,177	243,147
Total operating revenues	24,933,093	22,127,395
Operating expenses:		
Salaries and wages	9,564,279	8,686,043
Employee benefits	2,214,803	2,372,643
Supplies and other	5,762,071	5,336,307
Provision for bad debts	2,310,561	2,192,340
Depreciation and amortization	1,534,292	1,496,743
Professional fees	1,760,889	1,930,958
Utilities	475,450	452,009
Insurance	154,466	130,499
Interest	237,955	254,612
Total operating expenses	24,014,766	22,852,154
Income (loss) from operations	918,327	(724,759)
Non-operating gains/(losses):		
Investment income	196,209	140,993
Other, net	(36,229)	9,946
Total non-operating gains, net	159,980	150,939
Excess (deficiency) of revenues and gains over expenses and losses	\$ 1,078,307	\$ (573,820)

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, 2000 and 1999

	General Fund	Restricted Funds	
		Specific Purpose Fund	Endowment Fund
Fund balances, December 31, 1998	\$ 15,253,387	\$ 2,932	\$ 9,919
Deficiency of revenues and gains over expenses and losses	(573,820)	-	-
Release from restrictions	107,500	(107,500)	-
Investment income	-	-	200
Interfund transfer	-	200	(200)
Donations for specific purpose	-	107,500	-
Donations for capital additions	9,385	-	-
Other	(5,119)	-	-
Fund balances, December 31, 1999	14,791,333	3,132	9,919
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)	199	(199)
Donations for capital addition	10,224	-	-
Fund balances, December 31, 2000	\$ 15,884,584	\$ 3,331	\$ 5,000

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, 2000 and 1999

	2000	1999
Cash flows from operating activities:		
Income (loss) from operations	\$ 918,327	\$ (724,759)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation and amortization	1,534,292	1,496,743
(Increase) decrease in accounts receivable	(151,686)	1,057,707
Decrease in supplies inventory	53,356	84,834
Increase in prepaid expenses and other assets	(324,375)	(183,880)
Increase in trade accounts payable, deferred income and accrued expenses	881,898	237,626
Increase in settlement amounts payable to third parties	99,525	178,464
Net cash provided by operating activities	3,011,337	2,146,735
Cash flows from noncapital financing activities:		
Other	3,831	(28,968)
Net cash provided by (used in) noncapital financing activities	3,831	(28,968)
Cash flows from capital and related financing activities:		
Capital expenditures	(877,211)	(908,044)
Repayment of long-term debt	(475,000)	(460,000)
Payments on capital lease obligations	(93,590)	(101,066)
Donations for capital additions	72,274	39,385
Proceeds from disposal of equipment	1,897	100
Net cash used in capital and related financing activities	(1,371,630)	(1,429,625)
Cash flows from investing activities:		
Income from investments	188,573	135,235
(Purchase)/sale of investments, net	(153,456)	81,119
Net cash provided by investing activities	35,117	216,354
Net increase in cash and cash equivalents	1,678,655	904,496
Cash and cash equivalents, beginning of year	2,524,362	1,619,866
Cash and cash equivalents, end of year	\$ 4,203,017	\$ 2,524,362

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, 2000 and 1999

	2000	1999
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents in current assets	\$ 2,745,850	\$ 1,643,080
Cash and cash equivalents in assets whose use is limited:		
By Board for plant renewal and replacement	1,437,252	741,995
By County for debt issuance	19,915	139,287
Total cash and cash equivalents	<u>\$ 4,203,017</u>	<u>\$ 2,524,362</u>
Supplemental disclosures:		
Interest paid during the year	<u>\$ 237,955</u>	<u>\$ 243,871</u>
Non-cash financing of equipment with capital lease obligations	<u>\$ -</u>	<u>\$ 7,872</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. Currently, the Hospital does not have any component units.

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

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 \$406,000 and \$626,000 for patients meeting the charity care criteria for the years ended December 31, 2000 and 1999, 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.

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.

Brown County General Hospital

Notes to the Financial Statements

Fund Balances

The general fund balance represents funds available for general use in the operations of the Hospital. Restricted funds include specific purpose funds and endowment funds and consist of externally restricted donations. Such restricted moneys are transferred to general funds for operations or capital additions, depending upon the purpose, within the period used. The endowment fund consists of two funds: a term endowment to be held until the year 2000 at which time, the principal will be transferred to general fund assets whose use is limited, and an endowment for a student loan program. The interest from the student loan endowment may be used annually for the student loan program. If deemed necessary by the Board of Trustees, endowment fund principal may be expended to ensure continuation of the program.

Gifts and Bequests

Gifts and bequests are recorded at fair market value on the date received. Contributions that are restricted by donor for specific purposes are recorded as specific purpose or restricted fund receipts or donations for equipment expenditures, as appropriate. Gifts and bequests received that are unrestricted by the donor are included in nonoperating revenues.

Statements of Cash Flows

For purposes of the Statements of Cash Flows, the Hospital considers cash in operating accounts and various checking accounts to be cash and cash equivalents.

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).

Brown County General Hospital

Notes to the Financial Statements

3. Deposits and Investments

GASB Statement Number 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 Number 3.

Deposits: The carrying amount of the Hospital's deposits were \$4,187,131 and \$2,393,364 as of December 31, 2000 and 1999, respectively. The bank balance of the Hospital's deposits were \$4,689,301 and \$2,556,947 as of December 31, 2000 and 1999, respectively. Of the bank balance:

1. \$305,000 was covered by federal depository insurance as of both December 31, 2000 and 1999, respectively.
2. \$4,384,301 and \$2,251,947 were collateralized with pooled securities held by the financial institutions, but not in the Hospital's name, as of December 31, 2000 and 1999, 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 Number 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.

Brown County General Hospital
Notes to the Financial Statements

	2000			Fair/Carrying Value
	<u>1</u>	<u>2</u>	<u>3</u>	
Common Stock	\$ 35,053	\$ -	\$ -	\$ 35,053
U.S. Treasury Notes	-	-	604,385	604,385
Money Market Accounts	-	-	-	19,915
Total Investments	\$ 35,053	\$ -	\$ 604,385	\$ 659,353
	1999			Fair/Carrying Value
	<u>1</u>	<u>2</u>	<u>3</u>	
Common Stock	\$ 39,354	-	\$ -	\$ 39,354
U.S. Treasury Notes	-	-	450,929	450,929
Money Market Accounts	-	-	-	139,287
	\$ 39,354	-	\$ 450,929	\$ 629,570

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:

	2000	1999
Gross patient service revenue at established rates (including charity care)	\$ 37,004,505	\$ 32,529,700
Less:		
Contractual allowances	(11,961,856)	(10,019,475)
Charity care	(405,733)	(625,977)
Net patient service revenue	\$ 24,636,916	\$ 21,884,248

Brown County General Hospital

Notes to the Financial Statements

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. Inpatient nonacute services, certain outpatient services, and defined capital costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. 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, 1998 have been audited and finalized by the Medicare fiscal intermediary. Revenue from participation in the Medicare program amounted to 38% and 40% of operating revenues in 2000 and 1999, 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, 1996 have been audited and finalized by the Medicaid fiscal intermediary. Revenue from participation in the Medicaid Program amounted to 19% and 18% of operating revenues in 2000 and 1999, respectively.

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.

Brown County General Hospital
Notes to the Financial Statements

5. Property, Plant and Equipment

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

	2000	1999
Land and land improvements	\$ 783,551	\$ 763,917
Buildings and building improvements	11,189,435	11,225,198
Equipment	13,129,058	14,367,582
Construction in progress	14,316	127,605
Total	25,116,360	26,484,302
Less accumulated depreciation	(12,881,914)	(13,547,844)
Property, plant and equipment, net	\$ 12,234,446	\$ 12,936,458

6. Long-Term Debt

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

	2000	1999
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%.	\$ 2,170,000	\$ 2,545,000
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%	500,000	600,000
Capital lease obligations, at various effective interest rates between 6.5% and 12.6% collateralized by leased equipment	215,181	308,771
	2,885,181	3,453,771
Less current portion	582,793	579,336
	\$ 2,302,388	\$ 2,874,435

Brown County General Hospital

Notes to the Financial Statements

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.

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
2001	\$ 490,000	\$ 108,353
2002	510,000	94,851
2003	535,000	35,932
2004	555,000	-
2005	580,000	-
	\$ 2,670,000	239,136
Less amount representing interest		(23,955)
Present value of minimum lease payments		215,181
Less current portion		(92,793)
Noncurrent portion		\$ 122,388

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. Management feels that they will be unable to fulfill the purchase commitment on some of these agreements and may incur an additional loss imposed by the lessor. No provision has been recorded as the amount is undeterminable; however, Hospital management does not believe that the eventual liability, if any, will have a material effect on the financial position or operations of the Hospital.

Assets under capital lease were approximately \$425,000 at December 31, 2000 and 1999 (with accumulated depreciation of approximately \$187,000 and \$128,000 at December 31, 2000 and 1999, 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 four years are as follows:

2001					\$ 339,770
2002					323,097
2003					158,370
2004					124,344

Lease expense for the year ended December 31, 2000 and 1999 was \$324,858 and \$209,296, 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 10.84% and 8.5%, respectively. In 1999 and 1998, the required actuarially determined contribution rate for the Hospital was 13.55%. The Hospital's contributions, representing 100% of employer contributions, for the last three years are as follows:

<u>Year</u>	<u>Contribution</u>
2000	\$ 1,021,610
1999	1,163,365
1998	1,129,466

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 2000 employer rate for employees' coverage by PERS was 10.84%, of which 4.30% was used to fund health care. The total Hospital contribution used to fund health care was \$405,273.

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, 2000 was 401,339. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 1999 was \$10,805.5 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$12,473.6 million and \$1,668.1 million, respectively, as of December 31, 1999. 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 1999 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, 2000, and have issued our report thereon dated March 30, 2001. 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. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Hospital in a separate letter dated March 30, 2001.

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.

Prüferfirma Cooper LLP

March 30, 2001



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 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
MAY 24, 2001**