

**LAWRENCE COUNTY GENERAL HOSPITAL  
DBA RIVER VALLEY HEALTH SYSTEM  
A COMPONENT UNIT OF LAWRENCE COUNTY  
IRONTON, OHIO**

**FINANCIAL STATEMENTS  
AND REPORTS**

**JANUARY 31, 2001**





STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Trustees  
Lawrence County General Hospital  
dba River Valley Health System  
Ironton, OH

We have reviewed the independent auditor's report of the River Valley Health System, Lawrence County, prepared by Hayflich & Steinberg, for the audit period January 1, 2000 through January 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 River Valley Health System is responsible for compliance with these laws and regulations.

JIM PETRO  
Auditor of State

April 8, 2002

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# HAYFLICH & STEINBERG

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Lawrence County General Hospital  
dba River Valley Health System  
Ironton, Ohio

We were engaged to audit the accompanying statement of fund balances in liquidation of River Valley Health System (the System), a component unit of Lawrence County, Ohio, as of January 31, 2001, and the related statements of operations, and cash flows for the thirteen months then ended. These financial statements are the responsibility of the System's management.

The System discontinued operations in January, 2001, shortly after the Board of Trustees approved dissolution, and as a result, a significant portion of the evidence supporting the financial records is not available. Further, the System did not have an appraisal made of the value of its property and equipment for the purpose of determining the liquidation value. The System's records do not permit the application of auditing procedures to obtain sufficient competent evidential matter.

As discussed in Note 1 to the financial statements, the Board of Trustees of the System approved a plan of liquidation in January, 2001 and commenced liquidation. As a result, the System has changed its basis of accounting for periods subsequent to the closure from a going concern basis to a liquidation basis.

Since we were not able to apply other auditing procedures to satisfy ourselves as to a significant portion of the evidence supporting the financial records, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 19, 2001 on our consideration of River Valley Health System'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.

HAYFLICH & STEINBERG  
June 19, 2001

**LAWRENCE COUNTY GENERAL HOSPITAL  
 DBA RIVER VALLEY HEALTH SYSTEM  
 A COMPONENT UNIT OF LAWRENCE COUNTY, OHIO  
 STATEMENT OF FUND BALANCES IN LIQUIDATION - RESTRICTED AND  
 UNRESTRICTED FUNDS  
JANUARY 31, 2001**

**ASSETS**

Cash	\$ 244,087
Patient accounts	1,908,724
Inventories	15,000
Property and equipment (See Note 7)	<u>12,060,610</u>
<b>TOTAL ASSETS</b>	<b><u>\$14,228,421</u></b>

**LIABILITIES**

Salaries and payroll taxes	\$ 1,933,067
Third party agencies	2,861,529
Bonds, notes and capital lease obligations	6,281,786
Patient credit balances	378,986
Unsecured vendor accounts	<u>6,055,113</u>
<b>TOTAL LIABILITIES</b>	<b><u>17,510,481</u></b>

**FUND BALANCES (DEFICITS) IN LIQUIDATION** **\$ (3,282,060)**

See accompanying notes to financial statements.



**LAWRENCE COUNTY GENERAL HOSPITAL  
 DBA RIVER VALLEY HEALTH SYSTEM  
 A COMPONENT UNIT OF LAWRENCE COUNTY, OHIO  
 STATEMENT OF CHANGES IN FUND BALANCES (DEFICITS) IN LIQUIDATION  
 FOR THE THIRTEEN MONTHS ENDED JANUARY 31, 2001**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>Balance at January 1, 2000</u>	\$ 4,578,847	\$ 3,869	\$ 4,582,716
(Deficit) excess of revenues over expenses	(6,930,571)	575	(6,929,996)
Loss on revaluation to liquidation basis	<u>(934,780)</u>	<u>          </u>	<u>(934,780)</u>
<u>Balance at January 31, 2001</u>	<u>\$(3,286,504)</u>	<u>\$ 4,444</u>	<u>\$(3,282,060)</u>

See accompanying notes to financial statements.

**LAWRENCE COUNTY GENERAL HOSPITAL  
 DBA RIVER VALLEY HEALTH SYSTEM  
 A COMPONENT UNIT OF LAWRENCE COUNTY, OHIO  
 STATEMENT OF OPERATIONS - RESTRICTED AND UNRESTRICTED FUNDS  
 FOR THE THIRTEEN MONTHS ENDED JANUARY 31, 2001**

Net Patient Service Revenues	\$25,032,557
Ohio Department of Mental Health Funding	1,419,926
Other Operating Revenues	<u>393,212</u>
<u>Total Revenues</u>	<u>26,845,695</u>
<u>Expenses</u>	
Salaries	12,468,023
Employee benefits	4,750,240
Medical professional fees	1,863,761
Supplies	3,221,177
Drugs and solutions	965,851
Purchased services	4,782,950
Equipment rental	363,538
Repairs and maintenance	568,774
Utilities	812,024
Depreciation	1,473,720
Interest	590,159
Other	<u>2,026,050</u>
<u>Total Expenses</u>	<u>33,886,267</u>
<u>Operating Loss</u>	<u>(7,040,572)</u>
<u>Non-Operating Income</u>	<u>110,576</u>
<u>Deficit of Revenues over Expenses</u>	<u>(6,929,996)</u>
<u>Loss on revaluation to liquidation basis</u>	<u>(934,780)</u>
<u>Decrease in Fund Balances</u>	<u>\$ (7,864,776)</u>

See accompanying notes to financial statements.

**LAWRENCE COUNTY GENERAL HOSPITAL  
DBA RIVER VALLEY HEALTH SYSTEM  
A COMPONENT UNIT OF LAWRENCE COUNTY, OHIO  
STATEMENT OF CASH FLOWS (INDIRECT METHOD)  
FOR THE THIRTEEN MONTHS ENDED JANUARY 31, 2001**

<u>Cash Flows From Operating Activities</u>	
Operating loss	\$ (7,040,572)
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	1,473,720
Interest expense	590,159
Operating grant for specific activity	575
Decrease (increase) in:	
Accounts receivable	3,013,699
Inventories	11,264
Prepaid expenses	(7,841)
Increase (decrease) in:	
Accounts payable	2,991,105
Accrued expenses	<u>(255,700)</u>
 <u>Net Cash Provided by Operating Activities</u>	 <u>776,409</u>
 <u>Cash Flows From Non-Capital Financing Activities</u>	
Unrestricted contributions	<u>27,530</u>
 <u>Cash Flows From Capital and Related Financing Activities</u>	
Acquisition of property and equipment	(1,415,607)
Debt additions	1,444,104
Debt reductions: Repayment of long-term debt	(1,994,547)
Payments on capital lease obligations	(120,122)
Interest paid	<u>(590,159)</u>
 <u>Net Cash Used by Capital and Related Financing Activities</u>	 <u>(2,676,331)</u>
 <u>Cash Flows from Investing Activities</u>	
Investment income	<u>82,471</u>
 Net (Decrease) in Cash and Cash Equivalents	 (1,789,921)
 <u>Beginning Cash and Cash Equivalents</u>	 <u>2,034,008</u>
 <u>Ending Cash and Cash Equivalents</u>	 <u>\$ 244,087</u>

See accompanying notes to financial statements.

**LAWRENCE COUNTY GENERAL HOSPITAL  
DBA RIVER VALLEY HEALTH SYSTEM  
A COMPONENT UNIT OF LAWRENCE COUNTY, OHIO  
STATEMENT OF CASH FLOWS (DIRECT METHOD)  
FOR THE THIRTEEN MONTHS ENDED JANUARY 31, 2001**

<u>Cash Flows From Operating Activities</u>	
Cash received from patients and third party payors	\$28,726,046
Cash paid to employees	(12,562,572)
Cash paid to suppliers	(17,918,922)
Other receipts from operations	<u>2,531,857</u>
<u>Net Cash Provided by Operating Activities</u>	<u>776,409</u>
<u>Cash Flows From Non-Capital Financing Activities</u>	
Unrestricted contributions	<u>27,530</u>
<u>Cash Flows From Capital and Related Financing Activities</u>	
Acquisition of property and equipment	(1,415,607)
Debt additions	1,444,104
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<u>Beginning Cash and Cash Equivalents</u>	<u>2,034,008</u>
<u>Ending Cash and Cash Equivalents</u>	<u>\$ 244,087</u>

See accompanying notes to financial statements.

**LAWRENCE COUNTY GENERAL HOSPITAL  
DBA RIVER VALLEY HEALTH SYSTEM  
A COMPONENT UNIT OF LAWRENCE COUNTY, OHIO  
NOTES TO FINANCIAL STATEMENTS  
January 31, 2001**

**Note 1: Description of Reporting Entity and Summary of Significant Accounting Policies**

A. Reporting Entity and Basis of Accounting - Lawrence County General Hospital dba River Valley Health System (the System), a component unit of Lawrence County, Ohio (accounted for as an enterprise fund), consisted of a 234-bed medical complex, with campuses in Ironton and Portsmouth, Ohio, and was operated by a Board of Trustees as provided for under Ohio Revised Code Section 339. Members of the Board of Trustees are appointed by Lawrence County Judges and the Board of County Commissioners.

In January 2001, the Board of Trustees decided to dissolve and, accordingly, revalue the System's assets and liabilities to the amounts expected to be collected and paid during the liquidation. The effect of the revaluation, where currently estimable, is included in the Statement of Operations. It is not presently determinable whether the amounts realizable from the disposition of the remaining assets or the amounts that creditors will agree to accept in settlement of the obligations due them will differ materially from the amounts shown in the accompanying financial statements. Differences between the revalued amounts and actual cash transactions will be recognized in the year they can be estimated.

B. Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. Funds - The System utilized 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.

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

Unrestricted Fund - This fund is used to account for all the revenues derived and expenses incurred in the day-to-day activities of the System together with all unrestricted donor contributions. The Board of Trustees has designated part of the fund to be used for special purposes.

Restricted Fund - This fund is used to account for the receipts and disbursements of donor restricted contributions.

D. Cash, Cash Equivalents and Investments - 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 equivalents are defined as those funds on deposit which mature in three months or less, while investments are those funds maturing in more than three months.

E. Investment Income - Investment income from unrestricted fund investments has been reported as non-operating revenue.

F. Medical Malpractice and Comprehensive Self-Insurance - The System recognized estimated asserted and unasserted malpractice claims in the period of occurrence, based on its past claims experience.

G. Inventories - Inventories consist primarily of supplies and are valued at estimated realizable value.

H. Property and Equipment - Property and equipment has been recorded at cost or at fair market value at the date received if acquired by gift. Expenditures for maintenance and repairs which do not extend the lives of the applicable assets are charged to expense as incurred. Depreciation is computed using the straight line method based on estimated useful lives of the depreciable assets. No adjustments have been made to the basis of the property and equipment for the effect of the revaluation. As discussed above and in Note 7, amounts actually realizable from the disposition of property and equipment could be substantially less than the indicated carrying (historical) values.

I. 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. Amortization of capital leases is included in depreciation expense on the statements of operations.

J. Net Patient Service Revenues - Net patient service revenues have been reported at the estimated net amounts realizable 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.

Patient accounts receivable at January 31, 2001 were valued at the net amount received subsequent to the System's closure.

K. Charity Care - The System provided care to patients who met criteria under its charity care policy without charge or at amounts less than its established rates. Because the System did not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues.

L. 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 System has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

**Note 2: Plan of Liquidation**

Effective January 31, 2001, the board of Trustees voted to dissolve because of continuing losses and changes in the market that make a return to profitable operations unlikely. The Lawrence County Court of Common Pleas has appointed a receiver to oversee the liquidation of the System.

**Note 3: Adjustments of Estimated Values**

Effective with the decision to liquidate, the carrying amounts of the System's assets and liabilities historical bases were no longer appropriate. Where reasonable values for estimated liquidation amounts were determinable, assets and liabilities were adjusted to the amounts of cash expected from their realization and settlement. The initial adjustment decreased net assets by \$ 934,780 as follows:

	<u>Historical Basis</u>	<u>Estimated Liquidation Value</u>
Inventory	\$ 236,390	\$ 15,000
Equipment maintenance agreements	592,166	0
Prepaid maintenance agreements	<u>121,224</u>	<u>0</u>
	<u>\$ 949,780</u>	<u>\$ 15,000</u>

Property and equipment will require an appraisal to determine an estimated liquidation value. The remaining assets and liabilities will be adjusted as reasonable bases for values are determined.

**Note 4: Charity Care**

Hospital records identify the amount of charges forgone for services and supplies furnished under its charity care policy. The following information measures the level of charity care provided during the thirteen months ended January 31, 2001.

Charges forgone, based on established rates	<u>\$ 156,578</u>
Estimated costs and expenses incurred to provide charity care	<u>\$ 119,391</u>
Equivalent percentage of charity care charges to Hospital total, based on established rates	<u>0.34%</u>

## **Note 5: Cash, Cash Equivalents and Investments**

Legal Requirements - Statutes require the classification of monies held by the System 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 not 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 designation of depositories. Interim monies may be invested or deposited in the following securities:

1. Bonds, notes, or other obligations of, or guaranteed by, the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, including, but not limited to, Federal National Mortgage Association debentures and discount notes, or by the Export-Import Bank of Washington, whether or not they are guaranteed by the United States;
3. Repurchase agreements in the securities enumerated above;
4. Interim deposits in the eligible institutions applying for interim monies;
5. Bonds or other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this state or its political subdivisions; and
6. The State Treasurer's investment pool.

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

### Deposits:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name;
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name;
3. 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).



Deposits: At January 31, 2001 the carrying amount of the System's deposits was \$244,087 and the bank balance was \$ 1,755,932. Of the bank balance:

1. \$ 200,000 was covered by federal depository insurance thus would belong in risk category (1); and
2. \$ 1,555,932 was covered by collateral held by third-party trustees pursuant to Section 135.181, Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, and thus belong in risk category (3).

**Note 6: Concentrations of Credit Risk**

The System granted credit without collateral to its patients, most of whom are local residents and are insured under third party payor agreements. The records necessary to compute the mix of receivables from patients and third-party payors at January 31,2001 were not available.

**Note 7: Property and Equipment**

As discussed in Note 1, the System has not revalued property and equipment to a liquidation value as an appraisal has not yet been performed. Further, upon dissolution of the System, the real property may revert to Lawrence County.

Major categories of property and equipment are as follows:

Land	\$ 559,119
Land improvements	441,055
Buildings	9,787,962
Fixed equipment	3,710,819
Major movable equipment	11,135,918
Construction in progress	<u>1,343,142</u>
<u>Total</u>	26,978,015
<u>Less: Accumulated depreciation</u>	<u>(14,917,405)</u>
<u>Property and Equipment - Net</u>	<u>\$12,060,610</u>

Construction in progress at January 31, 2001 related to various planned future construction projects including a substantially complete laboratory renovation, medical office building and renovations to the delivery rooms.

The System capitalized no interest during the thirteen months ended January 31, 2001.

**Note 8: Bonds, Notes and Capital Lease Obligations**

The debt listed below consists of bonds and notes payable, accrued interest, and obligations under various non-cancelable capital leases expiring through 2007. Due to the dissolution of the System, all such debt is recorded as current.

**County of Lawrence, Ohio Hospital Facilities:**

Revenue Bonds, series 1992A; issued July 20, 1992; payable in varying annual amounts including interest at 5.0%	\$ 1,920,000
Revenue Bonds, series 1992B; issued September 10, 1992; payable in varying annual amounts including interest at 5.0%	2,129,011

**First Federal Savings and Loan, Ironton, Ohio:**

Payable in monthly installments of \$239 including interest at 9.50%, secured by mortgage on 2310 South Ninth Street, Ironton, Ohio.	14,707
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**National City Bank, Ashland, Kentucky:**

Payable in monthly installments of \$1,187 per month including interest at 7.50%, secured by a mortgage on 802 Kemp Avenue, Ironton, Ohio.	81,519
Payable on demand, with quarterly interest payments at prime, secured by mortgage on 2124 South 8 <sup>th</sup> Street, Ironton, Ohio.	46,000
Payable in monthly installments of \$ 3,099 per month including interest at 7.0% for 119 months with a balloon payment of \$72,283, secured by mortgage on building in Wheelersburg, Ohio	287,670

**Bank One, West Virginia, NA, Wayne, WV:**

Payable in 59 monthly installments of \$849 including interest at 8.0%, with a balloon payment of \$ 42,735, secured by mortgage on 2308 South Ninth Street, Ironton, Ohio	42,735
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**Bank One, Charleston, WV:**

Payable in monthly installments of \$1,364.92 per month including interest at 8.0%, secured by a mortgage on Parcel No. 37-001-0500.000, State Route 141, Ironton, Ohio	42,270
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Star Bank, Ironton, Ohio: Due September 12, 2000, with interest payable quarterly at 9%, secured by all of the System's deposits with Star Bank (\$1,483,148 at January 31, 2001)	<u>105,175</u>
<u>Total Bonds and Notes Payable</u>	4,669,087
Capital lease obligations	1,429,676
Accrued interest	<u>183,023</u>
<u>Total</u>	<u>\$ 6,281,786</u>

**Note 9: Operating Leases**

Total rental expense for operating leases, including those with terms of one month or less, for the thirteen months ended January 31, 2001 was \$ 363,538.

**Note 10: Pension Plan**

All full time employees participated in the Public Employees Retirement System of Ohio ("PERS"), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-466-2085 or 800-222-7377.

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5% of their annual covered salaries for employees other than those engaged in law enforcement, which includes those of the System. The 2000 employer contribution rate for local government employers, including the System were 10.84% of covered payroll. The System's required contributions to PERS for the thirteen months ended January 31, 2001 and the years ended December 31, 1999, and 1998 were \$1,241,018, \$1,785,941, and \$1,859,549 respectively.

**Note 11: Postemployment Healthcare Benefits**

The Public Employees Retirement System of Ohio ("PERS") provides postretirement healthcare coverage to age and service retirees with ten (10) or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Healthcare coverage for disability recipients is available. The healthcare 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 post retirement healthcare based on authority granted by State statute. The 2000 employer contribution rate for local governments was 13.55% of covered payroll through June 30, 2000 and 8.13% from July 1, 2000 to December 31, 2000. Of this amount, 4.3% was the portion used to fund healthcare throughout the year. The portion of the employer's contribution used to fund healthcare was \$393,829.

Benefits are funded on a pay-as-you-go basis. The OPEB is financed through employer contributions and investment earnings. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in healthcare provisions, are expected by PERS to be sufficient to sustain the program indefinitely. The net assets available for OPEB was \$10,805,500,000 and \$9,870,285,641 as of December 31, 2000 and 1999, respectively.

**Note 12: Malpractice Insurance**

At January 31, 2001 the System carried a tail coverage policy for malpractice insurance coverage of \$1,000,000 per claim and \$3,000,000 aggregate, plus excess liability coverage of \$1,000,000.

**Note 13: Contingencies**

As a result of a request from the Board of Commissioners of Lawrence County, the System is the subject of an investigation by the Federal government. The Federal Bureau of Investigation's investigation is ongoing. The details of the investigation have not been publicly disclosed. The U.S. Department of Agriculture Office of Inspector General (OIG) is conducting a limited scope audit of the expenditure of federal loan funds expended during the thirteen months ended January 31, 2001. No report has been issued as a result of this limited-scope audit.

The System is party to several routine lawsuits incidental to its operations. It is not possible at the present time to estimate the ultimate legal and financial liability, if any, of the System with respect to such lawsuits.

**Note 14: Supplemental Cash Flow Information**

The cost of equipment financed under capital lease obligations during the period was \$307,491.

**Note 15: Estimates and Business Concentrations**

Accounts Payable to Third-Party Agencies: Management's estimates of third-party reimbursement settlements are complex and involve a large proportion of the System's operations. It is at least reasonably possible that management's estimate of accounts payable to third-party agencies will change during the next year.

**LAWRENCE COUNTY GENERAL HOSPITAL  
DBA RIVER VALLEY HEALTH SYSTEM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE THIRTEEN MONTHS ENDED JANUARY 31, 2001**

<b>Name of Agency, Department or Grantor</b>	<b>CFDA Number</b>	<b>Name of Program</b>	<b>Federal Loan Guarantees 01/01/00</b>	<b>Program Award</b>	<b>Total Program Expenditures</b>	<b>Federal Loan Guarantees 01/31/01</b>
U.S. Department of Agriculture - Pass through Rural Development	10.766	Community Facilities Loans and Grants	\$ 4,187,011	\$0	\$557,695	\$4,049,011

**MAJOR PROGRAMS:**

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# HAYFLICH & STEINBERG

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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***

Board of Trustees  
Lawrence County General Hospital  
dba River Valley Health System  
Ironton, Ohio

We were engaged to audit the financial statements of Lawrence County General Hospital, dba River Valley Health System (the System), a component unit of Lawrence County, Ohio, as of and for the thirteen months ended January 31, 2001, and have issued our report thereon dated June 19, 2001. We did not express an opinion on the financial statements because, as a result of the timing of the System's discontinuing operations relative to the decision to dissolve, a significant portion of the evidence supporting the financial records is not available and the System did not have an appraisal made of the value of its property and equipment for the purpose of determining liquidation value.

### Compliance

As part of obtaining reasonable assurance about whether River Valley Health System'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 of 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. As noted in our June 19, 2001 report, the System discontinued operations effective January 31, 2001. This resulted in a disruption of the accounting function and a significant portion of the evidence supporting the financial records was not available at the time of our fieldwork. However, the results of our tests disclosed no specific instances of noncompliance that are required to be reported under *Government Auditing Standards*.

## Internal Control Over Financial Reporting

In planning and attempting to perform our audit, we considered River Valley Health System'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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 River Valley Health System's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We noted the following reportable conditions:

### RECORD RETENTION AND ORGANIZATION

Documentation of transactions was not centrally maintained. This resulted in significant amounts of records that could not be located by the remaining staff after the closure of the System.

### CASH AND CASH EQUIVALENTS

The mail clerk did not make a list of the cash receipts received in the mail prior to giving them to the cashiers for posting.

### ACCOUNTS RECEIVABLE

Cashiers' access to the patient accounting system was not restricted to posting cash receipts. This could result in errors or irregularities occurring and not being detected.

There are large delays between providing patient services and billing for those services.

### ACCOUNTS PAYABLE, ACCRUED EXPENSES, AND NON-PAYROLL EXPENSES

There were large lapses between receiving invoices and releasing payment. This could result in interest and penalties being assessed or potential misstatements if the invoices are not recorded or recorded more than once. This could also result in vendors denying services and supplies.

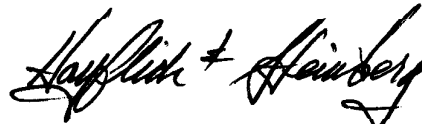
### LONG TERM DEBT

There were significant delays between entering into agreements such as notes, loans, and leases and recording the transactions .



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 might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, we consider all of the reportable conditions described above to be material weakness.

This report is intended for the information and use of the Board of Trustees, management, others within the organization, federal awarding agencies, 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.



HAYFLICH & STEINBERG

June 19, 2001



# HAYFLICH & STEINBERG

*Certified Public Accountants*

#8 Stonecrest Drive  
Huntington, WV 25701  
Phone - 304/697-5700  
FAX - 304/697-5704

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees  
Lawrence County General Hospital  
dba River Valley Health System  
Ironton, Ohio

### Compliance

We were engaged to audit the compliance of Lawrence County General Hospital, dba River Valley Health System, a component unit of Lawrence County, Ohio with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the thirteen months ended January 31, 2001. Lawrence County General Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lawrence County General Hospital's management.

We were unable to obtain sufficient documentation supporting the compliance of Lawrence County General Hospital, dba River Valley Health System with the U.S. Department of Agriculture Community Facilities Loan Program regarding Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Davis Bacon Act; Equipment and Real Property Management; Period of Availability of Federal Funds; Procurement and Suspension and Debarment; and Reporting, nor were we able to satisfy ourselves as to Lawrence County General Hospital dba River Valley Health System's compliance with those requirements by other auditing procedures. Accordingly, we do not express an opinion on the System's compliance with these requirements.

### Internal Control Over Compliance

The management of Lawrence County General Hospital, dba River Valley Health System was responsible for establishing and maintaining effective control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and attempting to perform our audit, we considered Lawrence County General Hospital, dba River Valley Health System's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the System's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2001-6.

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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of the Board of Trustees, management, others within the organization, federal awarding agencies, 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.



HAYFLICH & STEINBERG  
June 19, 2001

**LAWRENCE COUNTY GENERAL HOSPITAL DBA RIVER VALLEY HEALTH SYSTEM A  
COMPONENT UNIT OF LAWRENCE COUNTY, OHIO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
THIRTEEN MONTHS ENDED JANUARY 31, 2001**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor’s report disclaims an opinion on the financial statements of Lawrence County General Hospital dba River Valley Health System.
2. Five reportable conditions were disclosed during the audit of the financial statements. All are reported as material weaknesses.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. One reportable condition disclosed during the audit of the internal control over major federal award programs is recorded in the REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133. The condition is reported as a material weakness.
5. The auditor’s report on compliance for the major federal assistance program disclaims an opinion on the major federal program.
6. One audit finding relative to the major federal award programs is reported in this schedule.
7. The program tested as a major program was:
 

Community Facilities Loans and Grants	CFDA No. 10.766
---------------------------------------	-----------------
8. The threshold for distinguishing Type A and B Programs was \$300,000. The major program was the only program in the current period.
9. The System did not qualify as a low-risk auditee.

## **B: FINANCIAL STATEMENT AUDIT**

### **2001- 1 Cash and Cash Equivalents**

*Condition:* The mail clerk did not make a list of the cash receipts received in the mail prior to giving them to the cashiers for posting.

*Criteria:* Internal controls should be in place that provide reasonable assurance that assets are safeguarded.

*Effect:* Payments may be subject to misappropriation.

Recommendations are not appropriate due to the dissolution of the System.

### **2001- 2 Accounts Receivable**

*Condition:* Cashiers' access to the patient accounting system was not restricted to posting cash receipts and there are large delays between providing patient services and billing for those services.

*Criteria:* Internal controls should be in place that provide reasonable assurance that assets are safeguarded

*Effect:* Errors or irregularities could occur but not be detected.

Recommendations are not appropriate due to the dissolution of the System.

### **2001- 3 Accounts payable, accrued expenses, and non-payroll expenses**

*Condition:* There were large lapses between receiving invoices and releasing payment.

*Criteria:* Internal controls should be in place that provide reasonable assurance that invoices are properly recorded.

*Effect:* This could result in interest and penalties being assessed or potential misstatements if the invoices are not recorded or recorded more than once. This could also result in vendors denying services and supplies.

Recommendations are not appropriate due to the dissolution of the System.

#### **2001- 4 Long Term Debt**

*Condition:* There were significant delays between entering into agreements such as notes, loans, and leases and recording the transactions.

*Criteria:* Internal controls should be in place that provide reasonable assurance that all transactions are recorded.

*Effect:* The financial position of the System could be materially misstated.

Recommendations are not appropriate due to the dissolution of the System.

#### **2001- 5 Record Retention**

*Condition:* Documentation of transactions were not centrally maintained.

*Criteria:* Errors or irregularities could occur but not be detected.

*Effect:* This results in significant amounts of records that could not be located by the remaining staff after the closure of the System.

Recommendations are not appropriate due to the dissolution of the System.

### **C: FINDINGS - MAJOR FEDERAL AWARD PROGRAM**

Reportable Conditions:

#### **2001- 6**

*Condition:* A significant portion of the evidence supporting the financial records is not available due to the dissolution of the system.

*Criteria:* Records should be maintained and accessible for review and testing.

*Effect:* Because of the lack of availability of records, costs may be disallowed.



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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800-282-0370  
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**LAWRENCE COUNTY GENERAL HOSPITAL DBA RIVER VALLEY HEALTH SYSTEM**

**LAWRENCE 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  
APRIL 18, 2002**