Adams County Regional Medical Center

Auditor's Report and Financial Statements

December 31, 2013 and 2012

BKD LLP
CPAs & Advisors

Dave Yost · Auditor of State

Board of Trustees
Adams County Regional Medical Center
230 Medical Center Drive
Seaman, Ohio 45679

We have reviewed the *Independent Auditor's Report* of the Adams County Regional Medical Center, Adams County, prepared by BKD, LLP, for the audit period January 1, 2013 through December 31, 2013. 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 Regional Medical Center is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

July 23, 2014

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Adams County Regional Medical Center

December 31, 2013 and 2012

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BKD LLP
CPAs & Advisors

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Independent Auditor's Report

Board of Trustees
Adams County Regional Medical Center
Seaman, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Adams County Regional Medical Center (Center) and its discretely presented component unit, Adams County Medical Foundation, Inc. (collectively the "Organization") , which comprise the balance sheets as of December 31, 2013 and 2012, and the statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Adams County Medical Foundation, Inc., a discretely presented component unit included in the financial statements of Adams County Regional Medical Center, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Adams County Regional Medical Center and its discretely presented component unit as of December 31, 2013 and 2012, and the respective changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

The accompanying financial statements have been prepared assuming the Center will continue as a going concern. As discussed in Note 12, the Center has suffered recurring losses from operations and has a net position deficiency, which raises 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. Our opinions are not modified with respect to this matter.

As discussed in Note 1 to the financial statements, in 2013, the Center changed its method of accounting for bond issuance costs. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audit of the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated June 26, 2014 on our consideration of the Center's internal control over financial reporting and 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* in considering the Center's internal control over financial reporting and compliance.

BKD, LLP

Cincinnati, Ohio
June 26, 2014

Adams County Regional Medical Center
Management's Discussion and Analysis
Years Ended December 31, 2013 and 2012

Introduction

This management's discussion and analysis of the financial performance of Adams County Regional Medical Center (the "Center") provides an overview of the Center's financial activities for the years ended December 31, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Center. The activities of the discretely presented component unit, Adams County Medical Foundation, Inc., are not significant to the overall Center and thus have not been included in this management's discussion and analysis.

Financial Highlights

- Current unrestricted cash and cash equivalents increased in 2013 by $123,318, or 220.67%, and decreased in 2012 by $775,603, or 93.28%.
- The Center's net position decreased $1,271,813, or 54.31%, in 2013 and increased $132,476, or 5.35%, in 2012.
- The Center reported an operating loss in 2013 of $1,053,406 and operating income in 2012 of $657,361. The operating loss in 2013 increased by $1,710,767, or 260.25%, over the operating income reported in 2012. The operating income in 2012 increased by $745,471, or 846.07%, over the operating loss reported in 2011.
- Net nonoperating expenses increased by $65,814, or 3.92%, in 2013 compared to 2012, and decreased $50,077, or 2.90%, in 2012 compared to 2011.

Using This Annual Report

The Center's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Center, including resources held by the Center but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Center is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any Center's finances is "Is the Center as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, all liabilities and all deferred inflows and outflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Center's net position and changes in it. The Center's total net position—the difference between assets, liabilities and deferred inflows and outflows of resources—is one measure of the Center's financial health or financial position. Over time, increases or decreases in the Center's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Center's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Center.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents during the reporting period.

The Center's Net Position

The Center's net position is the difference between its assets, liabilities and deferred inflows and outflows of resources reported in the Balance Sheet. The Center's net position decreased by $1,271,813 in 2013 from 2012, and increased by $132,476 in 2012 from 2011, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

		Restated	
	2013	2012	2011
Assets			
Patient accounts receivable, net	$ 2,556,687	$ 2,886,916	$ 2,339,262
Other current assets	1,748,308	3,272,691	1,440,693
Capital assets, net	22,023,243	22,836,554	23,697,483
Other noncurrent assets	3,199,925	3,602,077	4,033,264
Total assets	$ 29,528,163	$ 32,598,238	$ 31,510,702
Liabilities			
Long-term debt	$ 1,721,852	$ 26,893,770	$ 28,190,483
Other current liabilities	31,419,865	8,046,209	5,794,436
Total liabilities	33,141,717	34,939,979	33,984,919
Net Position			
Net investment in capital assets	(3,823,616)	(2,821,655)	(2,763,908)
Restricted expendable	2,696,389	3,042,973	3,290,069
Unrestricted	(2,486,327)	(2,563,059)	(3,000,378)
Total net position	(3,613,554)	(2,341,741)	(2,474,217)
Total liabilities and net position	$ 29,528,163	$ 32,598,238	$ 31,510,702

Significant changes in the Center's financial position in 2013 were the decreases in capital assets related to depreciation on existing equipment and long-term debt related to principal payments on outstanding obligations.

Other current assets decreased significantly from the previous year, largely due to the accrual of an estimated settlement payment from the Medicare program related to the implementation of Electronic Health Record (EHR) technology during 2012. Other current liabilities decreased primarily due to favorable settlement of amounts due to third parties during 2013 and decreases in accounts payable due to increases in available cash flow.

Operating Results and Changes in the Center's Net Position

In 2013, the Center's net position decreased by $1,271,813, or 54.31%, as shown in Table 2. This decrease is made up of several components and represents a deterioration of $1,404,289, or 1,060.03%, compared with the increase in net position for 2012 of $132,476.

Table 2: Operating Results and Changes in Net Position

		Restated	
	2013	**2012**	**2011**
Operating Revenues			
Net patient service revenue	$ 23,091,668	$ 23,162,090	$ 23,909,861
Other operating revenues	702,424	2,590,977	657,254
Total operating revenues	23,794,092	25,753,067	24,567,115
Operating Expenses			
Salaries, wages and employee benefits	12,029,136	11,900,616	11,516,283
Purchased services and professional fees	4,290,282	4,535,606	3,933,922
Depreciation and amortization	2,295,662	2,426,337	2,636,421
Other operating expenses	6,232,418	6,233,147	6,568,599
Total operating expenses	24,847,498	25,095,706	24,655,225
Operating Income (Loss)	(1,053,406)	657,361	(88,110)
Nonoperating Revenues (Expenses)			
Investment return	4,797	7,250	13,544
Interest	(1,748,450)	(1,685,089)	(1,741,460)
Total nonoperating revenues (expenses)	(1,743,653)	(1,677,839)	(1,727,916)
Capital Appropriations - Adams County	1,208,625	1,152,954	1,093,394
Capital Grants and Gifts	316,621	-	-
Increase (Decrease) in Net Position	$ (1,271,813)	$ 132,476	$ (722,632)

Operating Income and Loss

The first component of the overall change in the Center's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In two of the past three years, the Center has reported an operating loss. This is consistent with the Center's recent operating history as the Center was formed and is operated primarily to serve residents of Adams County and the surrounding area. The Center receives property tax levy monies to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating results for 2013 decreased by $1,710,767, or 260.25%, as compared to 2012. The primary components of the changes in operating results are:

- An decrease in net patient service revenue of $70,422, or 0.30%.
- A decrease in other operating revenue of $1,888,553, or 72.89%.
- A decrease in purchased services and professional fees expense of $245,324, or 5.41%.
- A decrease in depreciation and amortization expense of $130,675, or 5.39%.

Net patient service revenue decreased only slightly from 2012 to 2013. An increase in overall patient days of 357, or 13.2%, was partially offset by an increase in bad debts associated with self-pay patients.

Employee salaries and wages and benefits stayed mostly flat in 2013 in connection with the Center's efforts to control operating costs as a result ongoing financial pressures. Total FTEs in 2013 were approximately 219 compared to 233 in 2012.

Expenditures for medical supplies are a major component of the Center's costs. In 2012, medical supplies totaled $2,957,439 or 11.78% of total operating expenses. In 2013, they totaled $2,809,207, or 11.31%, of total operating expenses, a decrease of $148,232, or 5.01%, over 2012. Some of the major factors contributing to the decreased medical supply and drug costs include management's efforts to control costs through negotiation of new supplier contracts at more favorable rates, and management's efforts to control and limit costs as much as possible.

The operating loss for 2013 of $1,053,406 was a decrease over the operating income of $657,361 recognized in 2012. The decrease is primarily related to the decrease in net operating revenues of $1,958,975 compared to the decrease in operating expenses of only $248,208. A substantial factor impacting the decrease in net operating revenues was the recognition of approximately $2,100,000 in 2012 for attestation of meaningful use under the Electronic Health Records incentive program.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist of investment income and interest expense, each of which remained relatively constant in 2013 as compared to 2012.

Capital Appropriations

The Center is appropriated sales and use tax revenues from the Adams County general and other funds. Use of the monies is restricted for the purpose of equipping and repairing the Center and other permanent improvements. The levy to raise the funds must be approved by a majority vote of the citizens of Adams County, and the current levy will be in force from April 1, 2011 through March 31, 2016. Amounts appropriated were $1,208,625, $1,152,954, and $1,093,394, for 2013, 2012, and 2011, respectively.

Capital Grants and Gifts

The Center receives both capital and operating grants from various state and federal agencies for specific programs. In 2013 the Center received a $250,000 grant to assist with the purchase of a new digital mammography unit.

The Center also received gifts of $66,621 from Adams County Medical Foundation, Inc. and various individuals to purchase capital assets in 2013. Substantially all of these gifts have been expended and are reflected in unrestricted net position as of December 31, 2013.

The Center's Cash Flows

Changes in the Center's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2013, 2012 and 2011, discussed earlier**.**

Capital Asset and Debt Administration

Capital Assets

At the end of 2013, the Center had $22,023,243 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2013, the Center purchased new equipment costing $1,548,839. To help acquire this equipment, the Center incurred new capital lease obligations of $1,570,947. Of this amount incurred, $449,943 was related to acquisitions previously included in accounts payable at December 31, 2012. The Center has recently found it more economical to lease certain equipment principally due to incentives provided by equipment vendors. This allows the Center to obtain more favorable maintenance contracts on such equipment and preserve current cash flows.

Debt

At December 31, 2013, the Center had $27,852,427 in revenue bonds, notes payable and capital lease obligations outstanding including all current maturities and any unamortized discounts. Except for capital leases of $1,570,947, the Center issued no new debt in 2013. The Center's formal debt issuances, revenue bonds, are subject to limitations imposed by state law.

Other Economic Factors

The Center has seen a change over the past few years with a decline in inpatient volumes and sustained high rates of unemployment in Center's primary service area. Both of these have a negative impact on the Center.

As expenses continue to rise each year, the Center will need to find additional revenue sources to offset the increase in supply costs and salary and wage increases and reduce the need for incurrence of any new debt.

Health care reform has initiated significant changes to the United States health care system, including potential material changes to the delivery of health care services and the reimbursement paid for such services by the government or other third-party payers. The long-term impact is unknown, as the long period between passage and its implementation lends to some level of uncertainty. The Center will develop and execute strategies in an effort to leverage available opportunities and mitigate negative impacts of this legislation.

Contacting the Center's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the chief executive officer by telephoning (937) 386-3400.

Saundra Stevens
Chief Executive Officer

Adams County Regional Medical Center

Balance Sheets

December 31, 2013 and 2012

Assets	December 31, 2013 Center	December 31, 2013 Component	December 31, 2012 (Restated) Center	December 31, 2012 Component
Current Assets				
Cash and cash equivalents	$ 179,201	$ 105,868	$ 55,883	$ 40,854
Patient accounts receivable, net of allowance; 2013 - $2,897,796, 2012 - $2,533,425	2,556,687	-	2,886,916	-
Estimated amounts due from third-party payers	1,169,256	-	2,759,045	-
Supplies	293,196	-	366,383	-
Prepaid expenses and other	106,655	35,036	91,380	35,000
Total current assets	4,304,995	140,904	6,159,607	75,854
Noncurrent Cash and Investments				
Held by trustee for debt service	2,643,626	-	2,989,635	-
Restricted by donors - cash	52,763	89,977	53,338	95,782
Internally designated for capital improvements - cash	503,536	-	559,104	-
	3,199,925	89,977	3,602,077	95,782
Capital Assets, Net	22,023,243	397,800	22,836,554	397,800
Total assets	$ 29,528,163	$ 628,681	$ 32,598,238	$ 569,436

Liabilities and Net Position

	December 31, 2013 Center	December 31, 2013 Component	December 31, 2012 (Restated) Center	December 31, 2012 Component
Current Liabilities				
Outstanding checks in excess of bank balance	$ -	$ -	$ 223,364	$ -
Current maturities of long-term debt (net)	26,130,575	-	1,620,746	-
Accounts payable	2,843,114	16,277	3,274,943	-
Accrued expenses and other	1,681,097	61,017	1,786,988	48,119
Estimated amounts due to third-party payers	765,079	-	1,140,168	-
Total current liabilities	31,419,865	77,294	8,046,209	48,119
Long-term Debt				
Principal amount	1,755,890	-	27,013,202	-
Less unamortized discount	34,038	-	119,432	-
	1,721,852	-	26,893,770	-
Total liabilities	33,141,717	77,294	34,939,979	48,119
Net Position				
Net investment in capital assets	(3,823,616)	-	(2,821,655)	-
Restricted - expendable for				
Debt service	2,643,626	-	2,989,635	-
Specific operating activities	52,763	64,592	53,338	111,378
Unrestricted	(2,486,327)	486,795	(2,563,059)	409,939
Total net position	(3,613,554)	551,387	(2,341,741)	521,317
Total liabilities and net position	$ 29,528,163	$ 628,681	$ 32,598,238	$ 569,436

Adams County Regional Medical Center

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2013 and 2012

	December 31, 2013		December 31, 2012	
	Center	Component	(Restated) Center	Component
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts; 2013 - $3,575,677 and 2012 - $3,221,015	$ 23,091,668	$ -	$ 23,162,090	$ -
Other	702,424	6,549	2,590,977	202,067
Total operating revenues	23,794,092	6,549	25,753,067	202,067
Operating Expenses				
Salaries and wages	9,672,047	-	9,384,445	-
Employee benefits	2,357,089	-	2,516,171	-
Medical professional fees	1,589,536	-	1,524,218	-
Supplies	2,809,207	-	2,957,439	-
Minor equipment	42,452	-	89,343	-
Purchased services	2,700,746	283,752	3,011,388	219,064
Equipment rentals	159,749	-	122,206	-
Repairs and maintenance	1,294,657	-	1,379,476	-
Utilities	580,154	-	551,750	-
Depreciation and amortization	2,295,662	-	2,426,337	-
Other operating expenses	1,346,199	110,263	1,132,933	205,911
Total operating expenses	24,847,498	394,015	25,095,706	424,975
Operating Income (Loss)	(1,053,406)	(387,466)	657,361	(222,908)
Nonoperating Revenues (Expenses)				
Investment income	4,797	22	7,250	65
Interest expense	(1,748,450)	-	(1,685,089)	-
Noncapital grants and gifts	-	417,514	-	150,054
Total nonoperating revenues (expenses)	(1,743,653)	417,536	(1,677,839)	150,119
Excess (Deficiency) of Revenues Over Expenses Before Capital Appropriations and Grants and Gifts	(2,797,059)	30,070	(1,020,478)	(72,789)
Capital Appropriations - Adams County	1,208,625	-	1,152,954	-
Capital Grants and Gifts	316,621	-	-	-
Increase (Decrease) in Net Position	(1,271,813)	30,070	132,476	(72,789)
Net Position, Beginning of Year, As Previously Reported	(2,341,741)	521,317	(1,988,970)	594,106
Cumulative Effect of Adoption of Change in Accounting Principle	-	-	(485,247)	-
Net Position, Beginning of Year, As Restated	(2,341,741)	521,317	(2,474,217)	594,106
Net Position, End of Year	$ (3,613,554)	$ 551,387	$ (2,341,741)	$ 521,317

Adams County Regional Medical Center

Statements of Cash Flows

Years Ended December 31, 2013 and 2012

	2013	(Restated) 2012
Operating Activities		
Receipts from and on behalf of patients	$ 24,636,597	$ 19,730,089
Payments to suppliers and contractors	(9,308,564)	(7,849,129)
Payments to employees	(12,135,027)	(11,855,459)
Other operating receipts (payments), net	(458,301)	1,638,808
Net cash provided by operating activities	2,734,705	1,664,309
Capital and Related Financing Activities		
Capital grants and gifts	316,621	-
Principal paid on long-term debt and capital leases	(2,367,297)	(1,775,253)
Interest paid on long-term debt and capital leases	(1,748,450)	(1,685,089)
Purchase of capital assets	(427,835)	(564,425)
Capital appropriations - Adams County	1,208,625	1,152,954
Net cash used in capital and related financing activities	(3,018,336)	(2,871,813)
Investing Activities		
Interest and dividends on investments	4,797	20,648
Proceeds from disposition of investments	-	2,105,181
Proceeds from disposition of capital assets	-	1,632
Net cash provided by investing activities	4,797	2,127,461
Increase (Decrease) in Cash and Cash Equivalents	(278,834)	919,957
Cash and Cash Equivalents, Beginning of Year	3,657,960	2,738,003
Cash and Cash Equivalents, End of Year	$ 3,379,126	$ 3,657,960
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 179,201	$ 55,883
Cash and cash equivalents in noncurrent cash and investments	3,199,925	3,602,077
Total cash and cash equivalents	$ 3,379,126	$ 3,657,960

Adams County Regional Medical Center
Statements of Cash Flows (continued)
Years Ended December 31, 2013 and 2012

	2013	(Restated) 2012
Reconciliation of Net Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	$ (1,053,406)	$ 657,361
Depreciation and amortization	2,295,662	2,426,337
Provision for bad debts	3,575,677	3,221,015
(Gain) loss on disposal of capital assets	200,749	(13,398)
Changes in operating assets and liabilities		
Accounts receivable	(3,245,448)	(3,768,669)
Estimated amounts due from and to Medicare and Medicaid	1,214,700	(2,884,347)
Accounts payable and accrued expenses	(311,141)	1,874,566
Other assets	57,912	151,444
Net cash provided by operating activities	$ 2,734,705	$ 1,664,309
Supplementary Cash Flow Information		
Capital asset acquisitions included in accounts payable	$ -	$ 449,943
Cash paid for interest	$ 1,758,241	$ 1,692,666
Capital lease obligations incurred for capital assets	$ 1,570,947	$ 372,071

Adams County Regional Medical Center
Notes to Financial Statements
December 31, 2013 and 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Adams County Regional Medical Center (Center) is a 25-bed critical access hospital located in Seaman, Ohio. The Center operates under the authority of Section 339, Ohio Revised Code, to provide inpatient, outpatient and emergency care services for residents of Adams County, Ohio (County). A board of trustees appointed by County judges and commissioners is charged with the operation, finances and staff of the Center. It also operates a home health agency in the same geographic area. The Center is considered an enterprise fund of the County and is included in the general purpose financial statements of the County.

Basis of Accounting and Presentation

The financial statements of the Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Center first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

During the year ended December 31, 2013, the Center adopted GASB No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of GASB No. 65 is to (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). GASB No. 65 has been applied retrospectively by restating the Center's prior years' net position and changes in net position related to bond issuance costs that had previously been capitalized and amortized, but are no longer recognized as assets. Due to the adoption of GASB No. 65, the 2012 beginning net position was decreased by $485,247.

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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013 and 2012, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

Risk Management

The Center 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 illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Investments and Investment Income

Investments consist of money market mutual funds and U.S. Treasury obligations, which are carried at fair value. Fair value is determined using quoted market prices. Investment income includes dividend and interest income.

Patient Accounts Receivable

The Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Center provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Center:

Land improvements	5 – 25 years
Buildings and fixed equipment	3 – 40 years
Major movable equipment	2 – 20 years

Compensated Absences

Center policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments.

Net Position

Net position of the Center is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Center, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Center has agreements with third-party payers that provide for payments to the Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government function of the County, the Center is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Center is subject to federal income tax on any unrelated business taxable income.

Foundation

Adams County Medical Foundation, Inc. (Foundation) is a legally separate, tax-exempt component unit of the Center. The Foundation's primary function is to raise and hold funds to support the Center and its programs. The board of the Foundation is self-perpetuating.

Although the Center does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the Center. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the Center, the Foundation is considered a component unit of the Center and is discretely presented in the Center's financial statements. During 2013, the Adams County Regional Medical Center Auxiliary became part of the Foundation in a transaction accounted for as a combination of entities under common control.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Center's financial reporting entity for these differences.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the Center's net position.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Center's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Center is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

In 2012, the Center completed the first-year requirements under both the Medicare and Medicaid programs and recorded revenue of approximately $2,100,000, which is included in other revenue within operating revenues in the statement of revenues, expenses and changes in net position.

Note 2: Net Patient Service Revenue

The Center has agreements with third-party payers that provide for payments to the Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known. These payment arrangements include:

Medicare. Effective October 1, 2004, the Center received full accreditation from the Center for Medicare and Medicaid Services for the critical access hospital designation. As a CAH, the Center receives reasonable, cost-based reimbursement for both inpatient and outpatient services provided to Medicare beneficiaries.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The Center is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Center and audits thereof by the Medicaid administrative contractor.

Approximately 82% and 77% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs (including managed care) for the years ended December 31, 2013 and 2012, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

The 2013 net patient service revenue decreased approximately $1,215,000 due to removal of previously estimated amounts that are no longer necessary as a result of final settlements.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government’s deposits may not be returned to it. The Center’s deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Ohio; bonds of any city, county, school district or special road district of the state of Ohio; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2013 and 2012, respectively, $2,869,053 and $3,005,848 of the Center's bank balances of $3,590,127 and $3,903,675 were exposed to custodial credit risk as follows:

	2013	2012
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Center's name	$ 2,869,053	$ 3,005,848

Investments

The Center may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements and money market mutual funds. It may also invest to a limited extent in corporate bonds and equity securities.

At December 31, 2013 and 2012, the Center had the following investments and maturities:

		2013			
Type	Fair Value	Less than One Year	One to Five Years	Six to 10 Years	More than 10 Years
U.S. Treasury obligations	$ 1,051,000	$ 1,051,000	$ -	$ -	$ -
Money market mutual funds	1,592,626	1,592,626	-	-	-
		$ 2,643,626	$ -	$ -	$ -

		2012			
Type	Fair Value	Less than One Year	One to Five Years	Six to 10 Years	More than 10 Years
Money market mutual funds	$ 2,989,635	$ 2,989,635	$ -	$ -	$ -
		$ 2,989,635	$ -	$ -	$ -

Interest Rate Risk – The Center does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changes in market interest rates.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Center does not have an investment policy that addresses credit risk.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Center does not have a policy for custodial credit risk.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2013	2012
Carrying value		
Deposits	$ 735,500	$ 668,325
Investments	2,643,626	2,989,635
	$ 3,379,126	$ 3,657,960
Included in the following balance sheet captions:		
Cash and cash equivalents	$ 179,201	$ 55,883
Held by trustee for debt service	2,643,626	2,989,635
Externally restricted by donor - cash	52,763	53,338
Internally designated - cash	503,536	559,104
	$ 3,379,126	$ 3,657,960

Investment Income

Investment income for the years ended December 31 consisted of:

	2013	2012
Interest and dividend income	$ 4,797	$ 7,250
	$ 4,797	$ 7,250

Note 4: Patient Accounts Receivable

The Center grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	2013	2012
Medicare	$ 2,753,276	$ 2,686,263
Medicaid	1,179,882	1,251,181
Other third-party payers	1,216,614	1,483,007
Patients	2,886,496	2,996,366
Total patient accounts receivable	8,036,268	8,416,817
Less allowance for contractual adjustments	2,581,785	2,996,476
Less allowance for uncollectible amounts	2,897,796	2,533,425
Patient accounts receivable, net	$ 2,556,687	$ 2,886,916

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2013				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land and land improvements	$ 537,426	$ 12,559	$ -	$ -	$ 549,985
Buildings	23,158,084	100,400	-	-	23,258,484
Equipment	17,034,182	1,426,470	(477,310)	394,091	18,377,433
Construction in progress	384,681	9,410	-	(394,091)	-
	41,114,373	1,548,839	(477,310)	-	42,185,902
Less accumulated depreciation					
Land improvements	322,798	62,510	-	-	385,308
Buildings	4,730,006	788,255	-	-	5,518,261
Equipment	13,225,015	1,310,636	(276,561)	-	14,259,090
	18,277,819	2,161,401	(276,561)	-	20,162,659
Capital Assets, Net	$ 22,836,554	$ (612,562)	$ (200,749)	$ -	$ 22,023,243

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land and land improvements	$ 537,426	$ -	$ -	$ -	$ 537,426
Buildings	23,011,065	147,019	-	-	23,158,084
Equipment	15,909,739	239,502	(213,889)	1,098,830	17,034,182
Construction in progress	483,593	999,918	-	(1,098,830)	384,681
	39,941,823	1,386,439	(213,889)	-	41,114,373
Less accumulated depreciation					
Land improvements	260,916	61,882	-	-	322,798
Buildings	3,873,397	856,609	-	-	4,730,006
Equipment	12,110,027	1,327,245	(212,257)	-	13,225,015
	16,244,340	2,245,736	(212,257)	-	18,277,819
Capital Assets, Net	$ 23,697,483	$ (859,297)	$ (1,632)	$ -	$ 22,836,554

Adams County Regional Medical Center
Notes to Financial Statements
December 31, 2013 and 2012

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31 consisted of:

	2013	2012
Payable to suppliers and contractors	$ 2,843,114	$ 3,498,307
Payable to employees (including payroll taxes and benefits)	1,060,310	1,149,788
Other	620,787	637,200
	$ 4,524,211	$ 5,285,295

Note 7: Medical Malpractice Claims

The Center purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Long-term Obligations

The following is a summary of long-term obligation transactions for the Center for the years ended December 31:

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable	$ 25,150,000	$ -	$ 470,000	$ 24,680,000	$ 24,680,000
Note payable	3,110,000	-	985,000	2,125,000	1,020,000
Capital lease obligations	508,209	1,570,947	912,297	1,166,859	515,969
	28,768,209	1,570,947	2,367,297	27,971,859	26,215,969
Less unamortized discount	253,693	-	134,261	119,432	85,394
Long term debt less unamortized discount	$ 28,514,516	$ 1,570,947	$ 2,233,036	$ 27,852,427	$ 26,130,575

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable	$ 25,595,000	$ -	$ 445,000	$ 25,150,000	$ 470,000
Note payable	3,710,000	-	600,000	3,110,000	985,000
Capital lease obligations	866,391	372,071	730,253	508,209	300,007
	30,171,391	372,071	1,775,253	28,768,209	1,755,007
Less unamortized discount	412,728	-	159,035	253,693	134,261
Long term debt less unamortized discount	$ 29,758,663	$ 372,071	$ 1,616,218	$ 28,514,516	$ 1,620,746

Revenue Bonds Payable

The revenue bonds payable consist of Hospital Facilities Revenue Improvement Bonds, Series 2005 (Bonds) in the original amount of $27,480,000 dated July 28, 2005, which bear interest at 5.00% to 6.25%. The Bonds are payable in annual installments through September 1, 2036. The Center is required to make monthly deposits to the debt service fund held by the trustee. All of the Bonds still outstanding may be redeemed at the Center's option on or after September 1, 2015. The redemption price is 101%, decreasing to 100% on or after September 1, 2020. Proceeds from the issuance of these bonds were used to construct the Center's new facility. The Bonds are secured by the net revenues and accounts receivable of the Center and the assets restricted under the bond indenture agreement.

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service in the balance sheets. The indenture agreements also require the Center to comply with certain restrictive covenants including minimum insurance coverage, maintaining a historical debt-service coverage ratio of at least 100% of maximum annual debt service, restrictions on incurrence of additional debt and days cash on hand of not less than 25 days.

The Center was in violation of certain restrictive covenants at December 31, 2013. Consequently, the bond indenture is callable at the bondholder's option and is therefore classified as a current liability in the accompanying balance sheet as of December 31, 2013.

Excluding the acceleration clause due to covenant violation, the debt service requirements as of December 31, 2013, are as follows:

Years Ending December 31	Total to be Paid	Principal	Interest
2014	$ 2,093,638	$ 500,000	$ 1,593,638
2015	2,092,388	530,000	1,562,388
2016	2,094,263	565,000	1,529,263
2017	2,093,950	600,000	1,493,950
2018	2,091,450	635,000	1,456,450
2019 - 2023	10,467,638	3,840,000	6,627,638
2024 - 2028	10,472,350	5,260,000	5,212,350
2029 - 2033	10,471,575	7,205,000	3,266,575
2034 - 2036	6,280,800	5,545,000	735,800
	$ 48,158,052	$ 24,680,000	$ 23,478,052

Note Payable and Capital Lease Obligations

During 2010, the Center entered into a settlement agreement for $4,710,000. The note is payable over five years, with monthly payments at varying amounts from $50,000 to $100,000 including interest. The note is secured by the Center's computerized tomography scanner. Discount is based on imputed interest rate of 5.4%.

The Center is obligated under leases for equipment that are accounted for as capital leases that bear interest ranging from 4.2% to 9.1%. Assets under capital leases at December 31, 2013 and 2012, totaled $5,773,854 and $4,557,704, respectively, net of accumulated depreciation of $4,123,572 and $3,819,635, respectively. The following is a schedule by year of future minimum notes payable and capital lease payments as of December 31, 2013:

	Note Payable	Unamortized Discount	Capital Lease Obligations
2014	$ 1,020,000	$ 85,394	$ 599,916
2015	1,105,000	34,038	533,346
2016	-	-	111,012
2017	-	-	52,500
2018	-	-	4,375
	$ 2,125,000	$ 119,432	1,301,149
Less amount representing interest			134,290
Present value of future minimum lease payments			1,166,859
Less current maturities			515,969
Noncurrent portion			$ 650,890

Note 9: Charity Care

Charges excluded from revenue under the Center's charity care policy, measured at cost, was approximately $1,365,000 and $1,464,000, in 2013 and 2012, respectively. The Center received approximately $745,000 and $802,000 in 2013 and 2012, respectively, from a State of Ohio uncompensated care fund to subsidize charity services provided under this charity care policy.

Note 10: Operating Leases

Noncancellable operating leases for office equipment expire in various years through 2018. Future minimum lease payments at December 31, 2013, were:

2014	$ 76,572
2015	59,918
2016	50,401
2017	39,677
2018	18,598
	$ 245,166

Rental expense was $159,749 and $122,206 for 2013 and 2012, respectively.

Note 11: Pension Plan

Pension Benefits – All full-time employees are required to join the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

1. The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit plan.
2. The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan – a cost-sharing, multi-employer defined benefit plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed (MD) Plan do not qualify for ancillary benefits. Members of the MD Plan do not qualify for ancillary benefits, including post-employment healthcare coverage. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report, copies of which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642; or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, 2011 and 2010 member and employer contribution rates were consistent across all three plans. Contribution rates for calendar years 2013, 2012 and 2011 were 10% for the employee share and 14% for the employer share, respectively. Employer contributions required were approximately $1,315,000, $1,281,000, and $1,295,000, respectively, for 2013, 2012, and 2011 which equaled 100% of the required contributions for each year.

Post-Employment Benefits – OPERS maintains a cost-sharing multiple employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of 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 postretirement 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 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.

A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employers to fund post-retirement health care through their contributions to OPERS. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, 2012 and 2011, local employer units contributed at 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS’ Post Employment Health Care Plan was established under, and is administered in accordance with Internal Revenue Code Section 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. During 2013, the portion of employer contribution allocated to health care for members in the Traditional Plan and the Combined Plan was 1%. 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 portion of the employer contributions that was made to fund post-employment benefits for 2013, 2012, and 2011 was approximately $94,000, $366,000, and $370,000, respectively.

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 increased as of January 1 of each year from 2006 to 2008, which allowed additional funds to be allocated to the health care plan.

Note 12: Going Concern

The Center has incurred losses for several years and currently has a deficiency in net position due to recurring negative cash flows. The financial statements have been prepared assuming the Center will continue as a going concern, realizing assets and liquidating liabilities in the ordinary course of business. Management is considering several alternatives for mitigating these conditions during the next year, including:

- Restructuring the Center's revenue cycle procedures to improve cash collections and implementing a contract management review process
- Increasing volume through aggressive marketing, physician recruitment and relationship with affiliates
- Continuing to reduce unnecessary expenditures and adhere to effective cost management
- Renegotiating terms of the current bond agreement

Note 13: Risks and Uncertainties

Current Economic Conditions

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Center.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Center's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact the Center's ability to meet debt covenants or maintain sufficient liquidity.

Note 14: Contingencies

Litigation

In the normal course of business, the Center is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Center's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 15: Adams County Medical Foundation, Inc.

Financial Statements

The financial statements of the Foundation are presented in accordance with the provisions of the FASB ASC. The FASB ASC requires the Foundation to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. It also requires recognition of contributions, including contributed services meeting certain criteria, at fair values. The FASB ASC establishes standards for external financial statements of not-for-profit organizations and requires a statement of financial position, a statement of activities and a statement of cash flows. As permitted by GASB Statement No. 34, the Center has elected not to present a statement of cash flows for the Center in the basic financial statements of the Center's reporting entity.

Investments and Investment Return

At December 31, 2013 and 2012, the Foundation had $195,845 and $136,636, in restricted and unrestricted cash and cash equivalents, respectively, all of which was held in checking, savings, or money market funds and generated interest income of $22 and $65, respectively.

Net Assets

Substantially all of the Foundation's temporarily restricted net assets are associated with grants received for capital expenditures or the furtherance of health education and wellness in Adams County and the surrounding area.

Note 16: *Patient Protection and Affordable Care Act*

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Ohio has currently indicated it will participate in the Medicaid expansion program.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible it will have a negative impact on the Hospital's net patient service revenue. In addition, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

Note 17: Future Change in Accounting Principle

The Governmental Accounting Standards Board recently issued its Statement No. 68 (GASB No. 68), *Accounting and Financial Reporting for Pensions*. The Statement replaces GASB Statement No. 27 and will require the Center to recognize pension expense based on actuarial valuation as opposed to current guidance of recognizing pension expense based on contributions actually made or contractually required to be made. The Center expects to first apply GASB No. 68 during the year ending December 31, 2015. The impact of applying the Statement has not been determined.

Note 18: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were issued.

In February 2014, the Center executed a forbearance agreement with the bond trustee, which waived the requirement to replenish principal and interest draws on the debt service reserve account for a period of six months. The agreement had no impact on future payment schedules.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Adams County Regional Medical Center
Seaman, Ohio

We have audited, 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, the financial statements of Adams County Regional Medical Center (Center) and its discretely presented component unit, Adams County Medical Foundation, Inc. (collectively the "Organization"), which comprise the balance sheets as of December 31, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 26, 2014, which contained explanatory paragraphs regarding substantial doubt about the Center's ability to continue as a going concern and change in method of accounting for bond issuance costs. The financial statements of Adams County Medical Foundation, Inc., a discretely presented component unit, which are included in the Organization's financial statements, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Organization's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization'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 as items 2013-001 and 2013-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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.*

Management's Response to Findings

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Management's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We also noted certain matters that we reported to the Organization's management in a separate letter dated June 26, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Cincinnati, Ohio
June 26, 2014

Adams County Regional Medical Center
Schedule of Findings and Responses
Year Ended December 31, 2013

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2013-001	Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting. Condition: The 2013 audit of the financial statements resulted in several adjusting entries. These entries were proposed by BKD and recorded by management. Context: Management is responsible for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. Effect: Potentially material misstatements in the financial statements and disclosures. Cause: Audit procedures identified multiple transactions that are not properly being recorded by management. Recommendation: Management should continue to review these areas throughout the year. Views of responsible officials and planned corrective actions: The Center's management and board agree and are reviewing policies and procedures of the Center, especially those related to internal controls.

Adams County Regional Medical Center

Schedule of Findings and Responses (continued)

Year Ended December 31, 2013

Reference Number	Finding
2013-002	Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting. Condition: During the 2011 audit, it was determined that the Adams County Medical Foundation was significant to the financial statements of the Center and should be presented discretely as a component unit. Management did not revise its approach to accounting for the Foundation in 2012 or 2013. Context: Management is responsible for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. Effect: Potentially material misstatements in the financial statements and disclosures. Cause: The growth of the Foundation and the discovery of unrecorded assets at the Foundation in 2011, primarily as a result of audit procedures performed resulted in management's determination that the Foundation is significant to the Center. The Foundation continued to grow in 2012 and 2013. Recommendation: Management should report the activities of the Foundation on a go forward basis and periodically throughout the year. Views of responsible officials and planned corrective actions: The Center's management and board agree and will report the activities of the Foundation in future periods.

Adams County Regional Medical Center
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2012

Findings Required to be Reported by *Government Auditing Standards*

Reference Numbers	Summary of Finding	Status
12-1 11-2	The 2012 and 2011 audits of the financial statements resulted in several adjusting entries. These entries were proposed by BKD and recorded by management. Effective internal controls over financial reporting are critical to preventing potentially material misstatements in the financial statements and disclosures.	Unresolved

Adams County Regional Medical Center
Summary Schedule of Prior Audit Findings (continued)
Year Ended December 31, 2012

Reference Numbers	Summary of Finding	Status
12-2 11-1	During the 2012 and 2011 audits, it was determined that the Adams County Medical Foundation was significant to the financial statements of the Center and should be presented discretely as a component unit. Using accounting principles generally accepted in the United States of America, management should report the activities of the Foundation on a go forward basis and periodically throughout the year.	Unresolved

Dave Yost • Auditor of State

ADAMS COUNTY REGIONAL MEDICAL CENTER

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
AUGUST 5, 2014

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