

Fayette County Memorial Hospital

Financial Report

December 31, 2002



**Auditor of State
Betty Montgomery**

Board of Directors
Fayette County Memorial Hospital
1430 Columbus Avenue
Washington Court House, Ohio 43160

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

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

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

BETTY MONTGOMERY
Auditor of State

June 12, 2003

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Fayette County Memorial Hospital

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Plante & Moran, PLLC
110 E. Main St.
P.O. Box 765
Lancaster, OH 43130-0765
Tel: 740.653.7144
Fax: 740.653.2947
plantemoran.com

Independent Auditor's Report

To the Board of Directors
Fayette County Memorial Hospital

We have audited the accompanying balance sheet of Fayette County Memorial Hospital (a component unit of Fayette County, Ohio), as of December 31, 2002 and 2001, and the related statements of revenue and expenses, changes in fund balances 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 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. 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 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 Fayette County Memorial Hospital at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2003, 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 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.

Plante & Moran, PLLC

February 21, 2003

Fayette County Memorial Hospital

Balance Sheet

	December 31	
	2002	2001
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 2,151,394	\$ 4,117,491
Patient accounts receivable (Note 3)	4,015,672	4,006,413
Current portion of notes receivable (Note 4)	74,953	40,335
Inventories	264,010	248,200
Prepaid expenses and other current assets	174,361	591,709
Third-party settlements (Note 5)	<u>10,538</u>	<u>38,456</u>
Total current assets	6,690,928	9,042,604
Notes Receivable (Note 4)	679,496	327,366
Investments (Note 2)	3,103,456	10,694
Assets Limited as to Use (Note 2)	214,013	214,013
Property and Equipment (Note 6)	<u>9,899,338</u>	<u>9,118,684</u>
Total assets	<u>\$ 20,587,231</u>	<u>\$ 18,713,361</u>
Liabilities and Fund Balance		
Current Liabilities		
Current portion of long-term debt (Note 7)	\$ 129,420	\$ 122,291
Accounts payable	1,397,085	806,699
Accrued payroll and related benefits	<u>1,167,446</u>	<u>1,167,547</u>
Total current liabilities	2,693,951	2,096,537
Long-Term Debt (Note 7)	246,760	376,180
Fund Balance		
Unrestricted	17,432,507	16,026,631
Restricted (Note 2)	<u>214,013</u>	<u>214,013</u>
Total fund balance	<u>17,646,520</u>	<u>16,240,644</u>
Total liabilities and fund balance	<u>\$ 20,587,231</u>	<u>\$ 18,713,361</u>

Fayette County Memorial Hospital

Statement of Revenues and Expenses

	Year Ended December 31	
	2002	2001
Operating Revenue		
Net patient service revenue (Note 8)	\$ 25,777,121	\$ 23,958,738
Other operating revenue	<u>71,330</u>	<u>65,727</u>
Total revenue	25,848,451	24,024,465
Operating Expenses		
Salaries and wages	9,103,201	8,438,879
Benefits	2,814,104	2,567,851
Physician fees	1,276,958	1,367,871
Other fees	2,257,018	2,055,836
Supplies	3,730,732	3,462,875
Utilities	509,164	497,281
Maintenance and repairs	692,066	638,014
Leases and rentals	137,527	128,360
Insurance	177,034	133,787
Interest expense	25,381	29,709
Depreciation and amortization	1,150,729	1,057,289
Provision for bad debts	2,453,418	1,895,703
Other expenses	<u>403,845</u>	<u>491,972</u>
Total operating expenses	<u>24,731,177</u>	<u>22,765,427</u>
Income from Operations	1,117,274	1,259,038
Non-Operating Gains - Net (Note 9)	<u>288,602</u>	<u>245,237</u>
Excess of Revenue Over Expenses	<u><u>\$ 1,405,876</u></u>	<u><u>\$ 1,504,275</u></u>

Fayette County Memorial Hospital

Statement of Changes in Fund Balances

	Year Ended December 31	
	2002	2001
General Fund		
Balance - Beginning of year	\$ 16,026,631	\$ 14,522,356
Excess of revenue over expenses	<u>1,405,876</u>	<u>1,504,275</u>
Balance - End of year	<u>\$ 17,432,507</u>	<u>\$ 16,026,631</u>
Restricted Fund		
Balance - Beginning of year	\$ 214,013	\$ 214,013
Income from investments	5,000	5,000
Patient care expenses	<u>(5,000)</u>	<u>(5,000)</u>
Balance - End of year	<u>\$ 214,013</u>	<u>\$ 214,013</u>

Fayette County Memorial Hospital

Statement of Cash Flows

	Year Ended December 31	
	2002	2001
Cash Flows from Operating and Non-Operating Activities		
Cash received from patients and third-party payors	\$ 23,342,362	\$ 21,968,000
Cash payments to suppliers for services and goods	(8,192,420)	(9,085,666)
Cash payments to employees for services	(11,917,406)	(10,935,757)
Other operating revenue received	104,539	68,286
Interest paid	(25,381)	(29,709)
Net cash provided by operating and nonoperating activities	3,311,694	1,985,154
Cash Flows from Non-Capital Related Financing Activities		
Donations and other	156,401	104,434
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(1,964,592)	(671,469)
Principal payments on long-term debt	(122,291)	(156,780)
Net cash used in capital and related financing activities	(2,086,883)	(828,249)
Cash Flows from Investing Activities		
Proceeds from physician loan repayments	18,298	30,965
Proceeds from sale of investments	714,140	10,854
Interest received on investments	132,201	140,803
Purchases of investments	(3,806,902)	-
Advances to physicians	(405,046)	(261,203)
Net cash used in investing activities	(3,347,309)	(78,581)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,966,097)	1,182,758
Cash and Cash Equivalents - Beginning of year	4,331,504	3,148,746
Cash and Cash Equivalents - End of year	\$ 2,365,407	\$ 4,331,504

Fayette County Memorial Hospital

Statement of Cash Flows (Cont.)

The composition of cash and cash equivalents at December 31 is as follows:

	<u>2002</u>	<u>2001</u>
Current assets	\$ 2,151,394	\$ 4,117,491
Assets limited as to use	<u>214,013</u>	<u>214,013</u>
Total	<u>\$ 2,365,407</u>	<u>\$ 4,331,504</u>

A reconciliation of income from operations to net cash from operating and non-operating activities is as follows:

	<u>Year Ended December 31</u>	
	<u>2002</u>	<u>2001</u>
Income from operations	\$ 1,117,274	\$ 1,259,038
Adjustments to reconcile income from operations to net cash provided by operating and nonoperating activities:		
Bad debt expense	2,453,418	1,895,703
Depreciation and amortization	1,150,729	1,057,289
Forgiveness of physician loans	-	44,950
Loss of disposal of equipment	33,209	2,559
(Increase) decrease in assets:		
Patient accounts receivable	(2,462,677)	(2,052,282)
Inventories	(15,810)	(26,940)
Prepaid expenses and other current assets	417,348	(483,495)
Third-party settlements	27,918	61,544
Increase (decrease) in liabilities:		
Accounts payable	590,386	200,765
Accrued payroll and related benefits	<u>(101)</u>	<u>26,023</u>
Net cash provided by operating and nonoperating activities	<u>\$ 3,311,694</u>	<u>\$ 1,985,154</u>

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2002 and 2001

Note 1 - Nature of Business and Significant Accounting Policies

Reporting Entity - Fayette County Memorial Hospital ("the Hospital") is a 70-bed, general short-term acute care facility, owned by Fayette County, Ohio, and operated by a Board of Directors. The Hospital is a component unit of Fayette County. Members of the Board of Directors are appointed by the County Commissioners, the Probate Court Judge, and the Common Pleas Judge. Mount Carmel Health System, under a contract expiring in July 2005, manages the Hospital. The agreement provides that Mount Carmel Health System will provide a management team to oversee the operations of the Hospital.

Proprietary Fund Accounting - The Hospital utilizes the proprietary fund method of accounting, whereby revenue and expenses are recognized on the accrual basis. Substantially all revenue and expenses are subject to accrual. Governmental accounting standards apply to the Hospital.

Cash and Cash Equivalents - Cash and cash equivalents include cash and investments in highly liquid investments purchased with a maturity of three months or less.

Inventories - Inventories, consisting of medical and office supplies and pharmaceutical products, are stated at cost, determined by the first-in, first-out method.

Investments - Investments consist of municipal bonds, carried at market value, as determined by quoted market prices.

Assets Limited as to Use - Assets limited as to use include assets temporarily restricted by donor.

Property and Equipment - Property and equipment are recorded at cost. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Equipment under capital leases is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Costs of maintenance and repairs are charged to expense when incurred.

Compensated Absences - Vacation is charged to operations when earned. Unused and earned benefits are recorded as a current liability in the financial statements.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2002 and 2001

Note 1 - Nature of Business and Significant Accounting Policies (Cont.)

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

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. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others. Retroactive adjustments to these estimated amounts are recorded in future periods as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Income from Operations - For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as non-operating gains and losses.

Charity Care - The Hospital provides care to patients who meet certain 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 net patient service revenue.

Pension Plan - Substantially all of the Hospital's employees are eligible to participate in a defined benefit pension plan sponsored by the Ohio Public Employees Retirement System (OPERS). The Hospital funds pension costs accrued, based on contribution rates determined by OPERS.

Contributions - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Contributions with donor imposed time or purpose restrictions are reported as restricted support. All other contributions are reported as unrestricted support.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2002 and 2001

Note 2 - Deposits and Investments

The Hospital's deposits and investments are composed of the following:

2002	Cash and Cash Equivalents	Investments	Assets Limited as to Use
Deposits	2,151,394	\$ -	\$ 214,013
Federal bonds	<u>-</u>	<u>3,103,456</u>	<u>-</u>
Total	<u>\$ 2,151,394</u>	<u>\$ 3,103,456</u>	<u>\$ 214,013</u>
<u>2001</u>			
Deposits	\$ 4,117,491	\$ -	\$ 214,013
Municipal bonds	<u>-</u>	<u>10,694</u>	<u>-</u>
Total	<u>\$ 4,117,491</u>	<u>\$ 10,694</u>	<u>\$ 214,013</u>
Deposits		2002	2001
Amount of deposits reflected on the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit)		\$ 2,599,748	\$ 4,695,851
Amount of deposits covered by federal depository insurance		<u>314,013</u>	<u>314,013</u>
Amount of deposits uninsured		<u>\$ 2,285,735</u>	<u>\$ 4,381,838</u>

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2002 and 2001

Note 2 - Deposits and Investments (Cont.)

Investments - The Hospital's investments are categorized below to give an indication of the level of risk assumed by the entity. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the Hospital or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Hospital's name. Category 3 includes investments held by:

- a. The counter-party
- b. The counter-party's trust department (or agent) but not in the Hospital's name.

	Category			Carrying Amount
	1	2	3	
<u>2002</u>				
Federal bonds	\$ -	\$3,103,456	\$ -	\$3,103,456
<u>2001</u>				
Municipal bonds	\$10,694	\$ -	\$ -	\$ 10,694

Assets Limited as to Use - Assets limited as to use are designated or restricted as follows:

	2002	2001
Temporarily restricted by donor - for specific purposes	\$ 214,013	\$ 214,013

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2002 and 2001

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	<u>2002</u>	<u>2001</u>
Total patient accounts receivable	\$ 7,658,672	\$ 7,937,413
Less allowance for:		
Uncollectible accounts	(1,218,000)	(1,352,000)
Contractual adjustments	<u>(2,425,000)</u>	<u>(2,579,000)</u>
Net patient accounts receivable	<u>\$ 4,015,672</u>	<u>\$ 4,006,413</u>

Note 4 - Notes Receivable

Notes receivable represent loans to physicians under various cash flow support and loan arrangements. These loans are to be repaid in varying monthly installments including interest at rates ranging from 0 percent to 6.5 percent, and are unsecured. A portion of the physician notes receivable are forgiven over time under the terms of the physician loan agreement. A summary of these amounts outstanding is as follows:

	<u>2002</u>	<u>2001</u>
Net notes receivable	\$ 754,449	\$ 367,701
Less: Current portion	<u>74,953</u>	<u>40,335</u>
Long term portion	<u>\$ 679,496</u>	<u>\$ 327,366</u>

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2002 and 2001

Note 5 - Cost Report Settlements

Approximately 55 percent of the Hospital's revenues from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these 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. Some outpatient services and defined capital costs related to Medicare beneficiaries are paid based upon a cost reimbursement method. Other outpatient services, including ambulatory surgery, radiology, and laboratory services, are reimbursed on an established fee-for-service methodology. Beginning August 1, 2000, reimbursement for all outpatient services are based on the prospectively determined ambulatory payment classification system. However, the Hospital is held harmless until July 31, 2003, under this new outpatient payment system, should it result in less reimbursement than the payment system in place before August 1, 2000.

Medicaid - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid inpatients are paid on a cost-reimbursement method. The Hospital is reimbursed for outpatient services on an established fee-for-service methodology.

The Medicaid payment system in Ohio is a prospective one, whereby rates for the following state fiscal year beginning July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant change in rates, or the payment system itself, could have a material impact on the future Medicaid funding to providers.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2002 and 2001

Note 6 - Property and Equipment

Cost of property and equipment and depreciable lives are summarized as follows:

	2002	2001	Depreciable Life - Years
Land	\$ 519,750	\$ 309,750	
Land improvements	618,690	591,860	10-20
Buildings	9,092,824	8,723,396	15-50
Fixed equipment	1,549,506	1,542,978	5-20
Major movable equipment	7,564,716	7,441,543	5-25
Construction in progress	<u>373,945</u>	<u>151,371</u>	
Total cost	19,719,431	18,760,898	
Less accumulated depreciation	<u>9,820,093</u>	<u>9,642,214</u>	
Net carrying amount	<u>\$ 9,899,338</u>	<u>\$ 9,118,684</u>	

Construction in progress at December 31, 2002, consists of planning for an additional medical office building and upgrades to the laboratory information system.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2002 and 2001

Note 7 - Long-Term Debt

Long-term debt consists of the following:

	<u>2002</u>	<u>2001</u>
Obligations under capital leases	\$ 376,180	\$ 498,471
Less: current portion	<u>129,420</u>	<u>122,291</u>
Long-term portion	<u>\$ 246,760</u>	<u>\$ 376,180</u>

Minimum future lease payments under these capital lease obligations as of December 31, 2002, are as follows:

2003	\$ 147,672
2004	143,786
2005	101,046
2006	<u>16,841</u>
Total	409,345
Less interest	<u>33,165</u>
Net present value	<u>\$ 376,180</u>

The above capital leases are due in monthly installments totaling approximately \$12,300 at December 31, 2002, including imputed interest at rates ranging from 5.32 percent to 5.86 percent. They expire at various times through 2006, and are collateralized by the equipment leased.

	<u>2002</u>	<u>2001</u>
Cost of equipment under capital lease	\$ 641,328	\$ 910,882
Less accumulated amortization	<u>238,647</u>	<u>379,935</u>
Net carrying amount	<u>\$ 402,681</u>	<u>\$ 530,947</u>

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2002 and 2001

Note 8 - Net Patient Service Revenue

Net patient service revenue consists of the following:

	<u>2002</u>	<u>2001</u>
Revenue:		
Inpatient services:		
Routine services	\$ 5,049,572	\$ 4,636,749
Ancillary services	8,724,595	7,889,692
Outpatient ancillary services	<u>27,257,669</u>	<u>24,886,656</u>
Total patient revenue	41,031,836	37,413,097
Revenue deductions:		
Provision for contractual allowances	14,657,588	12,893,292
Provision for charity care	481,774	444,039
Other allowances	<u>115,353</u>	<u>117,028</u>
Total revenue deductions	<u>15,254,715</u>	<u>13,454,359</u>
Total net patient service revenue	<u>\$ 25,777,121</u>	<u>\$ 23,958,738</u>

Note 9 - Non-Operating Gains

Non-operating gains consist of the following:

	<u>2002</u>	<u>2001</u>
Donations, gifts and grants	\$ 40,162	\$ 16,424
Investment income	132,201	140,803
Other gains	<u>116,239</u>	<u>88,010</u>
Nonoperating gains - net	<u>\$ 288,602</u>	<u>\$ 245,237</u>

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2002 and 2001

Note 10 - Defined Benefit Pension Plan

Plan Description - The Hospital contributes to the Ohio Public Employees Retirement System of Ohio (OPERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Ohio Public Employees Retirement System. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS Board of Trustees. OPERS issues a stand-alone financial report available to the public that includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-6705 or 1-800-222-PERS (7377).

Funding Policy - Plan members are required to contribute 8.50 percent of their annual covered salary, and the Hospital is required to contribute at an actuarially determined rate of annual covered payroll. The rate was 13.55 percent for 2002. The contribution requirement of plan members and the Hospital is established and may be amended by the OPERS Board of Trustees. The Hospital's contributions to OPERS for the years ended December 31, 2002, 2001, and 2000, were \$1,192,732, \$1,101,383, and \$755,756, respectively. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records.

Post-Retirement Benefits - Ohio Public Employees Retirement System provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB), as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2002 and 2001 employer contribution rate for local government employer units was 13.55 percent of covered payroll. Of this amount, 5.0 percent and 4.3 percent was the portion that was used to fund health care during 2002 and 2001, respectively. The portion of the employer's contribution used to fund post-employment benefits for 2002 and 2001 was \$440,818 and \$353,849, respectively.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2002 and 2001

Note 10 - Defined Benefit Pension Plan (Cont.)

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS.

OPEBs 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.

The number of active contributing participants during 2002 was 402,041. As of December 31, 2001, the actuarial value of the Retirement System's net assets available for OPEB was \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

Note 11 - Risk Management

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Hospital has purchased commercial insurance for malpractice, general liability, employee medical and workers' compensation claims.

The Hospital was insured against medical malpractice claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claim exceeding \$1,000,000 or aggregate claims exceeding \$3,000,000 for claims asserted in the policy year. This policy expired December 31, 2001, and was replaced by an occurrence-based policy, whereby claims are covered if the Hospital was insured during the year that the incident occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claim exceeding \$1,000,000 or aggregate claims exceeding \$3,000,000 for claims asserted in the policy year. The Hospital has purchased tail coverage for the previous claims-made policy.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2002 and 2001

Note 11 - Risk Management (Cont.)

There are several pending claims against the Hospital. There is insurance coverage, but it is possible that the liability for the claims may exceed the aggregate insurance coverage. Management intends to vigorously defend these claims. Presently, it is not possible to determine the resolution of the claims or amount of liability, if any. There were no settlements that exceeded insurance coverage for each of the last five years.

Note 12 - New Accounting Pronouncement

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Under the provisions of this GASB standard, which becomes effective for the Hospital's year ending December 31, 2003, the Hospital will use business type reporting activity (BTA). BTA reporting will require the Facility to present management's discussion and analysis (MD&A) of financial results, a statement of net assets or a balance sheet, a statement of revenue, expenses and changes in net assets, a statement of cash flows, notes to the financial statements, and other required supplementary information. The required basic financial statements described above will be prepared using the economic resources measurement focus and the accrual basis of accounting. Fund financial information is not required for BTA reporting.

Financial reporting under GASB 34 will require reporting fund balance as net assets, reporting tax revenues as non-operating income, changing certain financial statement disclosure formats including the property and equipment, and long-term debt disclosures, and including the MD&A. Management has not yet determined the effect of the implementation of this statement on the Hospital's financial statements.

Report Letter on Compliance with Laws and Regulations and Internal Control – Basic Financial Statements

Board of Directors
Fayette County Memorial Hospital
Washington Court House, Ohio

We have audited the financial statements of Fayette County Memorial Hospital as of and for the year ended December 31, 2002, and have issued our report thereon dated February 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Fayette County Memorial Hospital 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 two instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Condition – We were unable to obtain evidence that the Hospital has a written policy in regards to the availability of records open to public inspection, costs of copies and times when records are available for inspection. Further, the Hospital is required to publish notice in local newspapers that informs the public the financial information (at year-end) is available for inspection. Finally, the Hospital should inform the general public, through reasonable means, of when and where board meetings are to be held.

Criteria – During our testing of Ohio Compliance Supplement, Chapter 7, Part 2, Section A: General, (7-5, 7-8, 7-9 compliance requirements) we noted the above conditions. These compliance sections relate to Ohio Revised Code sections 117.38, 121.22, and 149.43.

Recommendation – We recommend the Hospital develop and maintain a written policy in relation to documents which are open for public inspection, costs of copies and times when records maybe reviewed. Further, we recommend the hospital post notice in local newspapers that inform the public of the availability of the year-end financial statements and how they may obtain them and when and where board meetings are to be held.

Condition – We noted the Hospital should file their written investment policy with the State of Ohio, based on investments held at year-end. Additionally, those members of management who have investment responsibility are required to complete annual continuing education programs provided by the Treasurer of the State.

Criteria – During our testing of Ohio Compliance Supplement, Chapter 5, Section B: County Requirements, (5-7(b) compliance requirement) and Chapter 7, Part 4, Section D: Deposits and Investments, (7-31 compliance requirement) we noted the above conditions. These compliance sections relate to Ohio Revised Code sections 135.35, 135.22, 319.04, 321.46, and 733.27.

To the Board of Directors
Fayette County Memorial Hospital
Washington Court House, Ohio

Recommendation – We recommend the Hospital file the appropriate investment policy with the State of Ohio and that management determine what training is required for those responsible for the administration of investments and that the responsible members of management attend the training sessions either provided by the State Treasures office, or attend other training approved by the Treasurer of the State of Ohio.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fayette County Memorial 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 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, a report was issued to management under separate cover regarding internal control issues and other operational efficiencies which we did not consider to be material weaknesses.

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

Plante & Moran, PLLC



**Auditor of State
Betty Montgomery**

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

FAYETTE COUNTY MEMORIAL HOSPITAL

FAYETTE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 24, 2003**