

ADAMS COUNTY HOSPITAL

FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009



Dave Yost • Auditor of State

Board of Governors
Adams County Hospital
230 Medical Center Drive
Seaman, Ohio 45679

We have reviewed the *Report of Independent Auditors* of the Adams County Hospital, prepared by Blue & Co., LLC, for the audit period January 1, 2010 through December 31, 2010. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 28, 2011

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ADAMS COUNTY HOSPITAL

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Blue & Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240
main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Adams County Hospital
Seaman, Ohio

We have audited the accompanying balance sheets of Adams County Hospital (the Hospital), a business type activity of Adams County, Ohio, as of December 31, 2010 and 2009, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated 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 consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Hospital are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Adams County, Ohio that is attributable to the transactions of the Hospital. They do not purport to, and do not, present fairly the financial position of Adams County, Ohio, and the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Hospital as of December 31, 2010 and 2009, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees
Adams County Hospital

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in Notes 5 and 12, the Hospital did not meet certain covenants related to the bonds outstanding at December 31, 2010. These conditions, coupled with recurring operating losses and a deficiency in net assets at December 31, 2010, raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through vii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2011 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



May 4, 2011

Adams County Hospital

Management's Discussion and Analysis (unaudited)

The discussion and analysis of Adams County Hospital (the Hospital) financial performance provides an overview of the Hospital's financial activities for the years ended December 31, 2010, and 2009. Please read it in conjunction with the Hospital's financial statements, which begin on page 3.

Financial Highlights

- During 2010, the Hospital's revenues totaled \$23,480,482 while operating expenses totaled \$24,341,391. The result is a loss from operations of \$860,909 in 2010 compared to a loss from operations of \$1,050,985 in 2009.
- During 2010, the Hospital settled a lawsuit for \$4,710,000. This settlement is included in non-operating losses in the statements of operations and changes in net assets. The Hospital executed a note payable for the settlement amount to be paid over the next five years.
- The Hospital's net assets decreased approximately \$6,300,000 and \$1,869,000 in 2010 and 2009, respectively.
- The Hospital did not meet certain covenants related to its bonds outstanding at December 31, 2010. These conditions, coupled with recurring losses and negative net assets, raise substantial doubt about the Hospital's ability to continue as a going concern. Management intends to return the Hospital to profitability through the negotiation of increased payment rates from commercial payors, evaluation of service lines and staffing levels.

Using This Annual Report

The Hospital's financial statements consist of three statements—a Balance Sheet; a Statement of Operations and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital.

The Balance Sheet and Statement of Operations and Changes in Net Assets

The analysis of the Hospital finances begins on page ii. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Operations and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Adams County Hospital

Management's Discussion and Analysis (unaudited)

These two statements report the Hospital's net assets and related changes. You can think of the Hospital's net assets—the difference between assets and liabilities—as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, capital and related financing and non-capital financing activities. It provides answers to such questions as “where did cash come from?” “what was cash used for?” and “what was the change in cash balance during the reporting period?”

	Year Ended December 31		
	2010	2009	2008
Cash provided by (used in):			
Operating activities	\$ 2,309,216	\$ 2,115,351	\$ 1,877,573
Non-capital financing activities	(686,686)	(817,795)	(705,141)
Capital and related financing activities	(1,992,973)	(1,898,615)	(2,220,737)
Investing activities	7,522	(23,983)	21,492
Total	(362,921)	(625,042)	(1,026,813)
Cash - beginning of year	4,524,893	5,149,935	6,176,748
Cash - end of year	\$ 4,161,972	\$ 4,524,893	\$ 5,149,935

Adams County Hospital

Management's Discussion and Analysis (unaudited)

Net Assets

During 2010, net assets decreased \$6,257,595 from \$4,383,961 at December 31, 2009 to \$ (1,873,634) at December 31, 2010, as you can see in Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets			
Cash and cash equivalents and assets whose use is limited	\$ 4,161,972	\$ 4,524,893	\$ 5,149,935
Capital assets	24,724,807	26,870,623	28,219,273
Patient accounts receivable, net	2,581,108	3,092,479	3,573,850
Other assets	1,962,401	1,784,358	1,324,657
Total assets	<u><u>\$ 33,430,288</u></u>	<u><u>\$ 36,272,353</u></u>	<u><u>\$ 38,267,715</u></u>
Liabilities			
Current liabilities	\$ 5,408,751	\$ 4,368,631	\$ 3,946,216
Long - term obligations	29,895,171	27,519,761	28,068,758
Total liabilities	<u>35,303,922</u>	<u>31,888,392</u>	<u>32,014,974</u>
Net assets			
Invested in capital assets, net of debt	(2,673,064)	(1,739,097)	(946,579)
Unrestricted	(2,265,191)	2,834,020	3,511,355
Restricted	3,064,621	3,289,038	3,687,965
Total net assets	<u>(1,873,634)</u>	<u>4,383,961</u>	<u>6,252,741</u>
Total liabilities and net assets	<u><u>\$ 33,430,288</u></u>	<u><u>\$ 36,272,353</u></u>	<u><u>\$ 38,267,715</u></u>

Total assets decreased approximately \$2,842,000, primarily due to depreciation of the Hospital's capital assets, a decrease in cash and cash equivalents and a decrease in patient accounts receivable. Total liabilities increased approximately \$3,416,000 primarily due to executing a note payable for \$4,710,000 related to the litigation settlement offset by repayment of capital lease and bonds payable. Net assets decreased to approximately (\$1,873,000) in 2010, down from \$4,384,000 in 2009.

Adams County Hospital

Management's Discussion and Analysis (unaudited)

A summary of the Hospital's changes in net assets for the years ended December 31, 2010, 2009 and 2008 is presented below:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues			
Net patient service revenues	\$ 23,016,532	\$ 24,024,898	\$ 23,302,088
Other	463,950	383,024	385,144
Total operating revenues	<u>23,480,482</u>	<u>24,407,922</u>	<u>23,687,232</u>
Operating expenses			
Salaries and benefits	11,548,910	11,865,525	11,827,560
Supplies	3,311,812	3,757,207	3,236,960
Purchased services	2,452,334	2,906,586	2,906,444
Other	7,028,335	6,929,589	6,417,123
Total operating expenses	<u>24,341,391</u>	<u>25,458,907</u>	<u>24,388,087</u>
Loss from operations	(860,909)	(1,050,985)	(700,855)
Non-operating losses	<u>(5,396,686)</u>	<u>(817,795)</u>	<u>(705,141)</u>
Change in net assets	<u>\$ (6,257,595)</u>	<u>\$ (1,868,780)</u>	<u>\$ (1,405,996)</u>

Sources of Revenue

The Hospital derives substantially all of its revenue from patient service and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

Payer Mix

The Hospital provides care to patients under payment arrangements with Medicare, Medicaid, and various managed care programs. Services provided under those arrangements are paid at predetermined rates and/or reimbursable costs as defined. Provisions have been made in the financial statements for contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payment.

Adams County Hospital

Management's Discussion and Analysis (unaudited)

Loss from Operations

Revenues

Net patient service revenue decreased approximately \$1,008,000, or 4.2%, in 2010. This was attributable to changes in patient volumes and increasing deductions from revenue. Gross patient revenue is reduced by revenue deductions in determining net patient revenue. These deductions include amounts not paid to the Hospital under contractual arrangements primarily with Medicare, Medicaid, and commercial payors as well as amounts related to self-pay patients that qualify for charity write-offs based on pre-established financial need criteria and bad debts. These revenue deductions increased from 47.1% in 2009 to 49.0% of gross revenue in 2010.

Expenses

Total operating expenses decreased approximately \$1,118,000, or 4%, in 2010. This was primarily attributable to a decrease in salaries and benefits, supplies and purchased services.

Non-operating Losses

During 2010, the Hospital settled litigation for \$4,710,000 which is recorded in non-operating losses.

Capital Assets

During 2010, the Hospital invested \$363,087 in a broad range of capital assets which is included in the table below:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land improvements	537,426	537,426	483,762
Buildings and fixed equipment	27,968,739	27,820,160	27,485,127
Major moveable and leased equipment	10,819,292	10,686,011	9,860,310
Construction in progress	111,466	117,469	288,988
Total capital assets	39,436,923	39,161,066	38,118,187
Less accumulated depreciation	14,712,116	12,290,443	9,898,914
Capital assets, net	<u>\$ 24,724,807</u>	<u>\$ 26,870,623</u>	<u>\$ 28,219,273</u>

Capital assets decreased \$2,145,816 in 2010 primarily due to depreciation.

Adams County Hospital

Management's Discussion and Analysis (unaudited)

Debt

At December 31, 2010, the Hospital had \$26,015,000 in outstanding Hospital Facility Improvement Bonds. All but \$420,000 of this debt is long-term.

Other existing debt as of December 31, 2010 is approximately \$5,877,000, of which approximately \$1,577,000 is payable in 2011. This debt consists of capital lease obligations and the settlement note payable.

At December 31, 2010 the Hospital was not in compliance with the provisions of the bond covenants which require days cash on hand to be greater than 50 days and debt service coverage equal to at least 120% of maximum annual debt service. The Hospital has obtained a waiver of these covenants for the period ended December 31, 2010 and is required to maintain compliance on a quarterly basis.

Economic Factors that will Affect the Future

The key event for Adams County Regional Medical Center (the Hospital) was the decision to undertake a financial restructuring project with American Healthcare Solutions (AHS) beginning in September, 2010. The Hospital was continuing to report operating losses and expected to end 2010 with an operating loss of \$2,000,000; however, early initiatives implemented by AHS and senior management were able to provide some relief:

- The projected fourth quarter loss was mitigated and the year-end operational loss was approximately \$860,000.
- Cash position of the Hospital was improved in November and December of 2010 through the reduction of Days in Accounts Receivable down to 41 from a peak of over 60.
- Operational procedures were put in place to project cash receipts and expenditures to position the Hospital to deal with unexpected delays in the receipt of \$686,000 in HCAP reimbursement from the state of Ohio as well as a "computer maintenance" issue with Medicare/CMS which delayed the reimbursement of approximately \$500,000 in Medicare receipts from mid-December, 2010 through mid-February, 2011.

From a fiscal perspective, the Hospital continues to improve, assisted by an AHS initiative to review and raise prices charged. This has evolved into a three phase project which has improved the Hospital's operating results and cash collections in the first quarter of 2011. In fact, in of February, 2011, the Hospital reported an operating profit for the month and year to date for 2011, a milestone on the path to fiscal recovery.

Adams County Hospital

Management's Discussion and Analysis (unaudited)

Unfortunately, the Hospital must also deal with the burden of past mistakes as well. The financial statements for the year ending December 31, 2010 will reflect a special item with a nonrecurring loss related to a legal settlement. This has been appropriately booked and accounted for completely in the financial results reported for fiscal 2010. Management feels that this event will be seen as a decisive moment as the future of the Hospital unfolds as a turning point in fiscal and operational management of the Hospital.

Subsequent events and results indicate that the Hospital is improving operationally as fiscal 2011 continues well ahead of budgeted revenue targets and below budgeted expenditure targets.

Contacting the Hospital's Management

This financial report is intended to provide the reader with a general overview of the Hospital's finances. If you have questions about this report or need additional information, we welcome you to contact the chief financial officer at 230 Medical Center Drive, Seaman, Ohio 45679.

Scott Smith
Interim Chief Financial Officer

ADAMS COUNTY HOSPITAL

BALANCE SHEETS DECEMBER 31, 2010 AND 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Current assets		
Cash and cash equivalents	\$ 288,358	\$ 603,115
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$1,237,000 and \$1,202,000 in 2010 and 2009, respectively	2,581,108	3,092,479
Inventories	325,939	323,558
Estimated third party settlements	586,633	158,150
Prepaid expenses and other current assets	<u>292,731</u>	<u>316,464</u>
Total current assets	4,074,769	4,493,766
 Asset whose use is limited		
Board designated for future capital purposes	808,993	632,740
Trustee held funds	3,011,431	3,235,833
Donor restricted funds	<u>53,190</u>	<u>53,205</u>
	3,873,614	3,921,778
 Capital assets, net	24,724,807	26,870,623
Bond issuance costs, net	528,379	549,945
Other assets	<u>228,719</u>	<u>436,241</u>
 Total assets	<u>\$ 33,430,288</u>	<u>\$ 36,272,353</u>

See accompanying notes to financial statements.

ADAMS COUNTY HOSPITAL

BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current liabilities		
Accounts payable	\$ 1,513,178	\$ 1,003,086
Accrued expenses	1,898,463	2,075,586
Current portion of bonds payable	420,000	395,000
Current portion of notes payable	784,410	-
Current portion of capital lease obligations	792,700	894,959
Total current liabilities	<u>5,408,751</u>	<u>4,368,631</u>
Long-term liabilities		
Bonds payable	25,595,000	26,015,000
Capital lease obligations	590,171	1,304,761
Notes payable	3,710,000	-
Other long-term liabilities	-	200,000
Total long-term liabilities	<u>29,895,171</u>	<u>27,519,761</u>
 Total liabilities	 35,303,922	 31,888,392
Net assets (Deficiency in net assets)		
Invested in capital assets, net of related debt	(2,673,064)	(1,739,097)
Unrestricted	(2,265,191)	2,834,020
Restricted:		
For debt service	3,011,431	3,235,833
Expendable for specific operating activities	53,190	53,205
 Total net assets (deficiency in net assets)	 <u>(1,873,634)</u>	 <u>4,383,961</u>
 Total liabilities and net assets	 <u><u>\$ 33,430,288</u></u>	 <u><u>\$ 36,272,353</u></u>

See accompanying notes to financial statements.

ADAMS COUNTY HOSPITAL

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Operating revenues		
Net patient service revenue	\$ 23,016,532	\$ 24,024,898
Operating grants and other revenues	463,950	383,024
Total operating revenues	23,480,482	24,407,922
Operating expenses		
Salaries and benefits	11,548,910	11,865,525
Medical professional fees	1,467,744	1,350,743
Supplies	3,311,812	3,757,207
Purchased services	2,452,334	2,906,586
Rental expense	118,097	238,110
Repairs and maintenance	1,185,178	1,087,276
Utilities	675,161	548,070
Depreciation and amortization	2,511,634	2,712,699
Other	1,070,521	992,691
Total operating expenses	24,341,391	25,458,907
Loss from operations	(860,909)	(1,050,985)
Non-operating losses		
Sales tax levy and other	686,686	817,795
Litigation settlement	4,710,000	-
Total non-operating losses	5,396,686	817,795
Change in net assets	(6,257,595)	(1,868,780)
Net assets beginning of year	4,383,961	6,252,741
Net assets (Deficiency in net assets), end of year	\$ (1,873,634)	\$ 4,383,961

See accompanying notes to financial statements.

ADAMS COUNTY HOSPITAL

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Operating activities		
Cash received from patient services	\$ 23,099,420	\$ 24,446,140
Cash paid to vendors for goods and services	(9,728,111)	(10,784,283)
Cash paid to employees for wages and benefits	(11,526,043)	(11,929,530)
Other operating activities	463,950	383,024
Net cash from operating activities	2,309,216	2,115,351
Cash flow from non-capital financing activities		
Sales tax levy and other	(686,686)	(817,795)
Cash flow from capital and related financing activities		
Acquisition of capital assets	(276,050)	(812,251)
Loss on disposal of capital assets	18,845	13,560
Principal paid on long-term debt and capital leases	(1,735,768)	(1,099,924)
Net cash from capital and related financing activities	(1,992,973)	(1,898,615)
Cash flow from investing activities		
Advances under note receivable	-	(33,499)
Payments received under note receivable	7,522	9,516
Net cash from investing activities	7,522	(23,983)
Net change in cash and cash equivalents	(362,921)	(625,042)
Cash and cash equivalents		
Beginning of year	4,524,893	5,149,935
End of year	\$ 4,161,972	\$ 4,524,893
Balance sheet classifications of cash		
Cash and cash equivalents	\$ 288,358	\$ 603,115
Assets whose use is limited	3,873,614	3,921,778
Total cash and cash equivalents	\$ 4,161,972	\$ 4,524,893
Reconciliation of loss from operations to net cash from operating activities		
Loss from operations	\$ (860,909)	\$ (1,050,985)
Adjustment to reconcile loss from operations to net cash from operating activities		
Depreciation and amortization	2,511,634	2,712,699
Bad debts	2,402,516	2,185,823
Changes in operating assets and liabilities		
Patient accounts receivable	(1,891,145)	(1,704,452)
Inventories	(2,381)	(83,584)
Prepaid expenses and other current assets	23,733	(113,571)
Other assets	199,990	(200,000)
Estimated third-party settlements	(428,483)	(60,129)
Accounts payable	731,384	93,555
Accrued expenses	(177,123)	135,995
Other long-term liabilities	(200,000)	200,000
Net cash from operating activities	\$ 2,309,216	\$ 2,115,351
Supplemental disclosure of non-cash capital and financing activity:		
Equipment acquired under capital leases	\$ 87,037	\$ 543,792
Cash paid for interest	\$ 1,798,366	\$ 1,842,095
Notes payable issued for accounts payable	\$ 221,292	\$ -
Note payable for litigation settlement	\$ 4,710,000	\$ -

See accompanying notes to financial statements.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entities

Adams County Hospital (the Hospital) is a 25-bed facility located in Adams County, Ohio and operated by a Board of Trustees as provided for under Ohio Revised Code Section 339. The board of trustees, appointed by Adams County judges and commissioners, is charged with the management and operation, finances and staff of the Hospital. The Hospital is considered an enterprise fund of Adams County, Ohio. The Hospital's operations consist of providing healthcare services to 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 revenue and expenses are subject to accrual. 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 issues after November 30, 1989.

Other activities that result in gains or losses unrelated to the Hospital's primary mission are considered to be non-operating. Non-operating gains and losses include proceeds from the sales tax levy, unrestricted contributions, interest expense, interest earnings on investments, gains and losses from the sale of assets and the settlement of litigation against the Hospital.

Use of Estimates

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

Cash and Cash Equivalents

The Hospital considers cash and cash equivalents as those funds on deposit which have original maturities of three months or less.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Inventories

Inventories, which consist of pharmaceutical, medical and surgery supplies, are stated at the lower of cost or market determined by the first-in, first-out method.

Bond Issuance Costs

Costs incurred in obtaining long-term debt financing are being amortized over the term of the obligations.

Assets Whose Use is Limited

Assets whose use is limited represent cash and cash equivalents 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. Assets whose use is limited also includes various externally restricted funds held by trustee for debt service coverage and operating reserves, and donor restricted for charity care, nursing education and capital additions.

Capital Assets

Capital assets are reported on the basis of cost or at fair market value at the date received if acquired by gift. It is the Hospital's policy to capitalize acquired capital assets with a cost or fair market value of \$5,000. Expenditures for maintenance and repairs, which do not extend the useful lives of the applicable assets, are charged to expenses as incurred. Depreciation is computed using the straight-line method over the expected useful lives of depreciable assets. Equipment under capital leases are amortized using the straight-line method over the lessor of the lease term or the estimated useful life of the equipment.

The estimated useful lives are as follows:

Land improvements	5 - 20 years
Building and fixed equipment	5 - 40 years
Major movable equipment	2 - 20 years
Leased equipment	3- 15 years

Compensated absences

The Hospital's employees earn vacation days at varying rates depending on years of service. Employees also earn sick leave benefits based on varying rates depending on years of service.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Lease agreements

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

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. There has been no reduction in insurance coverage from the previous year.

Patient Accounts Receivable and Revenue

Patient accounts receivable and revenue are recorded when patient services are performed. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under payment 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.

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 is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Hospital estimates an allowance for doubtful accounts based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Operating Revenues

For purposes of these financial statements, operating revenues are those revenues generated by the Hospital for healthcare services rendered, grants received, or any other activity related to the Hospital's primary purpose.

Third-Party Payors

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 and Medicaid

The Hospital is a provider of services under the Medicare and Medicaid programs. The Hospital is designated as a critical access facility by the Medicare program. As a result, Medicare inpatient and outpatient services are reimbursed at 101% of the cost of providing those services. Payment for a majority of Medicaid inpatient and outpatient services is based on a prospectively determined amount.

Other Payors

The Hospital has entered into agreements with certain commercial carriers. Reimbursement for services under these agreements includes discounts from established charges and other payment methodologies.

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the years ended December 31, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Gross patient service revenue	\$ 45,168,843	\$ 45,447,883
less:		
Third party allowances	19,324,052	18,799,140
Charity care	425,743	438,022
Bad debts	2,402,516	2,185,823
Net patient service revenue	<u>\$ 23,016,532</u>	<u>\$ 24,024,898</u>

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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. Charges excluded from revenue under the Hospital's charity care policy for patients unable to pay were \$425,743 and \$438,022 for 2010 and 2009, respectively.

Restricted Resources

It is the Hospital's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Unrestricted resources are used only after restricted resources have been depleted.

Physician Recruitment Agreements

Consistent with the Hospital's policy regarding physician recruitment, the Hospital provides income guarantees to certain physician or physician groups who agree to practice in the community to fill a need in the Hospital's service area. Under such agreements, the Hospital is required to make payments to the physicians in excess of amounts earned in their respective practices up to the amount of the income guarantee. Income guarantee periods are generally two years.

Income guarantees of approximately \$222,000 and \$500,000 at December 31, 2010 and 2009, respectively, were recorded within accrued expenses. A corresponding asset was recorded in other assets within the accompanying balance sheets.

Litigation Settlement

During 2010, the Hospital settled a lawsuit for \$4,710,000. The related note payable is due over the next five years with monthly payments ranging from \$50,000 to \$100,000. See Note 5 for future payments under notes payable.

Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued, which is May 4, 2011.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

2. DEPOSITS

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 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.

For the years ending 2010 and 2009, the carrying amount of the Hospital's deposits was \$4,161,972 and \$4,524,893 and the bank balance was \$4,459,661 and \$4,810,604, respectively. Of the bank balances for 2010 and 2009, \$694,697 and \$697,236, respectively, was covered by federal depository insurance is in the risk category "insured or collateralized"; \$3,764,964 and \$4,113,368, respectively, 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 is categorized as "uncollateralized".

Interest rate risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – The Hospital may invest in United States obligations or any other obligation guaranteed by the United States; bonds, notes or any other obligations or securities issued by any federal government or instrumentality; time certificate of deposit or savings or deposit accounts, including passbook accounts, in any eligible institution mentioned in Section 135.32; bonds and other obligations of the State of Ohio or the political subdivisions of the state provided that such political subdivisions are located wholly or partly within the same county; and certain no load money market mutual funds; certain commercial paper; and certain repurchase agreements.

Concentration of credit risk – The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

3. THIRD-PARTY SETTLEMENTS AND CONCENTRATIONS

Estimated third-party settlements for the Medicare and Medicaid programs reflect differences between interim reimbursement and reimbursement as determined by cost reports filed after the end of each year. Such third-party settlements reflect differences owed to or by the Hospital. The years 2004 and thereafter remain unsettled at December 31, 2010 for Medicaid. The years 2009 and thereafter remain unsettled at December 31, 2010 for Medicare.

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

	2010		2009	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	25%	34%	22%	37%
Medicaid	20%	26%	27%	26%
Commercial and other	26%	31%	26%	28%
Self-pay	29%	9%	25%	9%
Total	100%	100%	100%	100%

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010:

	12/31/09	Additions	Transfers/ Disposals	12/31/10
Capital assets				
Construction in progress	117,469	-	(6,003)	111,466
Depreciable capital assets				
Land improvements	537,426	-	-	537,426
Buildings	22,916,666	94,399	-	23,011,065
Fixed equipment	4,903,494	54,180	-	4,957,674
Major moveable equipment	4,921,080	127,471	(81,227)	4,967,324
Leased equipment	5,764,931	87,037	-	5,851,968
Total capital assets	<u>39,161,066</u>	<u>363,087</u>	<u>(87,230)</u>	<u>39,436,923</u>
Less accumulated depreciation				
Land improvements	137,152	61,882	-	199,034
Buildings	2,099,048	885,759	-	2,984,807
Fixed equipment	3,268,632	378,634	-	3,647,266
Major moveable equipment	3,720,809	388,027	(68,385)	4,040,451
Leased equipment	3,064,802	775,756	-	3,840,558
Total accumulated depreciation	<u>12,290,443</u>	<u>2,490,058</u>	<u>(68,385)</u>	<u>14,712,116</u>
Capital assets, net	<u>\$ 26,870,623</u>	<u>\$ (2,126,971)</u>	<u>\$ 18,845</u>	<u>\$ 24,724,807</u>

Capital asset activity for the year ended December 31, 2009:

	12/31/08	Additions	Transfers/ Disposals	12/31/09
Capital assets				
Construction in progress	\$ 288,988	\$ 431,967	\$ (603,486)	\$ 117,469
Depreciable capital assets				
Land improvements	483,762	6,428	47,236	537,426
Buildings	22,908,417	11,036	(2,787)	22,916,666
Fixed equipment	4,576,710	287,793	38,991	4,903,494
Major moveable equipment	4,639,171	75,027	206,882	4,921,080
Leased equipment	5,221,139	543,792	-	5,764,931
Total capital assets	<u>38,118,187</u>	<u>1,356,043</u>	<u>(313,164)</u>	<u>39,161,066</u>
Less accumulated depreciation				
Land improvements	76,364	60,788	-	137,152
Buildings	1,398,883	884,300	(184,135)	2,099,048
Fixed equipment	2,894,017	378,615	(4,000)	3,268,632
Major moveable equipment	3,185,820	646,458	(111,469)	3,720,809
Leased equipment	2,343,830	720,972	-	3,064,802
Total accumulated depreciation	<u>9,898,914</u>	<u>2,691,133</u>	<u>(299,604)</u>	<u>12,290,443</u>
Capital assets, net	<u>\$ 28,219,273</u>	<u>\$ (1,335,090)</u>	<u>\$ 13,560</u>	<u>\$ 26,870,623</u>

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

5. LONG-TERM DEBT

The following is a summary of the Hospital's long-term debt:

	December 31, 2010		
	<u>Bond payable</u>	<u>Notes Payable</u>	<u>Capital lease</u>
Debt outstanding December 31, 2009	\$ 26,410,000	\$ -	\$ 2,199,720
Additions	-	4,931,292	87,037
Repayments	395,000	436,882	903,886
Debt outstanding December 31, 2010	<u>\$ 26,015,000</u>	<u>\$ 4,494,410</u>	<u>\$ 1,382,871</u>
Expected to be paid within one year	<u>\$ 420,000</u>	<u>\$ 784,410</u>	<u>\$ 792,700</u>

	December 31, 2009	
	<u>Bond payable</u>	<u>Capital lease</u>
Debt outstanding December 31, 2008	\$ 26,785,000	\$ 2,380,852
Additions	-	543,792
Repayments	375,000	724,924
Debt outstanding December 31, 2009	<u>\$ 26,410,000</u>	<u>\$ 2,199,720</u>
Expected to be paid within one year	<u>\$ 395,000</u>	<u>\$ 894,959</u>

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Bonds payable

The Hospital is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued in 2005 to construct a new facility in Seaman, Ohio. The bonds are dated July 28, 2005 with an original issue of \$27,480,000. Interest rates range from 5.00% to 6.25%. Under the terms of the bond agreements, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included in restricted net assets. The outstanding balance of the bonds at December 31, 2010 was \$26,015,000. Future minimum principal and interest payments follow:

	Principal	Interest	Total
2011	\$ 420,000	\$ 1,676,025	\$ 2,096,025
2012	445,000	1,650,828	2,095,828
2013	470,000	1,623,013	2,093,013
2014	500,000	1,593,638	2,093,638
2015	530,000	1,562,388	2,092,388
2016-2020	3,195,000	7,271,000	10,466,000
2021-2025	4,355,000	6,117,475	10,472,475
2026-2030	5,960,000	4,506,450	10,466,450
2031-2035	8,175,000	2,299,375	10,474,375
2036	1,965,000	127,727	2,092,727
	<u>\$ 26,015,000</u>	<u>\$ 28,427,919</u>	<u>\$ 54,442,919</u>

Under the terms of the bond agreements, the Hospital has pledged a security interest in present and future gross revenues and accounts receivables, as defined.

At December 31, 2010, the Hospital was not in compliance with the provisions of the bond covenants which require day's cash on hand to be greater than 50 days and debt service coverage equal to at least 120% of maximum annual debt service. The Hospital has obtained a waiver of these covenants for the period ended December 31, 2010 and is required to maintain compliance on a quarterly basis.

Interest expense for 2010 and 2009 was \$1,790,795 and \$1,835,220, respectively.

Notes payable and capital lease obligations

During 2010, the Hospital entered into a settlement agreement totaling \$4,710,000. This amount is to be paid over 5 years with monthly payments ranging from \$50,000 to \$100,000. There is no interest associated with this debt.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

During 2010, the Hospital converted an account payable to a note payable totaling \$221,292 to be paid over 12 months with payments of \$18,441 a month. There is no interest associated with this debt.

The Hospital leases certain equipment under capital lease obligations. Interest rates range from 4.2% to 7.0%. Net minimum future lease payments follow:

	December 31, 2010	
	Note Payable	Capital Lease
2011	\$ 784,410	\$ 824,738
2012	600,000	544,106
2013	985,000	90,671
2014	1,020,000	-
2015	1,105,000	-
Total payments	\$ 4,494,410	1,459,515
Less: amount representing interest		76,644
Total capital lease obligations		1,382,871
Less: current portion		792,700
Long-term capital lease obligations		\$ 590,171

Net book value of lease equipment included within capital assets follows:

	2010	2009
Cost	\$ 5,851,968	\$ 5,764,931
Accumulated depreciation	3,840,558	3,064,802
Net book value	\$ 2,011,410	\$ 2,700,129

6. ACCRUED EXPENSES

The details of accrued liabilities at December 31, 2010 and 2009 are as follows:

	2010	2009
Payroll and related items	\$ 1,117,467	\$ 1,150,788
Physician guarantees	222,321	300,000
Other accrued expenses	558,675	624,798
Total salaries, wages and related accruals	\$ 1,898,463	\$ 2,075,586

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

7. OPERATING LEASES

The Hospital has lease agreements for certain buildings and office equipment under operating leases. Net future minimum lease payments for these leases follow:

2011	\$	36,635
2012		31,182
2013		26,846
2014		22,902
2015		<u>2,772</u>
Total	\$	<u>120,337</u>

Total rental expense for operating leases for the years ended December 31, 2010 and 2009 was \$118,097 and \$238,110, respectively, and is included on the statements of operations and changes in net assets.

8. PENSION PLAN

The Hospital contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010 and 2009, state and local employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 5.5% from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care was 7.0% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010, and 4.23% from March 1 through December 31, 2010. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected

The Hospital's contributions, representing 100% of employer contributions, for the last three years follow:

<u>Year</u>	<u>Contribution</u>
2010	\$ 1,271,602
2009	1,324,932
2008	1,304,174

The total Hospital contribution used to fund health care was approximately \$462,000, \$556,000 and \$652,000 for 2010, 2009 and 2008, respectively.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

9. MALPRACTICE INSURANCE

As of December 31, 2010 and 2009, 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.

10. RESTRICTED NET ASSETS

Temporarily restricted fund balances are available for the issuance of scholarships, purchase of gifts and for the purchase of medical equipment to be used to treat those with tobacco-related illnesses. Restricted net assets also include \$3,011,431 of funds restricted for debt service requirements at December 31, 2010 and \$3,235,833 at December 31, 2009.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required. The Hospital is currently evaluating the effects the new statement will have on its financial statements.

11. FOUNDATION AND CONTRIBUTED LAND

The land on which the new Hospital facility is located, was donated to the Adams County Medical Foundation, Inc (the "Foundation"). The Foundation allowed the Hospital to construct its new facility on the land. The Hospital's lease of the land is for \$1 for the term of the lease. During 2010, an additional 2 acres were donated to the Foundation.

The Foundation was formed exclusively for nonprofit charitable, scientific, or educational purposes and was established to provide services exclusively for the benefit of Adams County Hospital and to further the Hospital's goals and services relating to the general health and well-being of the citizens of Adams County, Ohio and surrounding areas.

The Foundation has assets of \$128,040 and \$9,258 in 2010 and 2009, respectively.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

It is anticipated that the Hospital and the Foundation will report under combined financial statements when the Foundation has greater financial activity.

12. GOING CONCERN AND MANAGEMENT'S PLANS

The Hospital did not meet certain covenants related to the bonds outstanding at December 31, 2010 (Note 5). The Hospital occupied a newly constructed facility in 2007. This facility was financed through a bond issue of \$27,480,000 which required annual debt service payments of approximately \$2,093,000 beginning in 2008. The covenants include debt service coverage equal to at least 120% of maximum annual debt service and days cash on hand of not less than 50.

The Hospital's net assets decreased approximately \$6,258,000 and \$1,869,000 in 2010 and 2009, respectively. Further, there was a loss from operations of approximately \$861,000 in 2010. The loss from operations in 2009 was approximately \$1,051,000. In 2010 current liabilities exceed current assets. These factors are indicative of the entity's inability to continue as a going concern.

Management of the Hospital plans to return the Hospital to profitability through evaluation of contribution margins of certain lines of business, physician recruitment, renegotiation of supplies contracts and vendor agreements, flexing staff levels consistent with inpatient census and outpatient needs in addition to other cost containment initiatives as well as implementing a strategic price increase for procedures performed.

It is not possible at this time to predict the success of the Hospital's future plans, and there is no assurance that these plans will be realized. The Hospital's continued existence is dependent on its ability to achieve profitable operations and positive cash flows, and to maintain adequate financing. The financial statements do not include any adjustments that might be necessary if the Hospital is unable to continue as a going concern.



Blue & Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240
main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Adams County Hospital
Seaman, Ohio

We have audited the financial statements of Adams County Hospital (the Hospital), as of and for the year ended December 31, 2010, and have issued our report thereon dated May 4, 2011. Our report included additional language stating the financial statements of the Hospital are intended to present the financial position and the changes in financial position and, where applicable cash flows of only that portion of the business-type activities of Adams County, Ohio that is attributable to the transactions of the Hospital. Those financial statements do not purport to, and do not, present fairly the financial position of Adams County, Ohio as of December 31, 2010, the changes in its financial position or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our report also included additional language stating the financial statements have been prepared assuming that the Hospital will continue as a going concern. The Hospital did not meet certain covenants related to the bonds outstanding. The Hospital has obtained a waiver of the covenant violations. These conditions, coupled with recurring operating losses and a deficiency in net assets at December 31, 2010, raise substantial doubt about its ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses (items 2010-1 and 2010-2) we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (continued)

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses (items 2010-1 and 2010-2) to be material weaknesses.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Hospital in a separate letter dated May 4, 2011.

The Hospital's responses to the finding identified in our audit are described in the accompanying schedule of audit findings and responses. We did not audit the Hospital's response and, accordingly, we express no opinion on it.

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



May 4, 2011

**Adams County Hospital
Schedule of Findings and Responses
December 31, 2010**

2010 – 1: Classification of current and long-term portions of debt and capital leases

Condition: The Hospital does not classify the current portion of debt to be paid within the current year, as a current liability.

Criteria: Amounts on debt to be paid within the current period are required to be classified as a current liability on the balance sheet.

Cause: The Hospital has outstanding debt and per the agreements a portion of the amount is to be required to be paid during 2010, that was not classified as a current liability.

Effect: During the audit, reclassification entries totaling \$1,020,000 were necessary to adjust the current and long-term portions of long-term debt and capital lease obligations to actual amounts.

Recommendation: We recommend that management adjust the current and long-term portions of these obligations periodically to accurately reflect the financial position of the organization.

Management's Response: We will adjust these balances going forward by utilizing the related amortization schedules.

2010 – 2: Bad Debt Allowance

Condition: The Hospital did not update their bad debt collection percentages based on current economic conditions.

Criteria: The Bad Debt Allowance and Bad Debt expense should reflect the Hospital's expected collection of self-pay accounts.

Cause: The community that the Hospital currently operates in has been hit by the economic downturn. Due to loss of jobs more individuals no longer have insurance which increased the number of self-pay patients.

Effect: During the audit, an adjusting entry totaling \$230,392 was necessary to adjust the bad debt allowance to reflect the actual collection percentage the Hospital has been receiving on self-pay accounts.

Recommendation: We recommend that management adjust the bad debt model on at least a quarterly basis to reflect their actual collections on self-pay accounts and their write-offs.

Management's Response: We will adjust the bad debt model throughout the year and monitor actual collections.

Adams County Hospital
Schedule of Prior Audit Findings and Responses
December 31, 2009

2009 – 1: Classification of current and long-term portions of debt and capital leases

Condition: The Hospital does not classify the current portion of debt to be paid within the current year, as a current liability.

Recommendation: We recommend that management adjust the current and long-term portions of these obligations periodically to accurately reflect the financial position of the organization.

Current Status: Classification of current and long-term portions of debt continues to be an issue and is included in the current year findings at 2010-1.

2009 – 2: Physician Recruitment Assets and Liabilities

Condition: The Hospital did not accrue for future payments to be paid to physicians under contracts including income guarantees in accordance with FASB Staff Position FIN 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business of Its Owners."

Recommendation: We recommend that management analyze physician and physician group agreements with income guarantees for possible recognition of future commitments.

Current Status: No similar findings noted in 2010 audit.

2009 – 3: Capital Lease Analysis

Condition: The Hospital did not properly account for capital leases entered into during the year.

Recommendation: We recommend the Hospital develop procedures to review and evaluate any new lease agreements to determine if the leases are to be recorded as capital leases or operating leases.

Current Status: No similar findings noted in 2010 audit.



Dave Yost • Auditor of State

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
JULY 12, 2011**