

**MORROW COUNTY HOSPITAL
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000**



STATE OF OHIO
OFFICE OF THE AUDITOR

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The Board of Trustees
Morrow County Hospital
651 West Marion Road
Mt. Gilead, Ohio 43338

We have reviewed the Independent Auditor's Report of the Morrow County Hospital, Morrow County, prepared by Holbrook & Manter, for the audit period January 1, 2001 through December 31, 2001. 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

May 6, 2002

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combined balance sheets of Morrow County Hospital (the Hospital) (a component unit of Morrow County, Ohio) as of and for the years ended December 31, 2001 and 2000, and the related combined statements of revenues, expenses, and 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 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2001 and 2000, and the results of its operations and changes in fund balances, and 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 14, 2002 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. 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.

Holbrook & Manter

Certified Public Accountants

February 14, 2002
Marion, Ohio

**MORROW COUNTY HOSPITAL
COMBINED BALANCE SHEETS
DECEMBER 31, 2001 AND 2000**

| CURRENT ASSETS: | 2001 | 2000 |
|---|----------------------|----------------------|
| Cash and cash equivalents | \$ 983,444 | \$ 337,182 |
| Patient accounts receivable, less allowance of \$2,781,200 and \$2,360,000, respectively | 2,711,420 | 3,286,361 |
| Levied taxes receivable | 950,000 | 685,230 |
| Other receivable | 19,166 | 25,602 |
| Current portion of notes receivable | 41,134 | 53,026 |
| Inventory | 207,649 | 116,066 |
| Prepaid expenses | <u>123,895</u> | <u>406,358</u> |
| Total current assets | 5,036,708 | 4,909,825 |
| ASSETS WHOSE USE IS LIMITED: (Note 1) | | |
| Cash and cash equivalents | 2,128,707 | 0 |
| Investments | 577,172 | 1,057,273 |
| Interest receivable | <u>10,947</u> | <u>14,162</u> |
| Total Assets Whose Use is Limited | 2,716,826 | 1,071,435 |
| PROPERTY & EQUIPMENT - NET, (Note 5) | | |
| | 10,234,034 | 6,402,328 |
| OTHER ASSETS: | | |
| Notes receivable | 85,500 | 119,499 |
| Investments | <u>259,964</u> | <u>0</u> |
| Total Other Assets | <u>345,464</u> | <u>119,499</u> |
| TOTAL ASSETS | | |
| | <u>\$ 18,333,032</u> | <u>\$ 12,503,087</u> |

See Accompanying Notes to Financial Statements.

| CURRENT LIABILITIES: | 2001 | 2000 |
|--|----------------------|----------------------|
| Current portion of long-term debt | \$ 86,118 | \$ 81,180 |
| Current portion of capital lease obligation | 317,744 | 277,656 |
| Accounts payable | 719,640 | 759,622 |
| Deferred revenue for levied taxes | 950,000 | 685,230 |
| Medicare and Medicaid third party settlement | 135,456 | 77,567 |
| Accrued payroll and related liabilities | <u>702,073</u> | <u>694,467</u> |
| Total current liabilities | 2,911,031 | 2,575,722 |
| LONG-TERM DEBT: | | |
| Notes payable - (Note 6) | 5,150,184 | 286,280 |
| Capital lease obligations - (Note 7) | <u>825,886</u> | <u>970,688</u> |
| Total Long-Term Debt | <u>5,976,070</u> | <u>1,256,968</u> |
| Total liabilities | 8,887,101 | 3,832,690 |
| FUND BALANCES | | |
| | <u>9,445,931</u> | <u>8,670,397</u> |
| TOTAL LIABILITIES AND FUND BALANCES | | |
| | <u>\$ 18,333,032</u> | <u>\$ 12,503,087</u> |

**MORROW COUNTY HOSPITAL
COMBINED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCES
YEARS ENDED DECEMBER 31, 2001 AND 2000**

| OPERATING REVENUES: | 2001 | % | 2000 | % |
|--|---------------------|----------------|---------------------|-----------------|
| Net patient service revenue | \$ 18,399,103 | 95.14% | \$ 14,365,833 | 93.91% |
| Other operating revenues | 940,499 | 4.86% | 931,499 | 6.09% |
| Total operating revenues | <u>19,339,602</u> | <u>100.00%</u> | <u>15,297,332</u> | <u>100.00%</u> |
| OPERATING EXPENSES: | | | | |
| Wages, salaries and benefits | 7,018,270 | 36.29% | 5,993,980 | 39.18% |
| Purchased services | 4,780,868 | 24.72% | 3,661,590 | 23.93% |
| Supplies and other | 3,409,597 | 17.63% | 2,940,180 | 19.22% |
| Provision for bad debts | 1,975,893 | 10.22% | 2,176,383 | 14.23% |
| Depreciation | 976,745 | 5.05% | 788,203 | 5.15% |
| Insurance | 125,707 | 0.65% | 119,142 | 0.78% |
| Rental | 205,122 | 1.06% | 99,318 | 0.65% |
| Interest expense | 280,826 | 1.45% | 38,630 | 0.25% |
| Total operating expenses | <u>18,773,028</u> | <u>97.08%</u> | <u>15,817,426</u> | <u>103.39%</u> |
| INCOME (LOSS) FROM OPERATIONS | 566,574 | 2.92% | (520,094) | (3.39%) |
| NONOPERATING INCOME (LOSS): | | | | |
| Contributions | 31,729 | 0.16% | 30,164 | 0.20% |
| Investment income | 164,852 | 0.85% | 150,884 | 0.99% |
| Loss on disposal of assets | (11,608) | (0.06%) | (31,000) | (0.20%) |
| Gain on sale of investments | 23,987 | 0.12% | 20,512 | 0.13% |
| Net nonoperating income (loss) | <u>208,960</u> | <u>1.07%</u> | <u>170,560</u> | <u>1.12%</u> |
| EXCESS (DEFICIT) OF REVENUE AND INCOME OVER EXPENSES AND LOSSES | 775,534 | <u>3.99%</u> | (349,534) | <u>(2.27%)</u> |
| FUND BALANCES AT BEGINNING OF YEAR | <u>8,670,397</u> | | <u>9,019,931</u> | |
| FUND BALANCES AT END OF YEAR | <u>\$ 9,445,931</u> | | <u>\$ 8,670,397</u> | |

See Accompanying Notes to Financial Statements.

**MORROW COUNTY HOSPITAL
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2001 AND 2000**

| CASH FLOWS FROM OPERATING ACTIVITIES: | 2001 | 2000 |
|--|--------------|---------------|
| Excess (deficit) of revenue and income over expenses and losses | \$ 775,534 | \$ (349,534) |
| Adjustments to reconcile income from operations to net cash provided by operating activities | | |
| Depreciation | 976,745 | 788,203 |
| Loss on disposal of assets | 11,608 | 31,000 |
| Cash provided by (used for) operating assets and liabilities: | | |
| Patient accounts receivable | 574,941 | 679,694 |
| Levied taxes receivable | (264,770) | (22,579) |
| Other accounts receivable | 6,436 | (25,108) |
| Inventories | (91,583) | (14,585) |
| Prepaid expenses | 282,463 | (227,662) |
| Accounts payable | (39,982) | (40,842) |
| Deferred revenue for levied taxes | 264,770 | 22,579 |
| Accrued expenses | 7,606 | 47,467 |
| Medicare and Medicaid third party settlements | 57,889 | (44,809) |
| Net cash provided (used) in operating activities | 2,561,657 | 843,824 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of property and equipment | 61,566 | 49,100 |
| Purchase of property and equipment | (753,028) | (1,031,210) |
| Construction in progress | (4,128,597) | (88,706) |
| Net proceeds (advances) on notes receivable | 45,891 | (76,692) |
| Purchase of investments | (259,964) | 0 |
| Cash, equivalents and other whose use is limited | (1,645,391) | 179,228 |
| Net cash provided (used) by investing activities | (6,679,523) | (968,280) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net proceeds (repayments) of line of credit | 0 | (250,000) |
| Proceeds from long term debt | 4,950,000 | 0 |
| Proceeds from capital lease obligations | 208,069 | 838,700 |
| Repayment of long term debt and capital lease obligations | (393,941) | (224,612) |
| Net cash provided (used) by financing activities | 4,764,128 | 364,088 |
| Net increase (decrease) in Cash and Cash Equivalents | 646,262 | 239,632 |
| Cash and Cash Equivalents at Beginning of Year | 337,182 | 97,550 |
| Cash and Cash Equivalents at End of Year | \$ 983,444 | \$ 337,182 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid for interest during the year | \$ 128,193 | \$ 38,669 |

See Accompanying Notes to Financial Statements.

**MORROW COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000**

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”) was a professional physician corporation, founded during 1998, to operate exclusively for the support of the Hospital. As of June 30, 2001, COPC was dissolved and the assets were transferred to 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 accounting principles generally accepted in the United States of America 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 GASB and the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, which do not conflict with or contradict GASB pronouncements.

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
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000**

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

Income Taxes

The Hospital is a political subdivision of Morrow County 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 reported as current assets and as assets whose use is limited, 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 contractual payments to the Hospital. 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 or more.

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
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000**

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, 1996, and 2001 providing unrestricted operating funds through 2006. Proceeds from the 2.5 mill tax levy have been included in other operating revenue in the accompanying financial statements. Pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the Hospital has reflected the tax levy amount due in 2002 of \$950,000 as a levied taxes receivable with a corresponding deferred revenue for levied taxes at December 31, 2001. The Hospital has restated the beginning balances to include the levied taxes receivable and deferred revenue for levied taxes of \$685,230 at December 31, 2000. This restatement has no effect on the combined statements of revenues, expenses and changes in fund balances for the year ended December 31, 2000.

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; competition; 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, where available 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 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. Sick leave benefits are accrued as a liability using the vesting method. Accumulated, unused sick leave is paid at varying rates depending on length of service and age. The criteria for determining the vacation liability is derived from accounting principles generally accepted in the United States of America.

Assets Whose Use is Limited

Assets whose use is limited consists of cash and cash equivalents 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
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000**

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, 2001, final settlements had been reached with Medicare through 1998 and with Medicaid through 1996. The amounts reported in the accompanying financial statements represent the estimated settlements outstanding at December 31, 2001 and 2000, 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's management 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, 2001, 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
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000**

NOTE 2 – CASH AND INVESTMENTS:-

The Hospital maintains a cash and investment pool. Cash and cash equivalents reported as current assets and as assets whose use is limited, include investments in highly liquid debt instruments with an original maturity of three months or less.

Deposits

At December 31, 2001 the carrying amount of the Hospital's book deposits was \$983,444 as compared to bank balances of \$776,055. 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 \$676,055, 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 | \$ 259,964 | \$ 0 | \$ 0 | \$ 259,964 | \$ 259,964 |
| Investments Whose Use is Limited | <u>577,172</u> | <u>0</u> | <u>0</u> | <u>577,172</u> | <u>577,172</u> |
| Total | <u>\$ 837,136</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 837,136</u> | <u>\$ 837,136</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 \$78,317 and \$83,665 during the years ended December 31, 2001 and 2000, respectively.

**MORROW COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000**

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 adjustments to reconcile to net patient services revenue for the years ended December 31, 2001 and 2000 are as follows:

| | <u>2001</u> | <u>2000</u> |
|--------------------------------|----------------------|----------------------|
| Gross patient service revenue | \$ 26,310,211 | \$ 19,645,703 |
| Less contractual adjustments:- | | |
| Medicare | 5,371,973 | 3,426,718 |
| Medicaid and other | <u>2,539,135</u> | <u>1,853,152</u> |
| Total Contractual Adjustments | <u>7,911,108</u> | <u>5,279,870</u> |
| Net patient service revenue | <u>\$ 18,399,103</u> | <u>\$ 14,365,833</u> |

NOTE 5 – PROPERTY AND EQUIPMENT-NET:-

Property and equipment consists of the following:

| | <u>2001</u> | <u>2000</u> |
|------------------------------|----------------------|---------------------|
| Land and improvements | \$ 486,453 | \$ 458,003 |
| Buildings | 4,136,607 | 3,794,052 |
| Equipment | 9,332,930 | 9,048,545 |
| Construction in progress | <u>4,631,153</u> | <u>502,556</u> |
| | 18,587,143 | 13,803,156 |
| Accumulated depreciation | <u>(8,353,109)</u> | <u>(7,400,828)</u> |
| Property and equipment - net | <u>\$ 10,234,034</u> | <u>\$ 6,402,328</u> |

Construction in progress primarily consists of facility improvements for water systems, building addition, heating, electrical and emergency generator systems.

**MORROW COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000**

NOTE 6 – NOTES PAYABLE:-

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

| | <u>2001</u> | <u>2000</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. | \$ 274,302 | \$ 355,460 |
| Under a master lease and purchase agreement the Hospital borrowed under an arrangement with a finance company \$4,950,000 to finance the construction of facility improvements. The financing was provided by the issuance of 10 year tax-exempt hospital bonds maturing August 28, 2012 with interest at 5.89%. The lease and purchase agreement, provides, among other things, for certain covenants, and purchase options which allow for early retirement of the debt by the Hospital for applicable fees. | 4,950,000 | 0 |
| Deed restriction for donation of land. Payments 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> |
| | 5,236,302 | 367,460 |
| Current maturities | <u>(86,118)</u> | <u>(81,180)</u> |
| Long-term portion | <u>\$ 5,150,184</u> | <u>\$ 286,280</u> |

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

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------------|
| 2002 | \$ 86,118 |
| 2003 | 296,012 |
| 2004 | 524,604 |
| 2005 | 453,510 |
| 2006 | 480,818 |
| Thereafter | <u>3,395,240</u> |
| | <u>\$ 5,236,302</u> |

NOTE 7 - LEASES:-

At December 31, 2001, the Hospital has capital leases for a computer hardware and software system, a CT scanner system, and other medical equipment. 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 \$1,650,508 less accumulated depreciation of \$584,616 are included in property and equipment. The Hospital also has operating leases for various medical equipment and a vehicle.

**MORROW COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000**

NOTE 7 - LEASES:- (continued)

Annual minimum lease payments of the capital and operating leases required for the five years subsequent to December 31, 2001 are as follows:

| | <u>Capital Leases</u> | <u>Operating Leases</u> |
|---|---------------------------|-----------------------------|
| 2002 | \$ 403,622 | \$ 91,851 |
| 2003 | 403,622 | 91,851 |
| 2004 | 289,492 | 91,851 |
| 2005 | 235,754 | 78,965 |
| 2006 | <u>1,911</u> | <u>3,750</u> |
| Total minimum lease payments | 1,334,401 | \$ <u><u>358,268</u></u> |
| Amounts representing interest | <u>190,771</u> | |
| Present value of net minimum payments | 1,143,630 | |
| Less current portion | <u>317,744</u> | |
| Long-term capitalized lease obligations | \$ <u><u>825,886</u></u> | |

NOTE 8 - 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. That report may be obtained by writing to PERS, 277 East Town St., Columbus, Ohio 43215-4642.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The contribution rate for employees is 8.5%. The 2001 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, 2001, 2000 and 1999 were \$662,770, \$587,347 and \$605,594, respectively.

NOTE 9 - 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. At December 31, 2000, the plan had approximately 40,300 active participants.

The 2001 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. The Hospital's regular and paid contributions for the health care portion for the years ending December 31, 2001, 2000 and 1999 were \$205,434, \$182,056 and \$187,712, respectively.

**MORROW COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000**

NOTE 9 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS:- (continued)

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.

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 10 - RELATED PARTY TRANSACTIONS:-

Morrow County Hospital Auxiliary 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 \$20,000 to the Hospital in 2001 and 2000 for the purchase of Hospital medical equipment.

The Hospital contributed funds to the Foundation, a component unit, of \$258,516 in 2001 and \$211,569 in 2000.

The Foundation contributed funds to COPC, a component unit, of \$0 in 2001 and \$209,527 in 2000.

COPC contributed funds of \$16,697 to the Hospital in 2001.

NOTE 11 - 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, 2001 and 2000, was as follows:

| | 2001 | 2000 |
|--------------------------|-------------|-------------|
| Medicare | 36% | 34% |
| Other third-party payors | 35% | 30% |
| Patients | 19% | 22% |
| Medicaid | 10% | 14% |
| | 100% | 100% |

NOTE 12 - 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 \$416,998 for 2001 and \$195,883 for 2000, 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, 2001 and 2000, the Hospital had estimated its outstanding loss reserves at \$70,000 and \$44,500, respectively, which is reported as a current liability for each year. Subsequent adjustment of insurance plan liabilities based on claims experience is treated as an adjustment to expense. The following summarizes the reserves, expenses and payments for the years 2001 and 2000:

| | 2001 | 2000 |
|----------------------|-------------|-------------|
| Beginning reserves | \$ 44,500 | \$ 44,500 |
| Expense for year | 416,998 | 195,883 |
| Payments during year | (391,498) | (195,883) |
| Ending reserves | \$ 70,000 | \$ 44,500 |

**MORROW COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000**

NOTE 13 - COMPONENT UNIT FUNDS:-

CONDENSED BALANCE SHEETS

| | <u>December 31, 2001</u> | | <u>December 31, 2000</u> | |
|--|---|-------------------------------------|---|-------------------------------------|
| | Morrow County Hospital Foundation | Central Ohio Physicians Corp. | Morrow County Hospital Foundation | Central Ohio Physicians Corp. |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| ASSETS:- | | | | |
| Cash and cash equivalents | \$ 283,018 | \$ 0 | \$ 15,397 | \$ 22,471 |
| Accounts receivable | 50 | 0 | 50 | 9,296 |
| Property and equipment - net | 71,043 | 0 | 75,874 | 0 |
| Other assets | <u>0</u> | <u>0</u> | <u>0</u> | <u>10</u> |
| Total assets | <u>\$ 354,111</u> | <u>\$ 0</u> | <u>\$ 91,321</u> | <u>\$ 31,777</u> |
| LIABILITIES AND FUND BALANCES:- | | | | |
| Accounts payable | \$ 0 | \$ 0 | \$ 0 | \$ 6,168 |
| Notes payable | <u>12,000</u> | <u>0</u> | <u>12,000</u> | <u>0</u> |
| Total liabilities | 12,000 | 0 | 12,000 | 6,168 |
| FUND BALANCES | <u>342,111</u> | <u>0</u> | <u>79,321</u> | <u>25,609</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 354,111</u> | <u>\$ 0</u> | <u>\$ 91,321</u> | <u>\$ 31,777</u> |

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

| | <u>December 31, 2001</u> | | <u>December 31, 2000</u> | |
|------------------------------------|---|-------------------------------------|---|-------------------------------------|
| | Morrow County Hospital Foundation | Central Ohio Physicians Corp. | Morrow County Hospital Foundation | Central Ohio Physicians Corp. |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| OPERATING REVENUES:- | | | | |
| Patient service revenues - net | \$ 0 | \$ (7,149) | \$ 0 | \$ 45,295 |
| Contributions | 10,110 | 0 | 211,569 | 209,527 |
| Other | <u>127</u> | <u>195</u> | <u>159</u> | <u>328</u> |
| | 10,237 | (6,954) | 211,728 | 255,150 |
| OPERATING EXPENSES:- | | | | |
| General operating expense | 5,963 | 1,958 | 8,081 | 260,147 |
| Contributions | <u>0</u> | <u>0</u> | <u>209,527</u> | <u>0</u> |
| | <u>5,963</u> | <u>1,958</u> | <u>217,608</u> | <u>260,147</u> |
| Excess of revenues over expenses | 4,274 | (8,912) | (5,880) | (4,997) |
| Fund balances at beginning of year | 79,321 | 25,609 | 85,201 | 30,606 |
| Residual equity transfer | <u>258,516</u> | <u>(16,697)</u> | <u>0</u> | <u>0</u> |
| Fund balances at end of year | <u>\$ 342,111</u> | <u>\$ 0</u> | <u>\$ 79,321</u> | <u>\$ 25,609</u> |

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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 combined financial statements of Morrow County Hospital (the Hospital) (a component unit of Morrow County, Ohio) as of and for the years ended December 31, 2001 and 2000 and have issued our report thereon dated February 14, 2002. 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.

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 February 14, 2002.

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.

A handwritten signature in dark ink that reads 'Holbrook & Manter' in a cursive script.

Certified Public Accountants

February 14, 2002
Marion, Ohio



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.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 14, 2002**