

**LAWRENCE COUNTY GENERAL HOSPITAL  
DBA RIVER VALLEY HEALTH SYSTEM  
A COMPONENT UNIT OF LAWRENCE COUNTY  
IRONTON, OHIO**

**AUDIT REPORTS**

**DECEMBER 31, 1999**



**STATE OF OHIO**  
**OFFICE OF THE AUDITOR**  

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**JIM PETRO, AUDITOR OF STATE**

35 North Fourth Street, 1<sup>st</sup> Floor  
Columbus, Ohio 43215  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-728-7398

Board of Trustees  
Lawrence County General Hospital  
dba River Valley Health System

We have reviewed the Independent Auditor's Report of the River Valley Health System, Lawrence County, prepared by Hayflich & Steinberg for the audit period January 1, 1999 through December 31, 1999. 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 River Valley Health System is responsible for compliance with these laws and regulations.

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

**JIM PETRO**  
Auditor of State

July 26, 2000

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# HAYFLICH & STEINBERG

— Certified Public Accountants —

#8 Stonecrest Drive  
Huntington, WV 25701  
Phone - 304/697-5700  
FAX - 304/697-5704

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Lawrence County General Hospital  
dba River Valley Health System  
Ironton, Ohio

We have audited the accompanying balance sheets of River Valley Health System, a component unit of Lawrence County, Ohio, as of December 31, 1999 and 1998, and the related statements of changes in fund balances, operations, and cash flows for the years then ended. 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 in accordance with 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 by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 River Valley Health System as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming River Valley Health System will continue as a going concern. As discussed in Note 15 to the financial statements, the Hospital's financial position was extremely poor as of December 31, 1999 and there was a significant deterioration in the results of operations during the year. These matters raise substantial doubts about the Hospital's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with Government Auditing Standards, we have also issued a report dated March 24, 2000 on our consideration of River Valley Health System'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.

HAYFLICH & STEINBERG  
March 24, 2000

LAWRENCE COUNTY GENERAL HOSPITAL  
 dba RIVER VALLEY HEALTH SYSTEM  
 A COMPONENT UNIT OF LAWRENCE COUNTY  
 BALANCE SHEETS - RESTRICTED AND UNRESTRICTED FUNDS  
DECEMBER 31, 1999 AND 1998

<u>ASSETS</u>	<u>1999</u>	<u>1998</u>
<u>Current Assets</u>		
Cash and cash equivalents	\$ 560,548	\$ 2,696,324
Patient accounts receivable, less estimated uncollectibles (1999 - \$ 2,092,000 1998 - \$2,342,000)	4,469,311	5,035,472
Accounts receivable - other	453,112	257,984
Inventories	247,654	325,394
Prepaid expenses	<u>113,383</u>	<u>133,149</u>
 <u>Total Current Assets</u>	 <u>5,844,008</u>	 <u>8,448,323</u>
 <u>Cash and Cash Equivalents Limited as to Use</u>		
To comply with terms of debt covenants	557,650	
For future capital purposes	578,877	549,791
For malpractice and general liability self-insurance	<u>336,933</u>	<u>335,196</u>
 <u>Total Cash and Cash Equivalents Limited as to Use</u>	 <u>1,473,460</u>	 <u>884,987</u>
 <u>Property and Equipment</u>		
Property, plant and equipment	25,255,899	23,909,836
<u>Less: Accumulated depreciation</u>	<u>(13,444,665)</u>	<u>(12,255,584)</u>
 <u>Total Property and Equipment</u>	 <u>11,811,234</u>	 <u>11,654,252</u>
  <u>TOTAL ASSETS</u>	  <u>\$19,128,702</u>	  <u>\$20,987,562</u>

See accompanying notes to financial statements.

<u>LIABILITIES AND FUND BALANCES</u>	<u>1999</u>	<u>1998</u>
<u>Current Liabilities</u>		
Accounts payable - trade	\$ 2,705,713	\$ 1,791,972
Accounts payable - other	1,278,018	825,654
Accounts payable - third-party agencies	1,728,627	1,570,953
Salaries, wages and related accruals	2,027,616	1,765,714
Accrued expenses - other	131,674	115,870
Current portion of long-term debt and capital lease obligations	<u>1,325,342</u>	<u>1,421,876</u>
<u>Total Current Liabilities</u>	9,196,990	7,492,039
Long-term debt	4,183,163	4,026,366
Capital lease obligations	953,333	799,837
Estimated professional liability claims exposure	<u>212,500</u>	<u>133,683</u>
<u>Total Liabilities</u>	14,545,986	12,451,925
<u>Fund Balance</u>		
Unrestricted	4,578,847	8,531,943
Restricted	<u>3,869</u>	<u>3,694</u>
<u>Total Fund Balance</u>	<u>4,582,716</u>	<u>8,535,637</u>
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$19,128,702</u>	<u>\$20,987,562</u>

See accompanying notes to financial statements.

LAWRENCE COUNTY GENERAL HOSPITAL  
 DBA RIVER VALLEY HEALTH SYSTEM  
 A COMPONENT UNIT OF LAWRENCE COUNTY  
 STATEMENTS OF CHANGES IN FUND BALANCES  
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
<u>UNRESTRICTED</u>		
<u>Balance at Beginning of Year</u>	\$ 8,531,943	\$ 8,385,772
Excess (Deficit) of revenues over expenses	<u>(3,953,096)</u>	<u>146,171</u>
<u>Balance at End of Year</u>	<u>\$ 4,578,847</u>	<u>\$ 8,531,943</u>

<u>RESTRICTED</u>		
<u>Balance at Beginning of Year</u>	\$ 3,694	\$ 2,828
Restricted donations and contributions	175	1,250
Expenditures	<u>0</u>	<u>(384)</u>
<u>Balance at End of Year</u>	<u>\$ 3,869</u>	<u>\$ 3,694</u>

See accompanying notes to financial statements.

LAWRENCE COUNTY GENERAL HOSPITAL  
 DBA RIVER VALLEY HEALTH SYSTEM  
 A COMPONENT UNIT OF LAWRENCE COUNTY  
 STATEMENTS OF OPERATIONS - UNRESTRICTED FUND  
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
Net Patient Service Revenues	\$28,900,620	\$31,757,356
Ohio Department of Mental Health Funding	2,774,367	3,972,276
Other Operating Revenues	<u>397,125</u>	<u>390,574</u>
 <u>Total Revenues</u>	 <u>32,072,112</u>	 <u>36,120,206</u>
 <u>Expenses</u>		
Salaries	13,263,673	13,912,454
Employee benefits	5,176,734	3,731,756
Medical professional fees	1,981,154	1,800,074
Supplies	3,729,582	3,579,178
Drugs and solutions	1,126,873	1,164,820
Purchased services	3,975,218	4,587,846
Equipment rental	403,558	374,270
Repairs and maintenance	572,046	506,098
Utilities	694,829	725,619
Depreciation	1,393,240	1,369,313
Interest	431,441	377,363
Provision for bad debts	1,924,974	2,510,604
Other	<u>1,406,456</u>	<u>1,471,990</u>
 <u>Total Expenses</u>	 <u>36,079,778</u>	 <u>36,111,385</u>
 <u>Operating Income (Loss)</u>	 <u>(4,007,666)</u>	 <u>8,821</u>
 <u>Non-Operating Income</u>	 <u>54,570</u>	 <u>137,350</u>
 <u>Excess (Deficit) of Revenues over Expenses,</u>		
<u>Increase (Decrease) in Unrestricted Fund Balance</u>	<u>\$ (3,953,096)</u>	<u>\$ 146,171</u>

See accompanying notes to financial statements.

LAWRENCE COUNTY GENERAL HOSPITAL  
 DBA RIVER VALLEY HEALTH SYSTEM  
 A COMPONENT UNIT OF LAWRENCE COUNTY  
 STATEMENTS OF CASH FLOWS (INDIRECT METHOD)  
 FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
<u>Cash Flows From Operating Activities</u>		
Operating income	\$ (4,007,666)	\$ 8,821
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	1,393,240	1,369,313
Loss on disposal of fixed assets		(2,158)
Interest expense	431,441	377,363
Operating grant for specific activity	175	1,250
Non-capital restricted fund disbursements		(384)
Decrease (increase) in:		
Accounts receivable	371,033	452,558
Inventories	77,740	12,267
Prepaid expenses	19,766	(20,428)
Increase (decrease) in:		
Accounts payable	1,523,780	919,981
Accrued expenses	356,523	(286,407)
<u>Net Cash Provided by Operating Activities</u>	166,032	2,832,176
<u>Cash Flows From Non-Capital Financing Activities</u>		
Unrestricted contributions	30,195	33,218
<u>Cash Flows From Capital and Related Financing Activities</u>		
Acquisition of property and equipment	(975,280)	(882,231)
Debt additions	742,650	475,760
Debt reductions: Repayment of long-term debt	(881,853)	(879,284)
Payments on capital lease obligations	(270,318)	(353,586)
Interest paid	(431,441)	(377,363)
<u>Net Cash Used by Capital and Related Financing Activities</u>	(1,816,242)	(2,016,704)
<u>Cash Flows from Investing Activities</u>		
Investment income	72,712	106,290
Net Increase (Decrease) in Cash and Cash Equivalents	(1,547,303)	954,980
<u>Beginning Cash and Cash Equivalents</u>	3,581,311	2,626,331
<u>Ending Cash and Cash Equivalents</u>	\$ 2,034,008	\$ 3,581,311

See accompanying notes to financial statements.

LAWRENCE COUNTY GENERAL HOSPITAL  
 DBA RIVER VALLEY HEALTH SYSTEM  
 A COMPONENT UNIT OF LAWRENCE COUNTY  
 STATEMENTS OF CASH FLOWS (DIRECT METHOD)  
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
<u>Cash Flows From Operating Activities</u>		
Cash received from patients and third party payors	\$27,699,481	\$31,008,809
Cash paid to employees	(13,001,771)	(14,062,664)
Cash paid to suppliers	(17,508,218)	(18,363,365)
Other receipts from operations	<u>2,976,540</u>	<u>4,249,396</u>
<u>Net Cash Provided by Operating Activities</u>	<u>166,032</u>	<u>2,832,176</u>
 <u>Cash Flows From Non-Capital Financing Activities</u>		
Unrestricted contributions	<u>30,195</u>	<u>33,218</u>
 <u>Cash Flows From Capital and Related Financing Activities</u>		
Acquisition of property and equipment	(975,280)	(882,231)
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Interest paid	<u>(431,441)</u>	<u>(377,363)</u>
<u>Net Cash Used by Capital and Related Financing Activities</u>	<u>(1,816,242)</u>	<u>(2,016,704)</u>
 <u>Cash Flows from Investing Activities</u>		
Investment income	<u>72,712</u>	<u>106,290</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,547,303)	954,980
<u>Beginning Cash and Cash Equivalents</u>	<u>3,581,311</u>	<u>2,626,331</u>
<u>Ending Cash and Cash Equivalents</u>	<u>\$ 2,034,008</u>	<u>\$ 3,581,311</u>

See accompanying notes to financial statements.

**LAWRENCE COUNTY GENERAL HOSPITAL  
DBA RIVER VALLEY HEALTH SYSTEM  
A COMPONENT UNIT OF LAWRENCE COUNTY, OHIO  
NOTES TO FINANCIAL STATEMENTS  
December 31, 1999 AND 1998**

**Note 1: Description of Reporting Entity and Summary of Significant Accounting Policies**

A. Reporting Entity - Lawrence County General Hospital dba River Valley Health System (the Hospital), a component unit of Lawrence County (accounted for as an enterprise fund), operates a 234 bed medical complex, with campuses in Ironton and Portsmouth, Ohio, and is operated by a Board of Trustees as provided for under Ohio Revised Code Section 339. Members of the Board of Trustees are appointed by Lawrence County Judges and the Board of County Commissioners.

B. Use of Estimates - The preparation of 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 and disclosures of contingent 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.

C. Funds - 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.

In accordance with the published recommendations of the American Institute of Certified Public Accountants, the Hospital segregates its accounting records into the following funds:

Unrestricted Fund - This fund is used to account for all the revenues derived and expenses incurred in the day-to-day activities of the Hospital together with all unrestricted donor contributions. The Board of Trustees has designated part of the fund to be used for special purposes.

Restricted Fund - This fund is used to account for the receipts and disbursements of donor restricted contributions.

D. Cash, Cash Equivalents and Investments - 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 equivalents are defined as those funds on deposit which mature in three months or less, while investments are those funds maturing in more than three months.

E. Investment Income - Investment income from unrestricted fund investments is reported as non-operating revenue.

F. Medical Malpractice and Comprehensive Self-Insurance - The Hospital recognizes estimated asserted and unasserted malpractice claims in the period of occurrence, based on its past claims experience.

G. Inventories - Inventories consist primarily of supplies and are valued at cost under the first-in, first-out method.

H. Cash and Cash Equivalents Limited as to Use - Cash and cash equivalents limited as to use include assets set aside by the Board of Trustees for future capital improvements and possible malpractice and general liability claims, over which the Board of Trustees retains control and may at its discretion subsequently use for other purposes.

I. Property and Equipment - Property and equipment is recorded at cost or at fair market value at the date received if acquired by gift. Expenditures for maintenance and repairs which do not extend the lives of the applicable assets are charged to expense as incurred. Depreciation is computed using the straight line method based on estimated useful lives of the depreciable assets.

J. 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. Amortization of capital leases is included in depreciation expense on the statements of operations.

K. Net Patient Service Revenues - Net patient service revenues are reported at the estimated net amounts realizable from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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.

L. Charity Care - The Hospital provides care to patients who meet criteria under its charity care policy 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, they are not reported as revenues.

M. 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), including those issued after November 30, 1989.

**Note 2: Charity Care**

Hospital records identify the amount of charges forgone for services and supplies furnished under its charity care policy. The following information measures the level of charity care provided during the years ended December 31, 1999 and 1998.

	<u>1999</u>	<u>1998</u>
Charges forgone, based on established rates	<u>\$ 143,785</u>	<u>\$ 125,928</u>
Estimated costs and expenses incurred to provide charity care	<u>\$ 99,427</u>	<u>\$ 81,186</u>
Equivalent percentage of charity care charges to Hospital total, based on established rates	<u>.29%</u>	<u>.24%</u>

**Note 3: Cash, Cash Equivalents and Investments**

Legal Requirements - Statutes require the classification of monies held by the Hospital into three categories. Category 1 consists of "active" monies, those monies required to be kept in a "cash" or "near- cash" status for current demands. Such monies must be maintained either as cash or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" monies, those monies not required for use within the current two year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of "interim" monies, those monies which are not needed for immediate use but will be needed before the end of the current period of designation of depositories. Interim monies may be invested or deposited in the following securities:

1. Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, including, but not limited to, Federal National Mortgage Association debentures and discount notes, or by the Export-Import Bank of Washington, whether or not they are guaranteed by the United States;
3. Repurchase agreements in the securities enumerated above;
4. Interim deposits in the eligible institutions applying for interim monies;
5. Bonds or other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this state or its political subdivisions; and
6. The State Treasurer's investment pool.

The Governmental Accounting Standards Board has established risk categories for deposits and investments as follows:

Deposits:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name;
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name;
3. Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name).

Deposits: At year-end, the carrying amount of the Hospital's deposits was \$ 2,011,802 and the bank balance was \$ 2,418,598. Of the bank balance:

1. \$ 400,000 was covered by federal depository insurance thus would belong in risk category (1); and
2. \$ 2,018,598 was covered by collateral held by third-party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, and thus belong in risk category (3).

**Note 4: Concentrations of Credit Risk**

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third party payor agreements. The mix of receivables from patients and third-party payors at December 31, 1999 and 1998, was as follows:

	<u>1999</u>	<u>1998</u>
Federal Government: Medicare	42%	35%
State of Ohio: Medicaid, Workers Compensation	31%	31%
Commercial insurance, self-pay and other	<u>27%</u>	<u>34%</u>
<u>Total</u>	<u><u>100%</u></u>	<u><u>100%</u></u>

**Note 5: Property and Equipment**

Major categories of property and equipment are as follows:

	<u>December 31,</u>	
	<u>1999</u>	<u>1998</u>
Land	\$ 559,119	\$ 576,152
Land improvements	438,093	420,659
Buildings	9,478,421	9,421,518
Fixed equipment	3,666,650	3,634,657
Major movable equipment	10,785,560	9,698,795
Construction in progress	<u>328,055</u>	<u>158,055</u>
 <u>Total</u>	 <u>\$25,255,898</u>	 <u>\$23,909,836</u>

Construction in progress at December 31, 1999 and 1998 relates to various planned future construction projects including a medical office building and renovations to the delivery rooms.

The Hospital capitalized no interest in 1999 or 1998.

**Note 6: Long-Term Debt**

Long-term debt consists of the following notes payable at December 31, 1999 and 1998:

	<u>1999</u>	<u>1998</u>
County of Lawrence, Ohio Hospital Facilities:		
Revenue Bonds, series 1992A; issued July 20, 1992; payable in varying annual amounts including interest at 5.0%	\$ 1,991,000	\$ 2,058,000
Revenue Bonds, series 1992B; issued September 10, 1992; payable in varying annual amounts including interest at 5.0%	2,196,011	1,716,305
Star Bank, Ironton, Ohio:		
Payable in monthly installments of \$1,053 including interest at 8.09%, secured by mortgage on 2412 South Sixth Street	11,126	22,360
First Federal Savings and Loan, Ironton, Ohio:		
Payable in monthly installments of \$239 including interest at 9.50%, secured by mortgage on 2310 South Ninth Street	16,117	17,320

State of Ohio:

Payable in monthly installments of \$62,996.36, including interest at 7%, secured by real estate and equipment with a book value of \$2,558,919 at December 31, 1999

370,379 1,073,466

National City Bank, Ashland, Kentucky:

Payable in monthly installments of \$1,187 per month including interest at 7.50%, secured by a mortgage on 802 Kemp Avenue, Ironton, Ohio.

89,328 94,814

Payable on demand, with quarterly interest payments at prime, secured by mortgage on 2124 South 8<sup>th</sup> Street, Ironton, Ohio.

46,000 46,000

Payable on demand, with monthly interest payments at 1.5% under prime, secured by Certificate of Deposit

150,000

Bank One, West Virginia, NA, Wayne, WV:

Payable in 59 monthly installments of \$849 including interest at 8.0%, with a balloon payment of \$ 42,735, secured by mortgage on 2308 South Ninth Street, Ironton, Ohio

45,772 52,027

Bank One, Charleston, WV:

Payable in monthly installments of \$1,364.92 per month including interest at 8.0%, secured by a mortgage on Parcel No. 37-001-0500.000, State Route 141, Ironton, Ohio

54,722 64,366

Star Bank, Ironton, Ohio:

Due September 12, 2000, with interest payable quarterly at 9%, secured by all of the Hospital's deposits with Star Bank (\$1,203,592 at December 31, 1999)

105,175 70,175

Total

5,075,630 5,214,833

Less: Current portion

(892,467) (1,188,467)

Long-Term Debt

\$ 4,183,163 \$ 4,026,366

The indebtedness is scheduled for retirement as follows:

	<u>Bonds</u>	<u>Notes</u>	<u>Total</u>
2000	\$ 138,000	\$ 754,467	\$ 892,467
2001	144,000	23,776	167,776
2002	152,000	25,699	177,699
2003	159,000	23,383	182,383
2004	167,000	12,667	179,667
2005-2009	972,000	48,626	1,020,626
2010-2014	1,237,000		1,237,000
2015-2019	<u>1,218,012</u>		<u>1,218,012</u>
<b>Total</b>	<b><u>\$ 4,187,012</u></b>	<b><u>\$ 888,618</u></b>	<b><u>\$ 5,075,630</u></b>

### Note 7: Capital and Operating Leases

The Hospital leases certain equipment under various non-cancellable capital leases expiring through 2002. The following is a schedule of future minimum lease payments and the related present values:

Year ending December 31,		
2000	\$ 546,671	
2001	475,055	
2002	321,988	
2003	222,517	
2004	<u>58,818</u>	
Net minimum lease payments		1,625,049
<u>Less:</u> Amount representing interest		<u>238,841</u>
Present value of net minimum lease payments		1,386,208
<u>Less:</u> Current obligation		<u>432,875</u>
<u>Capital Lease Obligation, Excluding</u>		
<u>Current Portion</u>		<u>\$ 953,333</u>

Accumulated amortization of capital leases was \$1,847,150 and \$1,734,304 at December 31, 1999 and 1998, respectively.

Total rental expense for operating leases, including those with terms of one month or less, for the years ended December 31, 1999 and 1998 was \$ 403,558 and \$374,270 respectively.

## **Note 8: Pension Plan**

All Hospital full time employees participate in the Public Employees Retirement System of Ohio ("PERS"), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members, other than those engaged in law enforcement, were required to contribute 8.5% of their annual covered salaries to fund pension obligations and the Hospital was required to contribute 9.35% in 1999 and 1998 and 8.44% in 1997. Contributions are authorized by State statute. The contribution rates are determined actuarially. The Hospital's required contributions to PERS for the years ended December 31, 1999, 1998, and 1997 were \$1,785,941, \$1,859,549, and \$1,750,086, respectively.

As of December 31, 1999, the total contributions had been paid for 1998 and 1997. 92.55% of the 1999 contribution had been paid for 1999 with the remainder being reported as a liability within the salaries, wages and related accruals account group.

## **Note 9: Postemployment Healthcare Benefits**

The Public Employees Retirement System of Ohio ("PERS") provides postretirement health care coverage to age and service retirees with ten (10) or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care based on authority granted by State statute. The employer contribution rates were 13.55%, in 1999, 13.31% in 1998, and 13.55% in 1997; 4.20%, 4.20%, and 5.11% were the portions used to fund health care for the years 1999, 1998 and 1997, respectively.

Benefits were funded on a pay-as-you-go basis. The OPEB is financed through employer contributions and investment earnings. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. During 1999, 1998 and 1997, OPEB expenditures made by PERS were \$523,599,346, \$440,596,663 and \$393,559,827, respectively. As of December 31, 1999, 1998 and 1997 the unaudited estimated net assets available for future OPEB payments were \$9,870,285,641 \$9,447,325,318 and \$8,292,570,002, respectively. At December 31, 1999, 1998 and 1997, the total number of benefit recipients eligible for OPEB through PERS was 118,082, 115,579 and 113,906, respectively. The Hospital's actual contributions for 1999, 1998 and 1997, which were used to fund OPEB, were approximately \$553,576, \$571,702 and \$660,000, respectively.

## **Note 10: Malpractice Insurance**

At the balance sheet date, the Hospital carried claims-made basis malpractice insurance coverage of \$1,000,000 per claim and \$3,000,000 aggregate, plus excess liability coverage of \$1,000,000.

**Note 11: Contingencies**

The Hospital is party to several routine lawsuits incidental to its operations. It is not possible at the present time to estimate the ultimate legal and financial liability, if any, of the Hospital with respect to such lawsuits.

**Note 12: Accumulated Unpaid Vacation and Sick Leave**

Accumulated unpaid vacation, holiday and sick leave as of December 31, 1999 and 1998, is estimated at \$ 779,374 and \$740,133, respectively, and is recorded as salaries, wages and related accruals. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees.

**Note 13: Supplemental Cash Flow Information**

The cost of equipment financed under capital lease obligations was \$ 623,280 and \$290,383 in 1999 and 1998, respectively.

**Note 14: Estimates and Business Concentrations**

Certain Significant Estimates: Allowance for Uncollectible Accounts - Management's estimate of uncollectible patient accounts is based largely on the Hospital's collection experience during prior years. It is at least reasonably possible that management's estimate of uncollectible accounts will change during the next year.

Accounts Payable to Third-Party Agencies: Management's estimates of third-party reimbursement settlements are complex and involve a large proportion of the Hospital's operations. It is at least reasonably possible that management's estimate of accounts payable to third-party agencies will change during the next year.

Significant Business Concentration: Third-Party Payors - Medicare and Medicaid accounted for approximately 63% of the Hospital's net patient service revenue during 1998. The Ohio Department of Mental Health Funding, \$ 2,774,367 and \$3,972,276 for 1999 and 1998 respectively, was provided under a five year contract beginning in 1995.

**Note 15: Going Concern**

There was a significant deterioration in the results of operations during 1999, with the Hospital experiencing a \$3.953 million deficit of revenues over expenses, compared to the 1998 excess of revenues over expenses of \$146,171. The Hospital's financial position was extremely poor as of December 31, 1999, with current liabilities exceeding current assets by approximately 57%. These conditions raise substantial doubts about the Hospital's ability to continue as a going concern.

These conditions were caused by a continued decline in utilization of the Hospital's services, combined with further reductions in reimbursement for services (primarily from Medicare). The decline in utilization resulted from a continued decline in the local economy accompanied by a similar decline in the size of the local medical community. Citizens of Lawrence County were increasingly forced to travel outside the area to find necessary healthcare services.

Mechanisms for reimbursement of healthcare providers are in a constant state of change. Medicare, for example, which represents the Hospital's largest volume third party payor, repeatedly undergoes revolutionary changes in the various, complex methods it uses to determine reimbursement for services. Management does not believe future revisions in reimbursement mechanisms can be relied on to provide significant financial relief to the Hospital in the near future.

Management is taking steps to reduce the Hospital's costs. Department heads have been given responsibility for implementing specific cost reductions in their areas, and a program is being planned to identify and eliminate all non-essential personnel and to reduce the costs of employee benefits.

Management is addressing the problem of decreasing utilization. Over the past decade, the Hospital has been engaged in a continuing effort to recruit physicians to the area, and to retain those already in Lawrence County. The costs of these efforts have been substantial; however, Management believes that a solid core of primary care physicians has now been developed, which will form the basis for a more stable local medical community. This is expected to result in increasing utilization of the Hospital's services as local residents will no longer find it necessary to leave the area to find care. Management expects utilization to increase sharply in the second half of the year ending December 31, 2000.

With the core issue of declining utilization successfully addressed, Management believes other issues of cost and reimbursement will become less dramatic, and can be successfully dealt with.

#### **Note 16: Reclassifications**

For comparability, the 1998 figures have been reclassified where appropriate to conform with the financial statement presentation used in 1999.



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

Board of Trustees  
Lawrence County General Hospital  
dba River Valley Health System  
Ironton, Ohio

We have audited the financial statements of Lawrence County General Hospital, dba River Valley Health System, a component unit of Lawrence County, Ohio, as of and for the year ended December 31, 1999, and have issued our report thereon dated March 24, 2000. We conducted our audit in accordance with 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 River Valley Health System'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 of 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 River Valley Health System'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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect River Valley Health System's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We noted the following reportable conditions:

## CASH AND CASH EQUIVALENTS

There are checks on the outstanding check lists that are more than six months old. We recommend that stale checks be voided and new checks issued.

The mail clerk does not make a list of the cash receipts received in the mail prior to giving them to the cashiers for posting. We recommend that the clerk prepare a listing of the receipts while opening the mail and that this list be compared to the deposits and the amounts posted to the accounts receivable ledgers.

## ACCOUNTS RECEIVABLE

Cashiers' access to the patient accounting system is not restricted to posting cash receipts. This could result in errors or irregularities occurring and not being detected.

We recommend that the cashiers' access to the patient accounts be restricted to posting cash receipts.

There are large delays between providing patient services and billing for those services. This could result in a significant cash flow shortage.

We recommend that charges be billed promptly.

## ACCOUNTS PAYABLE, ACCRUED EXPENSES, AND NON-PAYROLL EXPENSES

There are large lapses between receiving invoices and releasing payment. This could result in interest and penalties being assessed or potential misstatements if the invoices are not recorded or recorded more than once.

We recommend that payments be made on a timely basis and outstanding invoices be reviewed for lapses in payments.

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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, we consider all of the reportable conditions described above to be material weakness.

This report is intended for the information and use of the Board of Trustees, management, others within the organization, and the Auditor of State of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

HAYFLICH & STEINBERG  
March 24, 2000



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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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

**RIVER VALLEY HEALTH SYSTEM**

**LAWRENCE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 10, 2000**