

Fayette County Memorial Hospital

Financial Report

December 31, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

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Fayette County Memorial Hospital
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We have reviewed the Independent Auditor's Report of the Fayette County Memorial Hospital, Fayette County, prepared by Plante & Moran, LLP, for the audit period January 1, 2000 through December 31, 2000. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

JIM PETRO
Auditor of State

May 21, 2001

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Fayette County Memorial Hospital

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Independent Auditor's Report

To the Board of Trustees
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, 2000 and 1999, 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 generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates 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, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2001, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of 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, LLP

February 15, 2001

Fayette County Memorial Hospital

Balance Sheet

	December 31	
	2000	1999
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 2,934,733	\$ 1,333,744
Patient accounts receivable (Note 3)	3,849,834	4,770,678
Current portion of notes receivable (Note 4)	49,470	87,724
Inventories	221,260	201,670
Prepaid expenses and other current assets	108,214	60,965
Third-party settlements (Note 5)	100,000	-
Total current assets	7,263,511	6,454,781
Notes Receivable (Note 4)	132,943	168,365
Investments (Note 2)	21,548	48,571
Assets Limited as to Use (Note 2)	214,013	199,489
Property and Equipment (Note 6)	9,507,063	8,929,727
Total assets	<u>\$ 17,139,078</u>	<u>\$ 15,800,933</u>
Liabilities and Fund Balance		
Current Liabilities		
Current portion of long-term debt (Note 7)	\$ 156,780	\$ 88,604
Accounts payable	605,934	560,885
Accrued payroll and related benefits	1,141,524	984,431
Total current liabilities	1,904,238	1,633,920
Long-term Debt (Note 7)	498,471	218,223
Fund Balance		
Unrestricted	14,522,356	13,749,301
Restricted (Note 2)	214,013	199,489
Total fund balance	14,736,369	13,948,790
Total liabilities and fund balance	<u>\$ 17,139,078</u>	<u>\$ 15,800,933</u>

Fayette County Memorial Hospital

Statement of Revenues and Expenses

	Year Ended December 31	
	2000	1999
Operating Revenue		
Net patient service revenue (Note 8)	\$ 20,653,839	\$ 19,938,355
Other operating revenue	<u>72,333</u>	<u>72,551</u>
Total revenue	20,726,172	20,010,906
Operating Expenses		
Salaries and wages	7,603,562	6,883,876
Benefits	1,903,757	1,918,338
Physician fees	1,155,440	1,079,940
Other fees	1,767,408	1,483,510
Supplies	3,280,967	3,190,859
Utilities	462,386	433,669
Maintenance and repairs	562,160	533,728
Leases and rentals	133,083	88,847
Insurance	123,946	124,787
Interest expense	15,880	19,054
Depreciation and amortization	1,015,218	996,929
Provision for bad debts	1,714,101	1,860,597
Other expenses	<u>781,408</u>	<u>520,277</u>
Total operating expenses	<u>20,519,316</u>	<u>19,134,411</u>
Income from Operations	206,856	876,495
Nonoperating Gains - Net (Note 9)	<u>566,199</u>	<u>138,220</u>
Excess of Revenue Over Expenses	<u>\$ 773,055</u>	<u>\$ 1,014,715</u>

Fayette County Memorial Hospital

Statement of Changes in Fund Balances

	Year Ended December 31	
	2000	1999
General Fund		
Balance - Beginning of year	\$ 13,749,301	\$ 12,734,586
Excess of revenue over expenses	<u>773,055</u>	<u>1,014,715</u>
Balance - End of year	<u>\$ 14,522,356</u>	<u>\$ 13,749,301</u>
Restricted Fund		
Balance - Beginning of year	\$ 199,489	\$ 199,489
Income from investments	14,524	10,500
Patient care expenses	<u>-</u>	<u>(10,500)</u>
Balance - End of year	<u>\$ 214,013</u>	<u>\$ 199,489</u>

Fayette County Memorial Hospital

Statement of Cash Flows

	Year Ended December 31	
	2000	1999
Cash Flows from Operating and Nonoperating Activities		
Cash received from patients and third-party payors	\$ 19,760,582	\$ 17,480,964
Cash payments to suppliers for services and goods	(8,288,588)	(7,502,424)
Cash payments to employees for services	(9,322,694)	(8,826,551)
Other operating revenue received	122,031	74,371
Interest paid	(15,880)	(19,054)
Net cash provided by operating and nonoperating activities	2,255,451	1,207,306
Cash Flows from Noncapital Related Financing Activities		
Donations and other	414,998	36,953
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(1,205,225)	(1,272,349)
Principal payments on long-term debt	(88,604)	(308,678)
Proceeds from issuance of long-term debt	-	201,320
Net cash used in capital and related financing activities	(1,293,829)	(1,379,707)
Cash Flows from Investing Activities		
Proceeds from physician loan repayments	88,264	28,011
Proceeds from sale of investments	27,023	65,755
Interest received on investments	165,726	111,767
Advances to physicians	(42,120)	-
Disbursements - Restricted funds	-	(10,500)
Net cash provided by investing activities	238,893	195,033
Net Increase in Cash and Cash Equivalents	1,615,513	59,585
Cash and Cash Equivalents - Beginning of year	1,533,233	1,473,648
Cash and Cash Equivalents - End of year	\$ 3,148,746	\$ 1,533,233
Supplemental Cash Flow Information:		
Assets acquired via capital lease	\$ 437,028	\$ -

Fayette County Memorial Hospital

Statement of Cash Flows (Continued)

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

	<u>2000</u>	<u>1999</u>
Current assets	\$ 2,934,733	\$ 1,333,744
Assets limited as to use	<u>214,013</u>	<u>199,489</u>
Total	<u>\$ 3,148,746</u>	<u>\$ 1,533,233</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>2000</u>	<u>1999</u>
Income from operations	\$ 206,856	\$ 876,495
Adjustments to reconcile income from operations to net cash provided by operating and nonoperating activities:		
Bad debt expense	1,714,101	1,860,597
Depreciation and amortization	1,015,218	996,929
Forgiveness of physician loans	27,532	14,332
Loss of disposal of equipment	49,698	1,820
(Increase) decrease in assets:		
Patient accounts receivable	(793,257)	(2,682,391)
Inventories	(19,590)	(4,965)
Prepaid expenses and other current assets	(47,249)	19,678
Third-party settlements	(100,000)	225,000
Increase (decrease) in liabilities:		
Accounts payable	45,049	(61,520)
Accrued payroll and related benefits	<u>157,093</u>	<u>(38,669)</u>
Net cash provided by operating and nonoperating activities	<u>\$ 2,255,451</u>	<u>\$ 1,207,306</u>

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2000 and 1999

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 Trustees. The Hospital is a component unit of Fayette County. Members of the Board of Trustees are appointed by the County Commissioners, the Probate Court Judge, and the Common Pleas Judge. Quorum Health Resources, Inc., under a contract expiring on June 30, 2002, manages the Hospital. The agreement provides that Quorum Health Resources, Inc., 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 and the Hospital follows Financial Accounting Standards Board (FASB) pronouncements that do not conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements. The Hospital has elected not to apply FASB statements issued after November 30, 1989.

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 and sick pay are 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, 2000 and 1999

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 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.

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 nonoperating 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 Public Employees Retirement System of Ohio (PERS). The Hospital funds pension costs accrued, based on contribution rates determined by PERS.

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, 2000 and 1999

Note 2 - Deposits and Investments

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

2000	Cash and Cash Equivalents	Investments	Assets Limited as to Use
Deposits	2,934,733	\$ -	\$ 214,013
Municipal bonds	-	21,548	-
Total	<u>\$ 2,934,733</u>	<u>\$ 21,548</u>	<u>\$ 214,013</u>

1999

Deposits	\$ 1,333,744	\$ -	\$ 199,489
Municipal bonds	<u>-</u>	<u>48,571</u>	<u>-</u>
Total	<u>\$ 1,333,744</u>	<u>\$ 48,571</u>	<u>\$ 199,489</u>

Deposits

	2000	1999
Amount of deposits reflected on the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit)	\$ 3,594,197	\$ 1,877,716
Amount of deposits covered by federal depository insurance	314,012	399,489
Amount of deposits uninsured	<u>\$ 3,280,185</u>	<u>\$ 1,478,227</u>

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2000 and 1999

Note 2 - Deposits and Investments (Continued)

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

	Category			Carrying Amount
	1	2	3	
<u>2000</u>				
Municipal bonds	\$ 21,548	\$ -	\$ -	\$ 21,548
<u>1999</u>				
Municipal bonds	\$ 48,571	\$ -	\$ -	\$ 48,571

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

	2000	1999
Temporarily restricted by donor - for specific purposes	\$ 214,013	\$ 199,489

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2000 and 1999

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	<u>2000</u>	<u>1999</u>
Total patient accounts receivable	\$ 7,538,834	\$ 9,623,678
Less allowance for:		
Uncollectible accounts	(1,290,000)	(1,331,000)
Contractual adjustments	<u>(2,399,000)</u>	<u>(3,522,000)</u>
Net patient accounts receivable	<u>\$ 3,849,834</u>	<u>\$ 4,770,678</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>2000</u>	<u>1999</u>
Net notes receivable	\$ 182,413	\$ 256,089
Less: Current portion	<u>49,470</u>	<u>87,724</u>
Long term portion	<u>\$ 132,943</u>	<u>\$ 168,365</u>

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2000 and 1999

Note 5 - Cost Report Settlements

Approximately 56 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 new 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.

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, 2000 and 1999

Note 6 - Property and Equipment

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

	2000	1999	Depreciable Life - Years
Land	\$ 309,750	\$ 309,750	
Land improvements	591,860	602,117	10-20
Building	8,324,412	8,026,256	15-50
Fixed equipment	1,533,549	1,021,458	5-20
Major movable equipment	6,365,544	6,781,720	5-25
Construction in progress	974,500	632,879	
Total cost	18,099,615	17,374,180	
Less accumulated depreciation	8,592,552	8,444,453	
Net carrying amount	<u>\$ 9,507,063</u>	<u>\$ 8,929,727</u>	

Construction in progress at December 31, 2000, consists of renovations to the existing buildings. The construction portion of the renovation projects has been completed as of December 31, 2000. Furnishing and finish work remains to be completed at year-end.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2000 and 1999

Note 7 - Long-term Debt

Long-term debt consists of the following:

	<u>2000</u>	<u>1999</u>
Obligations under capital leases	\$ 655,251	\$ 306,827
Less: Current portion	<u>156,780</u>	<u>88,604</u>
Long-term portion	<u>\$ 498,471</u>	<u>\$ 218,233</u>

Minimum principal payments to maturity on these capital lease obligations as of December 31, 2000, are as follows:

2001	\$ 190,596
2002	149,624
2003	147,672
2004	143,785
2005	101,047
Thereafter	<u>16,841</u>
Total	749,565
Less interest	<u>94,314</u>
Net present value	<u>\$ 655,251</u>

The above capital leases are due in monthly installments totaling approximately \$15,900 at December 31, 2000, including imputed interest at rates ranging from 5.32 percent to 7.46 percent. They expire at various times through 2006, and are collateralized by the equipment leased.

	<u>2000</u>	<u>1999</u>
Cost of equipment under capital lease	\$ 910,882	\$ 473,854
Less accumulated amortization	<u>267,806</u>	<u>119,124</u>
Net carrying amount	<u>\$ 643,076</u>	<u>\$ 354,730</u>

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2000 and 1999

Note 8 - Net Patient Service Revenue

Net patient service revenue consists of the following:

	<u>2000</u>	<u>1999</u>
Revenue:		
Inpatient services:		
Routine services	\$ 3,726,865	\$ 3,320,044
Ancillary services	6,264,469	5,810,303
Outpatient ancillary services	<u>21,424,266</u>	<u>21,156,496</u>
Total patient revenue	31,415,600	30,286,843
Revenue deductions:		
Provision for contractual allowances	10,030,655	9,771,511
Provision for charity care	549,558	419,265
Other allowances	<u>181,548</u>	<u>157,712</u>
Total revenue deductions	<u>10,761,761</u>	<u>10,348,488</u>
Total net patient service revenue	<u>\$ 20,653,839</u>	<u>\$ 19,938,355</u>

Note 9 - Nonoperating Gains

Nonoperating gains consist of the following:

	<u>2000</u>	<u>1999</u>
Donations, gifts and grants	\$ 345,717	\$ 8,573
Investment income	151,201	101,267
Other gains	<u>69,281</u>	<u>28,380</u>
Nonoperating gains - net	<u>\$ 566,199</u>	<u>\$ 138,220</u>

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2000 and 1999

Note 10 - Defined Benefit Pension Plan

Plan Description - The Hospital contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Public Employees Retirement System. PERS 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 PERS Board of Trustees. PERS issues a stand-alone financial report available to the public that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-466-2085 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 through June 30, 2000 and a rolled-back rate of 8.13 percent from July 1, 2000, to December 31, 2000. The contribution requirement of plan members and the Hospital is established and may be amended by the PERS Board of Trustees. The Hospital's contributions to PERS for the years ended December 31, 2000, 1999, and 1998, were \$755,756, \$898,371, and \$890,857, respectively.

Post-retirement Benefits - Public Employees Retirement System of Ohio provides post-retirement health care coverage to age and service retirants 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 Postemployment Benefit (OPEB), as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2000 employer contribution rate for local government employer units was 13.55 percent of covered payroll through June 30, 2000, and 8.13 percent of covered payroll from July 1, 2000, to December 31, 2000. Of this amount, 4.3 percent was the portion that was used to fund health care throughout the year. The portion of the employer's contribution used to fund post-employment benefits was \$299,808.

Fayette County Memorial Hospital

Notes to Financial Statements December 31, 2000 and 1999

Note 10 - Defined Benefit Pension Plan (Continued)

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

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 2000 was 401,339. As of December 31, 1999, the actuarial value of the Retirement System's net assets available for OPEB was \$10,806 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$12,474 million and \$1,668 million, 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 is 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.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

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.

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

Board of Trustees
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, 2000, and have issued our report thereon dated February 15, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether 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 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 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. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Fayette County Memorial Hospital's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as follows:

Payroll Function

Condition – During our testing of the payroll function, we noted instances in which the computation of hours from manual timecards and timesheets was incorrect. This resulted in erroneous hours being entered into the payroll system resulting in incorrect payment of wages. We noted instances of both overpayment and underpayment of wages. We further did not note any review and approval of timecards or payroll reports provided by accounting after initial input of hours for the timecards in question. Many of the errors could be attributed to the manual process of compiling hours and/or illegible timecards.

Recommendation – Create or enforce policy requiring department managers to review and approve timecards by initialing each timecard prior to submission for processing and review an approval of payroll edit forms created by payroll prior to finalizing payroll. Payroll personnel should also recalculate hours for all timecards and timesheets before entry of information into the payroll system. A final review of payroll should also be conducted and approved by the Chief Financial Officer before finalizing payroll. Performing these rudimentary procedures should mitigate the chances of processing erroneous payroll information. Management may also consider mechanizing the payroll process by researching the purchase and use of a time clock system that requires employees to use a badge to clock in and out of a day's shift by swiping their badge directly into the time clock payroll system. Mechanizing the current system would also serve to reduce unintentional human errors that result from manually determining payroll hours and provide a built in system of checks and balances.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that may be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of the Auditor of the State of Ohio, the Board of Trustees, 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, LLP

February 15, 2000



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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
MAY 29, 2001**