

**ADAMS COUNTY HOSPITAL
WEST UNION, OHIO**

December 31, 2001

*FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT*



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street
Columbus, Ohio 43215
Telephone 614-466-3402
800-443-9275
Facsimile 614-728-7199
www.auditor.state.oh.us

Board of Trustees
Adams County Hospital

We have reviewed the Independent Auditor's Report of the Adams County Hospital, Adams County, prepared by VonLehman & Company, Inc. 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 Adams County Hospital is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

April 23, 2002

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ADAMS COUNTY HOSPITAL

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Adams County Hospital
West Union, Ohio

We have audited the accompanying balance sheets of Adams County Hospital as of December 31, 2001 and 2000, and the related statements of operations, 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 U.S. 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 Adams County Hospital as of December 31, 2001 and 2000, and the results of its operations, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated February 21, 2002, on our consideration of Adams County 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.

VonLehman and Company Inc.

Fort Mitchell, Kentucky
February 21, 2002

**ADAMS COUNTY HOSPITAL
BALANCE SHEETS**

**ASSETS
General Fund**

	December 31,	
	2001	2000
Current Assets		
Cash and Cash Equivalents	\$ 964,198	\$ 1,026,676
Patient Accounts Receivable, Net of Estimated Uncollectibles (2001-\$716,973; 2000-\$1,077,872)	3,400,467	3,192,241
Inventories	195,951	195,635
Prepaid Expenses and Other Assets	<u>110,765</u>	<u>90,376</u>
 Total Current Assets	 <u>4,671,381</u>	 <u>4,504,928</u>
 Cash, Cash Equivalents and Investments Whose Use is Limited		
Board Designated for Future Capital Purposes: Cash and Cash Equivalents	 <u>273,073</u>	 <u>116,605</u>
 Property, Plant and Equipment, Net	 <u>3,153,165</u>	 <u>1,975,838</u>
 Total Assets	 <u>\$ 8,097,619</u>	 <u>\$ 6,597,371</u>

Restricted Funds

Specific Purpose Funds		
Cash and Cash Equivalents	\$ <u>54,193</u>	\$ <u>51,434</u>

See accompanying notes.

LIABILITIES AND FUND BALANCE
General Fund

	December 31,	
	2001	2000
Current Liabilities		
Accounts Payable - Trade	\$ 677,317	\$ 733,732
Accrued Expenses	1,019,305	988,969
Litigation Settlement Payable	-	285,661
Capital Lease Obligations - Current Portion	315,841	53,107
Notes Payable - Current Portion	75,470	-
 Total Current Liabilities	2,087,933	2,061,469
 Long-Term Liabilities		
Capital Lease Obligations	884,169	175,439
Notes Payable	109,632	-
 Total Long-Term Liabilities	993,801	175,439
 Total Liabilities	3,081,734	2,236,908
 Fund Balance	5,015,885	4,360,463
 Total Liabilities and Fund Balance	8,097,619	6,597,371
Restricted Funds		
Specific Purpose Funds		
Johnson Memorial Scholarship Fund	\$ 42,439	\$ 40,304
Other Funds	11,754	11,130
 Total Fund Balances - Specific Purpose Funds	\$ 54,193	\$ 51,434

**ADAMS COUNTY HOSPITAL
STATEMENTS OF OPERATIONS**

	Year Ended December 31, 2001				Year Ended December 31, 2000			
	General Fund	Restricted Funds	Total Funds	Percent	General Fund	Restricted Funds	Total Funds	Percent
Net Patient Service Revenues	\$ 16,455,300	\$ -	\$ 16,455,300	99.1 %	\$ 15,722,512	\$ -	\$ 15,722,512	98.5 %
Other Operating Revenues	150,658	4,893	155,551	0.9	239,556	1,898	241,454	1.5
Total Operating Revenues	<u>16,605,958</u>	<u>4,893</u>	<u>16,610,851</u>	<u>100.0</u>	<u>15,962,068</u>	<u>1,898</u>	<u>15,963,966</u>	<u>100.0</u>
Operating Expenses								
Salaries and Benefits	8,039,967	-	8,039,967	48.4	7,521,015	-	7,521,015	47.1
Medical Professional Fees	1,142,838	-	1,142,838	6.9	1,081,593	-	1,081,593	6.8
Supplies	2,024,356	-	2,024,356	12.2	1,835,275	-	1,835,275	11.5
Purchased Services	1,759,220	-	1,759,220	10.6	1,754,828	-	1,754,828	11.0
Equipment Rentals	114,453	-	114,453	0.7	109,535	-	109,535	0.7
Repairs and Maintenance	400,014	-	400,014	2.4	386,711	-	386,711	2.4
Utilities	396,193	-	396,193	2.4	327,614	-	327,614	2.1
Depreciation	592,223	-	592,223	3.6	534,139	-	534,139	3.3
Interest	92,533	-	92,533	0.6	23,357	-	23,357	0.1
Provision for Bad Debts	1,529,952	-	1,529,952	9.2	1,756,246	-	1,756,246	11.0
Other	573,311	2,134	575,445	3.4	488,724	1,503	490,227	3.1
Total Operating Expenses	16,665,060	2,134	16,667,194	100.4	15,819,037	1,503	15,820,540	99.1
(Loss) Income from Operations	(59,102)	2,759	(56,343)	(0.4)	143,031	395	143,426	0.9
Sales Tax Levy and Other Non-Operating Revenue	714,524	-	714,524	4.3	90,000	-	90,000	0.6
Excess of Revenues Over Expenses	<u>\$ 655,422</u>	<u>\$ 2,759</u>	<u>\$ 658,181</u>	<u>3.9 %</u>	<u>\$ 233,031</u>	<u>\$ 395</u>	<u>\$ 233,426</u>	<u>1.5 %</u>

See accompanying notes.

**ADAMS COUNTY HOSPITAL
STATEMENTS OF CHANGES IN FUND BALANCES**

	<u>2001</u>		<u>2000</u>	
	<u>General Fund</u>	<u>Restricted Funds</u>	<u>General Fund</u>	<u>Restricted Funds</u>
Balance Beginning of Year	\$ 4,360,463	\$ 51,434	\$ 4,127,432	\$ 51,039
Excess of Revenues Over Expenses	<u>655,422</u>	<u>2,759</u>	<u>233,031</u>	<u>395</u>
Balance End of Year	<u>\$ 5,015,885</u>	<u>\$ 54,193</u>	<u>\$ 4,360,463</u>	<u>\$ 51,434</u>

See accompanying notes.

**ADAMS COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS**

	December 31,	
	2001	2000
Cash Flows from Operating Activities		
Excess of Revenues over Expenses	\$ 655,422	\$ 233,031
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:		
Depreciation	592,223	534,139
Provision for Bad Debts	1,529,952	1,756,246
Loss on Disposal of Equipment	4,838	43,846
Changes in:		
Patient Accounts Receivable	(1,738,178)	(1,835,605)
Inventories	(316)	(11,707)
Prepaid Expenses and Other Assets	(20,389)	(64,112)
Accounts Payable	(56,415)	129,959
Accrued Expenses	30,336	(186,047)
Litigation Settlement Payable	(285,661)	35,661
Net Cash Provided by Operating Activities	711,812	635,411
Cash Flows from Non-Capital Financing Activities		
Non-Capital Restricted Contributions	830	1,129
Expenditures of Restricted Funds	(2,134)	(1,503)
Net Cash Used by Non-Capital Financing Activities	(1,304)	(374)
Cash Flows from Capital and Related Financing Activities		
Acquisition of Property and Equipment	(523,732)	(254,538)
Proceeds from Sale of Equipment	9,143	250
Payments on Capital Lease Obligations	(288,335)	(47,309)
Proceeds from Long Term Debt	211,346	-
Payments on Long Term Debt	(26,244)	-
Net Cash Used by Capital and Related Financing Activities	(617,822)	(301,597)
Cash Flows from Investing Activities		
Investment Income	4,063	769
Net Change in Cash and Cash Equivalents	96,749	334,209
Beginning Cash and Cash Equivalents	1,194,715	860,506
Ending Cash and Cash Equivalents	\$ 1,291,464	\$ 1,194,715
Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash and Cash Equivalents in Current Assets	\$ 964,198	\$ 1,026,676
Cash and Cash Equivalents Whose Use is Limited		
Board Designated for Future Capital Purposes	273,073	116,605
Restricted Fund Cash and Cash Equivalents	54,193	51,434
Total Cash and Cash Equivalents	\$ 1,291,464	\$ 1,194,715

See accompanying notes.

**ADAMS COUNTY HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 – ACCOUNTING POLICIES

Adams County Hospital (the Hospital) is a 60-bed facility, located in Adams County, Ohio and operated by a Board of Trustees as provided for under Ohio Revised Code Section 339. Members of the Board of Trustees are appointed by Adams County Judges and County Commissioners.

Nature of Operations

The Hospital's operations consist almost exclusively of providing healthcare services to the residents of Adams County, Ohio, and the surrounding area.

Basis of Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenues 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) that do not conflict with or contradict GASB pronouncements, including those issued after November 30, 1989.

Funds

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

General Fund

This fund is used to account for all the revenues derived and expenses incurred in the day-to-day activities of the Hospital together with all unrestricted donor contributions.

Restricted Funds

These funds are used to account for the receipts and disbursements of donor-restricted contributions.

Estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 1 – ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents are deposited in financial institutions as authorized and directed by State statutes. All deposits are collateralized by pledged securities of the financial institutions up to or exceeding the value of the deposits, as specified by State statutes.

Cash and cash equivalents are defined as those funds on deposit which mature in three months or less.

Cash, Cash Equivalents, and Investments Whose Use is Limited

Cash, cash equivalents, and investments whose use is limited include assets set aside by the Board of Trustees for future capital improvements, over which the Board of Trustees retains control and may at its discretion subsequently use for other purposes.

Inventories

Inventories consist primarily of supplies and are valued at the lower of cost under the first-in, first-out (FIFO) method, or market.

Property and Equipment

Property and equipment is recorded at cost or at fair market value at the date received if acquired by gift. It is the Hospital's policy to capitalize acquired property and equipment with a cost or fair market value of \$500 or greater. Expenditures for maintenance and repairs, which do not extend the life of the applicable assets, are charged to expense as incurred. Depreciation is computed using the straight line method over the estimated useful lives of the depreciable assets as follows:

Land Improvements	5 - 20 Years
Buildings and Fixed Equipment	5 - 40 Years
Major Movable Equipment	2 - 20 Years

Lease Agreements

The liability for lease obligations which are in substance installment purchases has been recorded in the financial statements and the leased equipment capitalized as fixed assets. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. Annual rentals pertaining to leases which convey merely the right to use property are charged to current operations. Depreciation of capital leases is included in depreciation expense on the statements of operations.

NOTE 1 – ACCOUNTING POLICIES (Continued)**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. A summary of the payment arrangements with major 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. Inpatient nonacute services are paid at a prospectively determined rate per day based on clerical, diagnostic and other factors. Outpatient services are reimbursed on a prospective rate scale based on Ambulatory Patient Classifications (APC's). Home Health Services are reimbursed on a prospective basis for episodes of care spanning 60 days. There are exceptions which could adjust the 60-day payment period. The payment rates are based on a clinical assessment system called OASIS (the Outcome and Assessment Information Set). Final settlements are determined upon submission of the annual cost report by the Hospital and audits thereof by the Medicare Fiscal Intermediary.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed on a rate per discharge basis. Outpatient services rendered to Medicaid program beneficiaries are reimbursed on a fee schedule basis. Inpatient capital costs are reimbursed at a tentative rate with a final settlement to be determined after submission of the annual cost report by the Hospital and audits thereof by the Medicaid Fiscal Intermediary.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Charity Care

The Hospital provides care to patients who meet criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues.

NOTE 2 – CASH AND CASH EQUIVALENTS**Risk Management**

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and employee health, dental and accident benefits.

Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

Legal Requirements

Statutes require the classification of monies held by the Hospital into three categories:

Category 1 consists of "active" monies, those monies required to be kept in a "cash" or "near-cash" status for current demands. Such monies must be maintained either as cash or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" monies, those monies not required for use within the current two year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

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

Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the full faith and credit of the United States is pledged for the payment of principal and interest;

Bonds, notes, debentures, or other obligations or securities issued by a federal government agency or instrumentality. The securities fall into three categories: obligations of the federal government, federal agencies, and federal instrumentalities;

Time certificates of deposit or savings or deposit accounts, including, but not limited to passbook accounts in any eligible institution mentioned in Section 135.32 of the Ohio Revised Code having an office located within the territorial limits of the county;

Bonds or other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this state or its political subdivisions;

Effective October 7, 1993, no load money market funds consisting exclusively of obligations described as "active" and "inactive" monies above, and repurchase agreements secured by such obligations so long as they are made through eligible institutions mentioned in Section 135.32 of the Ohio Revised Code;

The State Treasurer's investment pool.

The investing authority may also enter into a written repurchase agreement under the terms of which agreement the investing authority purchases and the seller agrees unconditionally to repurchase any of the securities listed in categories 1 and 2 above. He also may sell any of such securities owned by the county under the same terms and conditions for repurchase.

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

Insured or collateralized with securities held by the entity or by its agent in the entity's name;

Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name;

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

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

At year end, the carrying amount of the Hospital's deposits was \$1,291,464 and the bank balance was \$1,876,126. Of the bank balance:

\$242,460 was covered by federal depository insurance and would belong in the risk category "insured or collateralized"; and

\$1,633,666 was covered by collateral held by third-party trustees pursuant to Section 135.181 of the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, and belongs in the risk category "uncollateralized".

Cash paid for interest was as follows:

	December 31,	
	2001	2000
Interest	\$ <u>92,533</u>	\$ <u>23,357</u>

Non-cash investing or financing activities in 2001 and 2000 was as follows:

Assets Acquired Under Capital Lease Obligations	\$ <u>1,259,209</u>	\$ <u>48,103</u>
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NOTE 3 – CHARITY CARE

Charges excluded from revenue under the Hospital's charity care policy for patients unable to pay were \$341 and \$2,377 for 2001 and 2000, respectively.

NOTE 4 - THIRD-PARTY SETTLEMENTS AND COMPONENTS OF PATIENT ACCOUNTS RECEIVABLE

In addition to those patients unable to pay, there are patients receiving services who will not pay. The Hospital has established credit and collection policies to hold this cost to a minimum. Provision for bad debts are recorded as operating expenses on the financial statements.

Estimated third-party settlements for the Medicare and Medicaid programs reflect differences between interim reimbursement and reimbursement as determined by reports filed after the end of each year. Such third-party settlements reflect differences owed to or by the Hospital. The years 1998 through 1999 for Medicare, and 1996 through 1999 for Medicaid remain unsettled at the balance sheet date.

The Hospital's net patient accounts receivable (unsecured) were concentrated in the following major payor classes:

Federal Government: Medicare	\$1,257,810	\$1,069,767
State of Ohio: Medicaid, Workers Compensation	514,099	342,011
Commercial Insurance, Self-Pay and Other	<u>1,628,558</u>	<u>1,780,463</u>
Total	<u>\$3,400,467</u>	<u>\$3,192,241</u>

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Major categories of property, plant and equipment are as follows:

	December 31,	
	2001	2000
Land Improvements	\$ 298,786	\$ 298,786
Buildings	3,526,014	3,340,453
Fixed Equipment	3,195,702	2,952,017
Major Movable Equipment	3,445,213	3,442,245
Leased Equipment	1,605,947	346,738
Building Project	44,798	87,014
Total	12,116,460	10,467,253
Less Accumulated Depreciation	8,963,295	8,491,415
Property, Plant and Equipment, Net	\$ 3,153,165	\$ 1,975,838

NOTE 6 – NOTES PAYABLE

	December 31, 2001
The Hospital has a note payable to a medical facility. The note charges interest at 8.25%. The monthly principal and interest payments are \$1,875 and the final payment is due in April, 2003. The note is collateralized by the equipment purchased with the note proceeds.	\$ 28,312
The Hospital has a note payable to a bank to fund a roof renovation project. The note charges interest at 5% and monthly principal and interest payments are \$5,097. The final payment is due in September, 2004. The note is collateralized by money held in the Hospital's general checking account.	156,790
Less Current Portion	185,102 75,470
Long-Term Portion	\$ 109,632

The remaining maturities on these notes payable are as follows:

2002	\$ 75,470
2003	64,702
2004	44,930
	\$ 185,102

NOTE 7 – CAPITAL AND OPERATING LEASES

Capital Leases

The Hospital leases certain equipment under non-cancelable capital leases. The following are the net minimum lease payments for these leases:

	<u>December 31, 2001</u>	<u>December 31, 2000</u>
2002	\$ 372,640	
2003	348,774	
2004	326,300	
2005	291,188	
2006	68,163	
Thereafter	<u>8,750</u>	
Total Net Minimum Lease Payments	1,415,815	\$ 273,030
Less: Amount Representing Interest	<u>215,805</u>	<u>44,484</u>
Total Capital Lease Obligations	1,200,010	228,546
Less: Current Portion	<u>315,841</u>	<u>53,107</u>
Long-Term Capital Lease Obligations	<u>\$ 884,169</u>	<u>\$ 175,439</u>

Net book value of leased equipment was \$1,248,613 and \$243,893 at December 31, 2001 and 2000, respectively.

Operating Leases

The Hospital has entered into lease agreements for certain buildings under operating lease terms. The following are the net minimum lease payments for these leases:

2002	\$ 25,867
2003	9,804
2004	9,804
2005	9,804
2006	9,804
Thereafter	<u>17,974</u>
Total	<u>\$ 83,057</u>

Total rental expense for operating leases, including those with terms of one month or less, for the years ended December 31, 2001 and 2000 was \$55,704 and \$53,924, respectively, and were included within Other expenses on the Statements of Operations.

NOTE 8 – PENSION PLAN

The Hospital participates in a state pension plan, the Public Employees Retirement System (PERS), which covers substantially all employees.

The PERS plan is a cost sharing, multiple employer, defined benefit, public employee retirement plan. It provides retirement, disability and death benefits to plan members and beneficiaries. The PERS plan also provides health care benefits to vested retirees. Benefits provided under the plan are established by State Statute.

The plan issues a separate, publicly available financial report that includes a balance sheet and required supplementary information. This report may be obtained by contacting: Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 42315, Telephone (614) 466-2085.

The Ohio Revised Code provides PERS statutory authority for employer and employee contributions. The required, actuarially-determined contribution rates for the Hospital and for the employee are 13.55% and 8.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years are as follows:

<u>Year</u>	<u>Contribution</u>
2001	\$ 891,837
2000	726,078
1999	910,948

NOTE 9 – POSTEMPLOYMENT HEALTHCARE BENEFITS

In addition to the pension benefits described in Note 8 above, PERS also provides post-retirement health care coverage, commonly referred to as OPEB (Other Post-Employment Benefits). The Ohio Revised Code provides the authority for public employers to fund post-retirement health care through their contributions.

PERS provides post-retirement health care coverage to age and service retirees and dependents with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The 2001 employer rate for employees' coverage by PERS was 13.55%, of which 4.3% was used to fund health care. The total Hospital contribution used to fund health care was \$283,515 and \$270,075 for the years ended December 31, 2001 and 2000, respectively.

OPEB are financed through employer contributions and investment earning 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.

OPEB are advanced-funded on an actuarially-determined basis. The number of active contributing participants at December 31, 2000 was 411,076. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2000 was \$11,735,900. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364,600 and \$2,628,700, respectively, as of December 31, 2000. The actuarial assumptions used to calculate these amounts are as follows:

NOTE 9 – POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

- Funding Method – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.
- Assets Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.
- Investment Return – The investment assumption rate for 2000 was 7.75%.
- Active Employee Total Payroll – An annual increase of 4.75% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75% base increase, were assumed to range from 0.54% to 5.1%.
- Health Care – Health care costs were assumed to increase 4.75% annually.

NOTE 10 – MALPRACTICE INSURANCE

As of December 31, 2001, the Hospital carried occurrence basis malpractice insurance coverage of \$1,000,000 per claim and \$3,000,000 aggregate, plus excess liability coverage of \$5,000,000.

NOTE 11 – CONCENTRATIONS

Medicare and Medicaid accounted for approximately 53% and 57% of the Hospital's net patient service revenue during 2001 and 2000, respectively.

NOTE 12 – RESTRICTED FUND BALANCES

Temporarily restricted fund balances are available for the following purposes:

	December 31,	
	2001	2000
Johnson Memorial Scholarships Fund	\$ 42,439	\$ 40,304
Ruth Lyons Children's Fund	4,102	3,635
Wilson Worthy Fund	7,652	7,495
	\$ 54,193	\$ 51,434

The expenditures of restricted funds relate to the purchase of gifts and the issuance of scholarships.

NOTE 13 – COUNTY SUBSIDY

During 2000, the Hospital received county subsidies of \$90,000 to pay part of the Hospital's capital costs and operating expenses. No county subsidy was received in 2001.

NOTE 14 – LITIGATION SETTLEMENT

Prior to 2001, the Hospital was involved in litigation as a result of an Outpatient Laboratory Audit performed in 1997. A settlement was reached for an amount of \$285,661 and the Hospital paid the entire settlement in March, 2001. This settlement had been accrued and expensed in prior years.



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

Board of Trustees
Adams County Hospital

We have audited the financial statements of Adams County Hospital as of and for the year ended December 31, 2001, and have issued our report thereon dated February 21, 2002. We conducted our audit in accordance with U.S. 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 Adams County 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 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 Adams County 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 general purpose 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 the internal control over financial reporting that we have reported to the management of Adams County Hospital in a separate letter dated February 21, 2002.

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

VonLehman and Company Inc.

Fort Mitchell, Kentucky
February 21, 2002

**ADAMS COUNTY HOSPITAL
NONCOMPLIANCE CITATIONS - OHIO REVISED CODE
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001**

NONE

**ADAMS COUNTY HOSPITAL
STATUS OF PRIOR AUDIT CITATIONS AND RECOMMENDATIONS**

NONE



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

ADAMS COUNTY HOSPITAL

ADAMS 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 9, 2002**