

---

**MORROW COUNTY HOSPITAL  
MT. GILEAD, OHIO  
FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 1999 AND 1998**

---



MORROW COUNTY HOSPITAL  
MT. GILEAD, OHIO  
FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 1999 AND 1998

CONTENTS

Independent Auditors' Report .....	3
Combined Balance Sheets.....	4
Combined Statements of Revenues, Expenses and Changes in Fund Balances.....	5
Combined Statements of Cash Flows .....	6
Notes to Financial Statements .....	7-16
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i> .....	17




STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

The Board of Trustees  
Morrow County Hospital  
Mount Gilead, Ohio

We have reviewed the Independent Auditor's Report of the Morrow County Hospital, Morrow County, prepared by Holbrook & Manter, LLP, 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 Morrow County Hospital is responsible for compliance with these laws and regulations.



JIM PETRO  
Auditor of State

June 14, 2000



## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Morrow County Hospital  
Mt. Gilead, Ohio

We have audited the accompanying balance sheet of Morrow County Hospital (the Hospital) as of and for the year ended December 31, 1999, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year 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. The financial statements of the Hospital as of December 31, 1998, were audited by other auditors whose report dated February 12, 1999, expressed an unqualified opinion on those statements.

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 audits 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 the Hospital as of December 31, 1999, and the results of its operations and changes in fund balances, and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 10, 2000 on our consideration of the Hospital's internal control over financial reporting, and our test of its compliance with certain provisions of laws, regulations, contracts and grants.

*Holbrook & Manter, JFP*

Certified Public Accountants

March 10, 2000  
Marion, Ohio

**MORROW COUNTY HOSPITAL**  
**COMBINED BALANCE SHEETS**  
**DECEMBER 31, 1999 AND 1998**

	<u>1999</u>	<u>1998</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ -	\$ -
Patient accounts receivable, less allowance of \$2,102,536 and \$1,441,449, respectively	3,966,055	2,913,322
Other accounts receivable	494	48,053
Current portion notes receivable	24,000	14,000
Inventory	101,481	116,588
Prepaid expenses	<u>178,696</u>	<u>208,989</u>
 Total current assets	 4,270,726	 3,300,952
<b>ASSETS WHOSE USE IS LIMITED: (Note 1)</b>		
Cash and cash equivalents	97,550	685,336
Investments	501,250	964,333
Accrued interest	<u>12,381</u>	<u>10,740</u>
 Total Assets Whose Use is Limited	 611,181	 1,660,409
 <b>PROPERTY &amp; EQUIPMENT - NET, (Note 5)</b>	 6,150,715	 5,671,711
<b>OTHER ASSETS:</b>		
Notes receivable	71,833	46,666
Investments	<u>737,031</u>	<u>588,415</u>
Total Other Assets	<u>808,864</u>	<u>635,081</u>
 <b>TOTAL ASSETS</b>	 <b>\$ <u>11,841,486</u></b>	 <b>\$ <u>11,268,153</u></b>

	<u>1999</u>	<u>1998</u>
<b>CURRENT LIABILITIES:</b>		
Line of credit - Note 6	\$ 250,000	\$ -
Current portion of long-term debt	76,540	518,603
Current portion of capital lease obligation	136,956	14,472
Accounts payable	800,464	665,993
Medicare and Medicaid third party settlement	122,376	58,925
Accrued payroll and related liabilities	<u>647,000</u>	<u>747,969</u>
Total current liabilities	2,033,336	2,005,962
<b>LONG-TERM DEBT:</b>		
Notes payable - Note 7	367,460	12,000
Capital lease obligations - Note 8	<u>420,759</u>	<u>-</u>
Total Long-Term Debt	<u>788,219</u>	<u>12,000</u>
Total liabilities	2,821,555	2,017,962
<b>FUND BALANCES</b>	<u>9,019,931</u>	<u>9,250,191</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 11,841,486</u>	<u>\$ 11,268,153</u>

**MORROW COUNTY HOSPITAL**  
**COMBINED STATEMENTS OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND BALANCES**  
**YEARS ENDED DECEMBER 31, 1999 AND 1998**

	1999	%	1998	%
<b>OPERATING REVENUES:</b>				
Patient service revenue - net	\$ 12,999,916	93.00%	\$ 12,663,329	92.86%
Other operating revenues	978,579	7.00%	973,544	7.14%
Total operating revenues	13,978,495	100.00%	13,636,873	100.00%
<b>OPERATING EXPENSES:</b>				
Wages, salaries and benefits	5,935,652	42.46%	5,739,233	42.09%
Purchased services	3,328,719	23.81%	3,109,704	22.80%
Supplies and other	2,823,591	20.20%	2,811,703	20.62%
Provision for bad debts	1,416,770	10.14%	1,429,093	10.48%
Depreciation	734,540	5.25%	648,378	4.75%
Insurance	127,436	0.91%	130,830	0.96%
Rental	223,639	1.60%	82,582	0.61%
Interest expense	28,578	0.20%	35,524	0.26%
Total operating expenses	14,618,925	104.57%	13,987,047	102.57%
<b>INCOME FROM OPERATIONS</b>	( 640,430)	( 4.57%)	( 350,174)	( 2.57%)
<b>NONOPERATING INCOME (LOSS)</b>				
Contributions	257,810	1.84%	136,261	1.00%
Investment income	158,982	1.14%	158,824	1.16%
Gain (loss) on disposal of assets	817	0.01%	4,760	0.03%
Gain (loss) on sale of investments	( 7,439)	( 0.05%)	0	0.00%
Net nonoperating income (loss)	410,170	2.94%	299,845	2.19%
<b>EXCESS (DEFICIT) OF REVENUE AND INCOME OVER EXPENSES AND LOSSES</b>	( 230,260)	<u>( 1.63%)</u>	( 50,329)	<u>( 0.38%)</u>
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	9,250,191		9,300,520	
<b>FUND BALANCES AT END OF YEAR</b>	\$ 9,019,931		\$ 9,250,191	



**MORROW COUNTY HOSPITAL**  
**COMBINED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 1999 AND 1998**

	<u>1999</u>	<u>1998</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Loss from operations	\$ ( 230,260)	\$ ( 50,329)
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	734,540	648,378
Gain on sale of equipment	( 817)	( 4,760)
Cash provided by (used for) operating assets and liabilities:		
Patient accounts receivable	( 1,052,733)	( 55,579)
Other accounts receivable	47,559	104,239
Inventories	15,107	45,593
Prepaid expenses	30,293	( 28,404)
Accounts payable	134,471	222,494
Accrued expenses	( 100,968)	133,081
Medicare and Medicaid third party settlements	63,451	( 271,390)
Net cash provided (used) in operating activities	( 359,357)	743,323
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of property and equipment	1,500	6,987
Purchase of property and equipment	( 1,214,228)	( 774,800)
Increase in notes receivable	( 35,167)	( 21,706)
Decrease in assets whose use is limited	312,826	209,593
Net cash provided (used) by investing activities	( 935,069)	( 579,926)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from line of credit	250,000	-
Proceeds from issuance of revenue bonds	432,000	-
Proceeds from capital lease obligations	684,780	-
Repayment of long term debt	( 660,140)	( 197,254)
Net cash provided (used) by financing activities	706,640	( 197,254)
Net decrease in Cash and Cash Equivalents	( 587,786)	( 33,857)
Cash and Cash Equivalents at Beginning of Year	685,336	719,193
Cash and Cash Equivalents at End of Year	<u>\$ 97,550</u>	<u>\$ 685,336</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid for interest during the year	<u>\$ 28,816</u>	<u>\$ 37,095</u>

**MORROW COUNTY HOSPITAL**  
**MOUNT GILEAD, OHIO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 1999 AND 1998**

**NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:-**

**General Statement**

Morrow County Hospital (the Hospital) is an acute and extended care hospital facility, owned by Morrow County, Ohio and operated and governed by a Board of Trustees pursuant to the powers and duties provided in Section 339.03 of the Ohio Revised Code. Members of the Board of Trustees are appointed by the County Commissioners. The Hospital is a component unit of Morrow County, Ohio.

Morrow County Hospital Foundation (“the Foundation”) is a non-profit organization, founded during 1997, to operate exclusively for the benefit and support of the Hospital.

Central Ohio Physicians Corporation (“COPC”) is a professional physician corporation, founded during 1998, to operate exclusively for the support of the Hospital.

**Summary of Significant Accounting Policies**

The accompanying financial Statements comply with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*. The Foundation and COPC are considered component units based on the nature and significance of the relationship between the Hospital and the two entities. For financial reporting purposes, the accounts of the Hospital, the Foundation, and COPC have been combined.

**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 disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**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.

**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.

**Charity Care**

The Hospital maintains a policy whereby patients in need of medical services are treated without regard to their ability to pay for such services. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

**MORROW COUNTY HOSPITAL**  
**MOUNT GILEAD, OHIO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 1999 AND 1998**

**NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING**

**POLICIES:- (continued)**

**Income Taxes**

The Hospital is a political subdivision of the Morrow County, Ohio and is exempt from Federal income tax. The Internal Revenue Service has ruled that the Foundation and COPC are exempt under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code. Accordingly no provision for federal income taxes has been made in the financial statements.

**Inventories**

Inventories are determined by physical counts and are stated at the lower of cost or net realizable value using the first-in, first-out method of valuation.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and on deposit and investments in highly liquid debt instruments with an original maturity of three months or less.

**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 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.

**Property and Equipment**

Acquisitions of property and equipment are stated at cost or at fair market value if received as a donation. The carrying value of assets sold, retired, or otherwise disposed of, and the related allowances for depreciation are eliminated from the accounts and any resulting gain or loss is included in nonoperating revenues and expenses. Repairs and maintenance are charged to operations when incurred. Capital additions are items exceeding \$500 with an estimated useful life of two years.

Depreciation of property and equipment is provided by annual charges to expense on a straight-line basis over the expected useful lives of the assets. The ranges of useful lives used in computing depreciation are 5-25 years for land improvements and equipment and 10-50 years for buildings.

MORROW COUNTY HOSPITAL  
MOUNT GILEAD, OHIO  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 1999 AND 1998

NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

County Tax Levy

In 1986, a tax levy was passed in Morrow County to provide the Hospital with unrestricted operating funds through 1991. The levy was renewed in 1991 and 1996, providing unrestricted operating funds through 2001. Proceeds from the 2.5 mill tax levy have been included in other operating revenue in the accompanying financial statements.

Risk Management

The Hospital is exposed to various risks of loss from medical malpractice; torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee and community injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. In addition to insurance provided by the County, the hospital purchases commercial insurance coverage for claims arising from such matters. Settlement claims have not exceeded this commercial coverage in any of the three preceding years.

Compensated Absences

Vacation and sick benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employee for the benefits through paid time off or some other means. The criteria for determining the vacation and sick leave liability is derived from generally accepted accounting principles and the Ohio Revised Code.

Assets Whose Use is Limited

Assets whose use is limited consists of invested funds securing bank debt and invested funds designated by the Hospital's Board of Trustees for the replacement, improvement, and expansion of the Hospital's facilities. Investments consist principally of U.S. Government Securities and are recorded at fair value.

Third Party Reimbursement

The Hospital is a provider of services under contractual arrangements with Medicare and Medicaid programs. In addition, the Hospital has other third-party reimbursement arrangements. Net patient service revenues include amounts estimated by management to be reimbursable by these programs under the provisions of various payment arrangements. Payment arrangements include prospectively determined rates per discharge, reimbursed cost, discounted charges and per diem rates. Amounts received by the Hospital for treatment of patients covered by such programs are less than the established billing rates. The differences between established billing rates and amounts received are deducted in arriving at net patient service revenues.

**MORROW COUNTY HOSPITAL**  
**MOUNT GILEAD, OHIO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 1999 AND 1998**

**NOTE 1 – GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING**

**POLICIES:- (continued)**

Amounts earned under the Medicare and Medicaid programs are subject to audit by appropriate government authorities or their agents. 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. At December 31, 1999, final settlements had been reached with Medicare through 1996 and with Medicaid through 1995. The amounts reported in the accompanying financial statements represent the estimated settlements outstanding at December 31, 1999 and 1998, which Hospital management believes will approximate final settlements after audit by the respective agencies.

In the healthcare industry, laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in substantial compliance with all applicable laws and regulations, and is not aware of any pending or threatening investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with healthcare industry laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

**Reclassification:-**

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year combined financial statements.

**Malpractice and General Patient Liability Contingencies:-**

Because of the nature of its operations, the Hospital is at all times subject to pending and threatened legal actions that arise in the normal course of its activities.

At December 31, 1999, management is aware of certain asserted and unasserted malpractice and general patient liability claims and assessments against the Hospital. These claims are in various stages of processing and their outcome is uncertain. Therefore, future liability of the Hospital related to these claims and assessments is unknown. Accordingly, no amounts have been accrued for malpractice and general patient liability claims.

There may be unknown incidents arising from services provided to patients. However, because the annual insurance policy only covers claims that have been asserted and incidents reported to the insurance carrier, these unknown incidents are not yet covered by insurance. Management has no basis to estimate the ultimate cost, if any, of the settlement of such potential claims and, accordingly, has not accrued for them. In addition, management intends to maintain the current occurrence basis insurance coverage to cover any unknown incidents that may be asserted.

The Hospital purchases, through a commercial carrier, professional liability insurance on an occurrence basis without co-insurance, subject to deductibles, and up to specified policy limits per medical incident and in the aggregate, plus other supplemental protection.

**MORROW COUNTY HOSPITAL**  
**MOUNT GILEAD, OHIO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 1999 AND 1998**

**NOTE 2 – CASH AND INVESTMENTS:-**

The Hospital maintains a cash and investment pool. Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Deposits

At December 31, 1999 the carrying amount of the Hospital's book deposits was \$97,550 as compared to bank balances of \$332,828. The difference in carrying amount and bank balances is caused by outstanding checks and deposits in-transit. Of the bank balances, \$100,000 is covered by Federal Insurance Programs and \$232,828 is uninsured but collateralized by pools of securities pledged by the depository banks, or by its trust department or agent but not in the Hospital's name as defined by GASB Statement No. 3, *Deposits With Financial Institutions, Investments (Including Repurchase Agreement), and Reverse Repurchase Agreements*.

Investments

State statutes authorize and direct the permitted types of investments. All investments of the Hospital are held in the Hospital's name by a depository bank that is an agent of the Hospital.

In accordance with GASB Statement No. 3, the Hospital categorized investments in the following table to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered, or for which securities are held by the Hospital or its agent in the name of the Hospital. Category 2 includes uninsured and unregistered investments for which securities are held by the broker's or dealer's trust department or agent in the name of the Hospital. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Hospital's name. As discussed in Note 1, the Hospital's investments generally are carried at fair value.

	<u>Category</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Investments Whose Use is Limited	\$ 501,250	\$ -	\$ -	\$ 501,250	\$ 501,250
Other Investments	<u>737,031</u>	<u>-</u>	<u>-</u>	<u>737,031</u>	<u>737,031</u>
Total	<u>\$ 1,238,281</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,238,281</u>	<u>\$ 1,238,281</u>

**NOTE 3 – CHARITY CARE:-**

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under this charity care policy. Charity care, based on estimated rates, totaled approximately \$104,795 and \$121,896 during the years ended December 31, 1999 and 1998, respectively.

**MORROW COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 1999 AND 1998**

**NOTE 4 – OPERATING REVENUE:-**

The Hospital provides services to certain patients covered by various third party payor arrangements that provide for payments to the Hospital at amounts different than its established rates. Gross patient service revenue and allowances to reconcile to net patient services revenue for the years ended December 31, 1999 and 1998 are as follows:

	<u>1999</u>	<u>1998</u>
Gross patient service revenue	\$ 17,939,452	\$ 17,485,097
Less contractual allowances:-		
Medicare	3,554,004	3,499,980
Medicaid and other	<u>1,385,532</u>	<u>1,321,788</u>
Total Contractual Allowances	<u>4,939,536</u>	<u>4,821,768</u>
Net patient service revenue	<u>\$ 12,999,916</u>	<u>\$ 12,663,329</u>

**NOTE 5 – PROPERTY AND EQUIPMENT-NET:-**

Property and equipment consists of the following:

	<u>1999</u>	<u>1998</u>
Land and improvements	\$ 469,409	\$ 469,409
Buildings	3,748,964	3,703,084
Equipment	9,660,446	8,523,523
Construction in progress	413,851	387,742
	<u>14,292,670</u>	<u>13,083,758</u>
Accumulated depreciation	<u>( 8,141,955)</u>	<u>( 7,412,047)</u>
Property and equipment - net	<u>\$ 6,150,715</u>	<u>\$ 5,671,711</u>

**NOTE 6 – LINE OF CREDIT:-**

During the year, the Hospital entered into a line of credit agreement with First-Knox National Bank with a maximum line of \$433,000 at an interest rate of prime, or 8.50% at December 31, 1999 (\$250,000 outstanding). The line of credit matures on August 16, 2000. The agreement requires that the principal plus all accrued interest be paid on the maturity date.

**MORROW COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 1999 AND 1998**

**NOTE 7 – NOTES PAYABLE:-**

Following is a summary of the long-term notes payable at December 31:

	<u>1999</u>	<u>1998</u>
Hospital facilities refunding revenue note, series 1999, sixty monthly payments of \$8,332 includes principal and interest at 5.90%. Secured by the receipts of the Hospital.	\$ 432,000	\$ 0
Hospital improvement revenue notes, series 1994, fifty-nine monthly payments of \$3,528, plus interest at 5.97%, through November, 1999. Balloon payment due December 1, 1999.	0	465,499
Installment loan payable to vendor due August 2, 1999, monthly payments of \$5,962 includes principal and interest at 4.54%. Secured by equipment.	0	46,898
Installment loan payable to bank for purchase of computer system.	0	6,206
Deed restriction for donation of land. Payment based on a fulfillment of physician contract and disposal of land by the Hospital Foundation. Land is restricted to the use of a medical building.	<u>12,000</u>	<u>12,000</u>
	444,000	530,603
Current maturities	( 76,540)	( 518,603)
Long-term portion	<u>\$ 367,460</u>	<u>\$ 12,000</u>

Future maturities of the long-term debt are as follows:

<u>Year</u>	<u>Amount</u>
2000	\$ 76,540
2001	81,180
2002	86,101
2003	91,321
2004	96,858
Thereafter	<u>12,000</u>
	<u>\$ 444,000</u>



**MORROW COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 1999 AND 1998**

**NOTE 8 - CAPITAL LEASE OBLIGATIONS:-**

During 1999, the Hospital entered into capital leases for a computer hardware and software system. The obligations under these capital leases have been recorded at the present value of future minimum lease payments, discounted at appropriate interest rates. The capitalized costs of \$684,780 less accumulated depreciation of \$69,041 are included in property and equipment, in the accompanying combined financial statements.

The obligation under capital lease consists of the following at December 31, 1999:

Total	\$ 557,715
Current portion	136,956
Long-term portion	<u>\$ 420,759</u>

**NOTE 9 - PENSION BENEFIT OBLIGATION:-**

All employees of the Hospital participate in the Public Employees Retirement System of Ohio (the "PERS of Ohio"), a cost-sharing multiple employer defined benefit pension plan. PERS of Ohio 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 provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The contribution rate for employees is 8.5%. The 1999 rate for local government employer units was 13.55% of covered payroll, 9.35% to fund the pension benefit obligation and 4.2% to fund health care. The Hospital's regular and paid contributions to the PERS of Ohio for the years ending December 31, 1999, 1998 and 1997 were \$605,594, \$602,700 and \$534,000, respectively.

**NOTE 10 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS:-**

Public Employees Retirement System of Ohio provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to their primary survivor recipients. 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 PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions.

The 1999 employer contribution rate was 13.55% of covered payroll; 4.2% was the portion that was used to fund health care for the year. The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to PERS.

OPEB is financed through employer contributions and investment earnings thereon. 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.

**MORROW COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 1999 AND 1998**

**NOTE 10 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS:-**

(continued)

During 1997, the PERS Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

**NOTE 11 - RELATED PARTY TRANSACTIONS:-**

Morrow County Hospital Auxiliary, which is controlled by Morrow County Hospital, was established to solicit contributions from the general public and to support the operations of the Hospital. Funds are distributed to the Hospital as determined by the Auxiliary's Board of Directors. The Auxiliary contributed \$21,900 to the Hospital in 1999 and \$26,500 in 1998 for the purchase of Hospital medical equipment.

The Hospital contributed funds to the Foundation, a component unit, of \$240,099 in 1999 and \$102,414 in 1998.

The Foundation made contributions of \$240,099 to COPC, a component unit, in 1999.

**NOTE 12 - 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:

	1999	1998
Medicare	40%	36%
Other third-party payors	30%	32%
Patients	17%	24%
Medicaid	9%	7%
Blue Cross	4%	1%
	100%	100%

**NOTE 13 - SELF-INSURANCE:-**

Effective June 1, 1990, the Hospital began participating in a self-funded health and dental insurance plan. In addition, the Hospital purchases stop-loss insurance that provides coverage of claims in excess of certain amounts on individual claims. The self-funded plan is administered by a third party administrator which determines the current funding requirements of participants under the terms of the plan and the liability for claims and assessments that would be payable at any given point in the time. In connection therewith, the Hospital charged to operations a provision of \$305,449 for 1999 and \$391,324 for 1998, which represents the sum of actual claims paid and estimates of liability relating to claims, both asserted and unasserted, resulting from incidents that occurred during the year. As of December 31, 1999 and 1998, the Hospital had estimated its outstanding loss reserves at \$44,500 and \$44,500, respectively, which is reported as a current liability at year end. Subsequent adjustment of insurance plan liabilities based on claims experience is treated as an adjustment to expense.

**MORROW COUNTY HOSPITAL**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 1999 AND 1998**

**NOTE 14 - COMPONENT UNIT FUNDS:-**

**CONDENSED BALANCE SHEETS**

	<u>December 31, 1999</u>		<u>December 31, 1998</u>	
	<u>Morrow County Hospital Foundation</u>	<u>Central Ohio Physicians Corp.</u>	<u>Morrow County Hospital Foundation</u>	<u>Central Ohio Physicians Corp.</u>
<b>ASSETS:-</b>				
Cash and cash equivalents	\$ 17,802	\$ 4,430	\$ 21,283	\$ 1,208
Accounts receivable		36,338	246	41,155
Property and equipment - net	80,704	-	84,216	0
Other assets	-	10	0	10
Total assets	<u>98,506</u>	<u>40,778</u>	<u>\$ 105,745</u>	<u>\$ 42,373</u>
<b>LIABILITIES AND FUND BALANCES:-</b>				
Accounts payable	1,305	10,172	\$ 0	\$ 80
Notes payable	12,000	-	12,000	0
Total liabilities	<u>13,305</u>	<u>10,172</u>	<u>12,000</u>	<u>80</u>
<b>FUND BALANCES</b>	<u>85,201</u>	<u>30,606</u>	<u>93,745</u>	<u>42,293</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 98,506</u>	<u>\$ 40,778</u>	<u>\$ 105,745</u>	<u>\$ 42,373</u>

**CONDENSED STATEMENT OF REVENUE, EXPENSE AND  
AND CHANGES IN FUND BALANCES**

	<u>December 31, 1999</u>		<u>December 31, 1998</u>	
	<u>Morrow County Hospital Foundation</u>	<u>Central Ohio Physicians Corp.</u>	<u>Morrow County Hospital Foundation</u>	<u>Morrow County Physicians Corp.</u>
<b>OPERATING REVENUES:-</b>				
Patient service revenues - net	\$	\$ 99,240	\$ 0	\$ 47,377
Contributions	240,339	235,099	102,414	70,010
Other	191	191	239	43
	<u>240,530</u>	<u>334,530</u>	<u>102,653</u>	<u>117,430</u>
<b>OPERATING EXPENSES:-</b>				
General operating expense	8,975	346,217	4,313	75,137
Contributions	240,099	0	65,000	0
	<u>249,074</u>	<u>346,217</u>	<u>69,313</u>	<u>75,137</u>
Excess of revenues over expenses	( 8,544)	( 11,687)	33,340	42,293
Fund balances at beginning of year	<u>93,745</u>	<u>42,293</u>	<u>60,405</u>	<u>0</u>
Fund balances at end of year	<u>\$ 85,201</u>	<u>\$ 30,606</u>	<u>\$ 93,745</u>	<u>\$ 42,293</u>



HOLBROOK & MANTER, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

Report on Compliance and on Internal Control Over Financial  
Reporting Based on an Audit of Financial Statements Performed  
In Accordance with *Government Auditing Standards*

To the Board of Trustees  
Morrow County Hospital  
Mt. Gilead, Ohio

We have audited the financial statements of Morrow County Hospital (the Hospital) as of and for the year ended December 31, 1999 and have issued our report thereon dated March 10, 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. The financial statements of the Hospital as of December 31, 1998, were audited by other auditors whose report dated February 12, 1999, expressed an unqualified opinion on compliance and on internal control over financial reporting based on the audit of Financial Statements performed in accordance with *Government Auditing Standards*.

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 audits 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 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 internal controls over financial reporting, which we have reported to management of the Hospital in a separate letter dated March 10, 2000.

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

*Holbrook & Manter, LLP*

Certified Public Accountants

March 10, 2000  
Marion, Ohio

-17-

MEMBERS  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
OHIO SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS



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

MORROW COUNTY HOSPITAL

MORROW 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.

By: Susan Babbitt

Date: JUNE 27, 2000