ADAMS COUNTY REGIONAL MEDICAL CENTER

AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO

Financial Report
December 31, 2017

Arnett Carbis Toothman llp
CPAs & Advisors

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 Arnett Carbis Toothman LLP, for the audit period January 1, 2017 through December 31, 2017. 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

Dave Yost
Auditor of State

July 26, 2018

This page intentionally left blank.

C O N T E N T S

This page intentionally left blank.

Arnett
Carbis
Toothman llp
CPAs & Advisors

actcpas.com

101 Washington Street, East
P.O. Box 2629
Charleston, WV 25329
304.346.0441 | 304.346.8333 fax
800.642.3601

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), an Enterprise Fund of Adams County, Ohio, and its discretely presented component unit, Adams County Medical Foundation, Inc. (collectively, Organization), as of and for the years ended December 31, 2017 and 2016, and related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

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 controls 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 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Center and its discretely presented component unit as of December 31, 2017 and 2016, and the respective changes in financial position (deficit) and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the Center will continue as a going concern. As discussed in Note 12 to the financial statements, the Center has a deficiency of net position and continues to be in violation of bond covenants that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and pension information listed in the table of contents 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 (GASB) 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 audits 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2018, on our consideration of the Center'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 for the year ended December 31, 2017. The purpose of this 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Arnett Carbis Toothman LLP

Charleston, West Virginia
June 28, 2018

Arnett Carbis Toothman llp
CPAs & Advisors

Introduction

This management's discussion and analysis of the financial performance of Adams County Regional Medical Center (Center) provides an overview of the Center's financial activities for the years ended December 31, 2017 and 2016. 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

- The Center's net (deficit) increased by $565,675 in 2017 (6.13%) and decreased by $1,141,434 in 2016 (11.01%).
- The Center reported operating income (loss) in 2017 and 2016 of $(315,195) and $1,981,376, respectively. The operating income in 2017 and 2016 increased (decreased) by $(2,296,571) and $252,304, or (115.91)% and 14.59%, respectively.
- Total nonoperating expenses (increased) decreased in 2017 and 2016 by $842,793 and $(1,327,898), or 33.19% and (109.63)%, respectively.

Using This Annual Report

The Center's financial statements consist of three statements – a balance sheet; a statement of revenue, expenses, and changes in net position (deficit); 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 Sheets and Statements of Revenue, Expenses, and Changes in Net Position (Deficit)

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 Revenue, Expenses, and Changes in Net Position (Deficit) 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 the current year's revenue 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 therein. 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.

Statements 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 (Deficit)

The Center's net position (deficit) is the difference between its assets, liabilities, and deferred inflows and outflows of resources reported on the Balance Sheets. The Center's net (deficit) increased by $565,675 in 2017 from 2016, and decreased by $1,141,434 in 2016 from 2015, as shown in Table 1.

Table 1: Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Deficit)

	2017	2016	2015
ASSETS			
Patient accounts receivable, net	**$ 3,859,847**	$ 2,181,431	$ 1,983,390
Other current assets	**745,783**	1,287,282	1,278,481
Capital assets, net	**17,049,948**	17,979,766	18,857,404
Net pension asset	**16,985**	18,779	18,154
Assets limited as to use	**8,245,320**	5,786,531	4,162,040
Total assets	**29,917,883**	27,253,789	26,299,469
DEFERRED OUTFLOWS	**5,126,445**	3,850,068	1,305,605
Total assets and deferred outflows	**$ 35,044,328**	$ 31,103,857	$ 27,605,074
LIABILITIES			
Total current liabilities	**$ 31,260,413**	$ 29,333,876	$ 29,811,384
Long-term debt	**37,817**	76,152	56,875
Other long-term liabilities	**413,108**	722,851	-
Net pension liability	**13,035,699**	9,992,635	7,956,237
Total liabilities	**44,747,037**	40,125,514	37,824,496
DEFERRED INFLOWS	**86,269**	201,646	145,315
NET POSITION (DEFICIT)			
Net investment in capital assets	**(7,717,744)**	(6,883,109)	(5,979,491)
Restricted expendable	**6,779,612**	4,807,556	3,286,326
Unrestricted	**(8,850,846)**	(7,147,750)	(7,671,572)
Total net position (deficit)	**(9,788,978)**	(9,223,303)	(10,364,737)
Total liabilities, deferred inflows, and net position (deficit)	**$ 35,044,328**	$ 31,103,857	$ 27,605,074

Net capital assets decreased related to depreciation on existing equipment. Other noncurrent assets increased due to positive cash flows, which allowed the Center to replenish the reserve funds held by the bond trustee used to satisfy interest payments on the outstanding debt obligations.

During 2015, the Center adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under GASB 68, the net pension asset/liability equals the Center's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service

2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should, accordingly, be reported by the government as a liability since they received the benefit of the exchange. However, the Center is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e., sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Center's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of GASB 68, the Center is reporting a net pension asset and net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net (deficit) as of December 31, 2015, from $(5,499,776) to $(12,276,816).

Operating Results and Changes in the Center's Net Position (Deficit)

In 2017, the Center's net (deficit) increased by $565,675, or 6.13%, as shown in Table 2. This increase is made up of several components and represents a decrease of $1,707,109, or 149.56%, compared with the decrease in net (deficit) in 2016 of $1,141,434.

Table 2: Operating Results and Changes in Net Position (Deficit)

	2017	2016	2015
Operating revenue:			
Net patient service revenue	**$ 26,166,218**	$ 23,117,026	$ 23,295,614
Other operating revenue	**499,302**	378,183	266,400
Total operating revenue	**26,665,520**	23,495,209	23,562,014
Operating expenses:			
Salaries and wages and employee benefits	**12,742,738**	9,631,154	9,945,186
Purchased services and professional fees	**6,207,059**	4,753,115	4,937,736
Depreciation and amortization	**1,543,265**	1,698,885	1,992,872
Other operating expenses	**6,487,653**	5,430,679	4,957,148
Total operating expenses	**26,980,715**	21,513,833	21,832,942
Operating income (loss)	**(315,195)**	1,981,376	1,729,072
Nonoperating revenue (expenses):			
Investment income	**14,733**	2,010	2,162
Interest expense	**(1,711,038)**	(1,900,089)	(1,813,362)
Loss on settlement agreement	**-**	(641,019)	-
Sale of home health agency	**-**	-	600,000
Total nonoperating revenue (expenses)	**(1,696,305)**	(2,539,098)	(1,211,200)
Capital appropriations - Adams County	**1,400,825**	1,423,571	1,369,207
Capital grants and gifts	**45,000**	275,585	25,000
Increase (decrease) in net position (deficit)	**(565,675)**	1,141,434	1,912,079
Net position (deficit), beginning of year, as previously reported	**(9,223,303)**	(10,364,737)	(5,499,776)
Cumulative effect of change in accounting principle	**-**	-	(6,777,040)
Net position (deficit), beginning of year, as adjusted	**(9,223,303)**	(10,364,737)	(12,276,816)
Net position (deficit), end of year	**$ (9,788,978)**	$ (9,223,303)	$ (10,364,737)

Operating Income and Loss

The first component of the overall change in the Center's net position (deficit) is its operating income or (loss) generally, the difference between net patient service and other operating revenue and the expenses incurred to perform those services. The Center has generated an operating (loss) in 2017 and operating income in 2016. 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 2017 decreased by $2,296,571, or 115.91%, as compared to 2016. The primary components of the changes in operating results are:

- An increase in net patient service revenue of $3,049,192, or 13.19%.
- An increase in other operating revenue of $121,119, or 32.03%.
- An (increase) in salaries, wages, and employee benefits expense of $(3,111,584), or (32.31)%.
- An (increase) in all other operating expenses of $(2,355,298), or (19.82)%.

Net patient service revenue increased from 2016 to 2017 and consists of the following: An increase in overall patient days of 123, or 2.85%, and an increase in outpatient visits of 159 or .31% contributed to the change in net patient service revenue. Also increasing net patient service revenue was a 31% increase in outpatient surgeries, a 100% increase in recovery room days, and a 17% increase in lab tests. Also, as described in Note 5, the Center received favorable final retroactive cost report settlements which impacted overall net patient service revenue by approximately $266,000 and $705,000 in 2017 and 2016, respectively.

Employee salaries and wages and benefits increased in 2017 mainly due to the impact of the change in discount rate used to calculate the net pension liability from 8.0% in 2016 to 7.50% in 2017. See Note 11 for sensitivity to the changes in discount rate. The net impact of the implementation of GASB 68 resulted in an increase in employee benefits of $1,653,104 in 2017. Total FTEs in 2017 were approximately 192 compared to 182 in 2016.

Expenditures for medical supplies are a major component of the Center's costs. In 2016, medical supplies totaled $2,360,443, or 10.97%, of total operating expenses. In 2017, they totaled $3,122,985, or 11.57%, of total operating expenses. Some of the major factors contributing to the increase in medical supply and drug costs as a percentage of total operating expenses include increasing costs of drugs and other supplies and usage.

The operating (loss) for 2017 of $(315,195) was a decrease compared to the operating income of $1,981,376 recognized in 2016. The change is primarily related to the combination of an increase in total operating expenses of $5,466,882 over the increase in overall operating revenue of $3,170,311. The increase in operating expenses included increased pension costs of approximately $2,300,000 in 2017.

Nonoperating Revenue and Expenses

Nonoperating revenue and expenses consist of investment income and interest expense. Investment income and interest expense each remained relatively constant in 2017 as compared to 2016.

Capital Appropriations

The Center is appropriated sales and use tax revenue 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 is in force from April 1, 2016, through March 31, 2020. Amounts appropriated were $1,400,825 and $1,423,571 for 2017 and 2016, respectively. As of December 31, 2017 and 2016, the Center reported a receivable of $1,168,347 and $0, respectively, in assets whose use is limited on the accompanying balance sheets. This receivable is for amounts that the County has collected, but not yet transferred to the Center.

Capital Grants and Gifts

The Center receives both capital and operating grants from various state and federal agencies for specific programs. In 2017 and 2016, the Center received gifts of $45,000 and $250,000, respectively, from Adams County Medical Foundation, Inc. Substantially all of these gifts have been expended and are reflected in unrestricted net position as of December 31, 2017.

The Center's Cash Flows

Changes in the Center's cash flows are consistent with changes in operating results and nonoperating revenue and expenses for 2017 and 2016, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2017 and 2016, the Center had $17,049,948 and $17,979,766, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2017 and 2016, the Center purchased new equipment costing $613,447 and $821,247, respectively. 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

As of December 31, 2017 and 2016, the Center had $24,767,692 and $24,862,875 in revenue bonds and capital lease obligations outstanding including all current maturities. 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 the 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 payors. 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 on 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 Organization'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) 386-3001.

Alan Bird
Chief Executive Officer

ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO

BALANCE SHEETS
December 31, 2017 and 2016

	2017		2016	
ASSETS AND DEFERRED OUTFLOWS	**Center**	**Component**	Center	Component
CURRENT ASSETS				
Cash and cash equivalents	**$ 141,437**	**$ 110,231**	$ 542,229	$ 110,618
Patient accounts receivable, net of allowance 2017 $2,204,682; 2016 $1,825,643	**3,859,847**	**-**	2,181,431	-
Estimated amounts due from third-party payors	**-**	**-**	244,568	-
Supplies	**337,396**	**-**	287,834	-
Prepaid expense and other assets	**266,950**	**-**	212,651	-
Total current assets	**4,605,630**	**110,231**	3,468,713	110,618
ASSETS LIMITED AS TO USE	**8,245,320**	**296,909**	5,786,531	220,834
CAPITAL ASSETS, net	**17,049,948**	**397,800**	17,979,766	397,800
NET PENSION ASSET	**16,985**	**-**	18,779	-
Total assets	**29,917,883**	**804,940**	27,253,789	729,252
DEFERRED OUTFLOWS	**5,126,445**	**-**	3,850,068	-
Total assets and deferred outflows	**$ 35,044,328**	**$ 804,940**	$ 31,103,857	$ 729,252

See Notes to Financial Statements

ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO

BALANCE SHEETS
December 31, 2017 and 2016

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION (DEFICIT)	**2017 Center**	**2017 Component**	2016 Center	2016 Component
CURRENT LIABILITIES				
Outstanding checks in excess of bank balances	**$ 133,434**	**$ -**	$ 142,445	$ -
Current maturities of long-term debt	**24,729,875**	**-**	24,786,723	
Accounts payable	**1,910,597**	**-**	1,211,641	-
Estimated amounts due to third-party payors	**1,020,102**	**-**	-	-
Accrued expenses and other	**3,466,405**	**-**	3,193,067	-
Total current liabilities	**31,260,413**	**-**	29,333,876	-
LONG-TERM DEBT, less current maturities	**37,817**	**-**	76,152	-
OTHER LONG-TERM LIABILITIES	**413,108**	**-**	722,851	-
NET PENSION LIABILITY	**13,035,699**	**-**	9,992,635	-
Total liabilities	**44,747,037**	**-**	40,125,514	-
DEFERRED INFLOWS	**86,269**	**-**	201,646	-
NET POSITION (DEFICIT)				
Net invested in capital assets	**(7,717,744)**	**-**	(6,883,109)	-
Restricted - expendable for:				
Debt service	**6,701,839**	**-**	4,729,635	-
Specific operating activities	**77,773**	**296,909**	77,921	220,834
Unrestricted	**(8,850,846)**	**508,031**	(7,147,750)	508,418
Total net position (deficit)	**(9,788,978)**	**804,940**	(9,223,303)	729,252
Total liabilities, deferred inflows, and net position (deficit)	**$ 35,044,328**	**$ 804,940**	$ 31,103,857	$ 729,252

See Notes to Financial Statements

ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT)
Years Ended December 31, 2017 and 2016

	2017		2016	
	Center	**Component**	Center	Component
Operating revenue:				
Net patient service revenue, less provision for uncollectable accounts 2017 $3,286,631; 2016 $2,823,482	**$ 26,166,218**	**$ -**	$ 23,117,026	$ -
Other operating revenue	**499,302**	**-**	378,183	-
Total operating revenue	**26,665,520**	**-**	23,495,209	-
Operating expenses:				
Salaries and wages	**8,798,590**	**-**	7,979,521	-
Employee benefits	**3,944,148**	**-**	1,651,633	-
Medical professional fees	**1,667,992**	**-**	1,432,469	-
Supplies	**3,122,985**	**-**	2,360,443	-
Minor equipment	**65,013**	**-**	55,778	-
Purchases services	**4,539,067**	**-**	3,320,646	-
Equipment rentals	**159,274**	**-**	105,700	-
Repairs and maintenance	**1,633,567**	**-**	1,374,730	-
Utilities	**445,148**	**-**	489,935	-
Depreciation and amortization	**1,543,265**	**-**	1,698,885	-
Other operating expenses	**1,061,666**	**291,039**	1,044,093	437,435
Total operating expenses	**26,980,715**	**291,039**	21,513,833	437,435
Operating income (loss)	**(315,195)**	**(291,039)**	1,981,376	(437,435)
Nonoperating revenue (expenses):				
Investment income	**14,733**	**-**	2,010	12
Interest expense	**(1,711,038)**	**-**	(1,900,089)	-
Loss on settlement agreement	**-**	**-**	(641,019)	-
Noncapital grants and gifts	**-**	**366,727**	-	623,043
Total nonoperating revenue (expenses)	**(1,696,305)**	**366,727**	(2,539,098)	623,055
Excess (deficiency) of revenue over expenses before capital appropriations and gifts	**(2,011,500)**	**75,688**	(557,722)	185,620
Capital appropriations - Adams County	**1,400,825**	**-**	1,423,571	-
Capital grants and gifts	**45,000**	**-**	275,585	-
Increase (decrease) in net position (deficit)	**(565,675)**	**75,688**	1,141,434	185,620
Net position (deficit), beginning of year	**(9,223,303)**	**729,252**	(10,364,737)	543,632
Net position (deficit), end of year	**$ (9,788,978)**	**$ 804,940**	$ (9,223,303)	$ 729,252

See Notes to Financial Statements

ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	**$ 25,752,472**	$ 22,885,429
Payments to suppliers and contractors	**(9,134,421)**	(9,621,140)
Payments to employees	**(12,599,116)**	(9,633,198)
Other operating payments, net	**(942,389)**	(750,445)
Net cash provided by operating activities	**3,076,546**	2,880,646
NONCAPITAL FINANCING ACTIVITIES		
Decrease in outstanding checks issued in excess of bank balance	**(9,011)**	(109,870)
CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and gifts	**45,000**	275,585
Principal paid on long-term debt and capital leases	**(95,183)**	(156,022)
Interest on long-term debt and capital leases	**(1,711,040)**	(1,847,458)
Purchase of capital assets	**(663,873)**	(981,200)
Capital appropriations - Adams County	**232,478**	1,423,571
Net cash (used in) capital and related financing activities	**(2,192,618)**	(1,285,524)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on assets limited as to use	**14,733**	2,010
Increase in cash and cash equivalents	**889,650**	1,487,262
Cash and cash equivalents:		
Beginning	**6,328,760**	4,841,498
Ending	**$ 7,218,410**	$ 6,328,760

See Notes to Financial Statements

	2017	2016
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents	**$ 141,437**	$ 542,229
Cash and cash equivalents in assets limited as to use	**7,076,973**	5,786,531
Total cash and cash equivalents	**$ 7,218,410**	$ 6,328,760
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	**$ (315,195)**	$ 1,981,376
Depreciation and amortization	**1,543,265**	1,698,885
Provision for bad debts	**3,286,631**	2,823,482
Changes in operating assets and liabilities:		
Patient accounts receivable	**(4,965,047)**	(3,021,523)
Estimated third-party payor settlements	**1,264,670**	(33,556)
Other assets	**(103,861)**	(112,474)
Net pension asset	**1,794**	(625)
Deferred outflows	**(1,276,377)**	(2,544,463)
Accounts payable, accrued expenses, and other	**712,979**	(3,185)
Net pension liability	**3,043,064**	2,036,398
Deferred inflows	**(115,377)**	56,331
Net cash provided by operating activities	**$ 3,076,546**	$ 2,880,646
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION		
Capital assets acquisitions included in accounts payable	**$ 7,500**	$ 57,926
Capital assets acquired through capital lease obligations	**$ -**	$ 182,002

See Notes to Financial Statements

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. The Center is considered an enterprise fund of the County and is included in the general purpose financial statements of the County.

Adams County Medical Foundation, Inc. (Foundation) is a legally separate, tax exempt component unit of the Center. The Foundation is exempt under Section 501(c)(3) as an organization described in Section 501(c)(3) of the Internal Revenue Code. 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.

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 Governmental Accounting Standards Board (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.

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. Revenue, 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 revenue 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 revenue 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.

Use of estimates: The preparation of financial statements in accordance 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, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue 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. As of December 31, 2017 and 2016, 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 tort; theft of, damage to, and destruction of assets; business interruptions; 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.

Assets limited as to use: Assets limited as to use consist of assets restricted by donors, assets held by trustees under an indenture agreement, assets internally designated by the Board of Trustees for capital improvements, levied taxes receivable, and assets externally restricted for capital improvements.

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

Patient accounts receivable: Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectable accounts. The allowance is based upon a review of the outstanding balances aged by financial class. Management uses collection percentages based upon historical collection experience to determine collectability. Management also reviews troubled, aged accounts to determine collection potential. Patient accounts receivable are written off when deemed uncollectable. Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received. Interest is not charged on patient accounts receivable.

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.

Grants and contributions: From time to time, the Center receives grants and contributions from governmental organizations, private individuals, and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Grants that are unrestricted are reported as other operating revenue and those restricted for a specific purpose are reported as nonoperating revenue. Contributions that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Contributions restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Cost-sharing multiple-employer defined benefit pension plans: The Center participates in two cost-sharing multiple-employer defined benefit pension plans administered by the Ohio Public Employees Retirement System, the Traditional Pension Plan, and the Combined Plan (Plans). For purposes of measuring the net pension liability and net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plans and additions to / deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net position (deficit): Net position (deficit) of the Center is classified in three components. Net invested 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, donors, or pension trusts, external to the Center, including amounts deposited with trustees as required by bond indentures. Unrestricted net position (deficit) is the remaining net position that does not meet the definition of net invested in capital assets or restricted net position.

Net patient service revenue: The Center has agreements with third-party payors 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 payors, and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectable 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.

Operating revenue and expenses: The Center's statements of revenue, expenses, and changes in net position (deficit) distinguish between operating and nonoperating revenue and expenses. Operating revenue result from exchange transactions associated with providing health care services - the Center's principal activity. Nonexchange revenue (expenses), including grants and contributions received for purposes other than capital asset acquisitions, are reported as nonoperating revenue (expenses). Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Hospital Care Assurance Program (HCAP): As a public health provider, the Center renders services to residents of Adams County and others regardless of their ability to pay. HCAP is the Ohio Department of Job and Family Services' mechanism for meeting the federal requirement to provide additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled approximately $939,000 in 2017 and $1,452,000 in 2016. These amounts are reported as net patient service revenue on the accompanying statements of revenue, expenses, and changes in net positon (deficit).

Upper payment limit: In September 2001, the State of Ohio Supplemental Upper Payment Limit (UPL) program for Public Hospitals was approved by the Centers for Medicare and Medicaid Services (CMS). This program provides access to available federal funding up to 100% of the Medicare upper payment limits for services rendered by Ohio Public Hospitals to Ohio Medicaid consumers. The Center recognized approximately $388,000 and $631,000 in net patient service revenue related to this program on the accompanying statements of revenue, expenses, and changes in net position (deficit).

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 patient service revenue. The Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The amount of charity care not recorded as revenue was approximately $689,000 in 2017 and $515,000 in 2016. The cost of caring for charity care patient for the years ended December 31, 2017 and 2016, was approximately $251,000 and $187,000, respectively.

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.

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 (EHR) technology. 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 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.

Reclassifications: Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

Subsequent events: The Center has evaluated subsequent events through June 28, 2018, the date the financial statements were available to be issued.

Recent Accounting Pronouncements

GASB Statement No.75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and is effective for fiscal years beginning after June 15, 2017. Statement No. 75 requires governments to report a liability on the face of the financial statements for the Other Postemployment Benefits (OPEB) that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Center is currently evaluating the impact, if any, that adoption will have on its financial statements.

GASB Statement No.82, *Pension Issues,* issued March 2016, relates to improving consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, the practice issues raised by stakeholders during implementation relate to GASB Statement Nos. 67, 68, and 73. The new guidance addresses the presentation of payroll-related measures in required supplementary information, selection of assumptions and the treatment of deviations from guidance in Actuarial Standards of Practice for financial reporting purposes, and classification of payments made by employers to satisfy plan member contribution requirements. The new standard is effective for financial statements for periods beginning after June 15, 2016. The Center adopted this guidance during the year ended December 31, 2017. Adoption of this guidance did not have a material impact on the Center's financial statements.

GASB No. 87, *Leases*, issued June 2017, relates to improving accounting and financial reporting for leases by governments. The new guidance increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activity. The new standard is effective for financial statements for periods beginning after December 15, 2019. The Center is currently evaluating the impact that adoption will have on its financial statements.

Note 2. Net Patient Service Revenue

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. The Center is designated as a critical access hospital under the Medicare and Medicaid programs. Contractual adjustments under third-party reimbursement programs represent the difference between the Center's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** The Center is accredited by the Centers for Medicare and Medicaid Services for the critical access hospital designation. Inpatient services and most outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology at 101 percent of allowable cost. Other outpatient services are paid based on fee schedules, or prospectively paid.

  The Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Center and review thereof by the Medicare fiscal intermediary. The appropriateness of the admission of Medicare program beneficiaries is subject to an independent review by a peer review organization.

- **Medicaid:** Inpatient services rendered to Medicaid program beneficiaries are reimbursed based on prospectively determined rates per discharge. Medicaid outpatient services are reimbursed based upon the lesser of the Center's charge or predetermined fee schedule amounts. Capital related expenditures are subject to annual cost report settlement.

- **Other Payors:** 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.

Approximately 64% and 66% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs (including managed care) for the years ended December 31, 2017 and 2016, 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.

A summary of gross and net patient service revenue for all payors for the years ended December 31 is as follows:

	2017	2016
Gross patient service revenue	**$ 73,910,922**	$ 59,221,962
Less:		
Provisions for contractual adjustments under third-party reimbursement agreements	**(43,769,543)**	(32,766,072)
Provision for bad debts	**(3,286,631)**	(2,823,482)
Charity	**(688,530)**	(515,382)
Net patient service revenue	**$ 26,166,218**	$ 23,117,026

Note 3. Deposits, Assets Limited as to Use, 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.

As of December 31, 2017 and 2016, $672,783 and $1,147,083, respectively, of the Center's bank balances of $1,059,439 and $1,589,794, respectively, were exposed to custodial credit risk as follows:

	2017	2016
Collateral held by pledging financial institution's trust department or agent in other than the Center's name	**$ 672,783**	$ 1,147,083

Assets Limited as to Use

The composition of the Center's assets limited as to use as of December 31 consist of the following:

	2017	2016
Restricted by donors	**$ 77,773**	$ 77,921
Internally designated for capital improvements	**136,656**	136,451
Externally designated for capital improvements	**160,705**	842,524
Levied taxes receivable	**1,168,347**	-
Held by trustee for debt service	**6,701,839**	4,729,635
Total assets limited as to use	**$ 8,245,320**	$ 5,786,531

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.

As of December 31 the Center had the following investments and maturities:

	2017				
Type	**Fair Value**	**Less Than One Year**	**One to Five Years**	**Six to Ten Years**	**More Than Ten Years**
Money market mutual funds	**$ 6,701,839**	**$ 6,701,839**	**$ -**	**$ -**	**$ -**

	2016				
Type	**Fair Value**	**Less Than One Year**	**One to Five Years**	**Six to Ten Years**	**More Than Ten Years**
Money market mutual funds	$ 4,729,635	$ 4,729,635	$ -	$ -	$ -

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: As of December 31 the Center's carrying values of deposits and investments shown above are included on the balance sheets as follows:

	2017	2016
Carrying value:		
Deposits	**$ 516,571**	$ 1,599,125
Investments	**6,701,839**	4,729,635
	$ 7,218,410	$ 6,328,760

Included in the following balance sheets captions:

	2017	2016
Cash and cash equivalents	**$ 141,437**	$ 542,229
Assets limited as to use	**7,076,973**	5,786,531
	$ 7,218,410	$ 6,328,760

Investment income: Investment income for the years ended December 31, 2017 and 2016, consisted of interest and dividend income in the amount of $14,733 and $2,010, respectively.

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 payor agreements. Patient accounts receivable as of December 31 consist of the following:

		2017		2016
Medicare	**$**	**4,303,261**	$	2,816,580
Medicaid		**2,531,960**		1,675,472
Other third-party payors		**2,453,602**		1,252,000
Patients		**2,414,733**		2,097,896
Total patient accounts receivable		**11,703,556**		7,841,948
Less allowance for contractual adjustments		**5,639,027**		3,834,874
Less allowance for uncollectable amounts		**2,204,682**		1,825,643
Patient accounts receivable, net	**$**	**3,859,847**	$	2,181,431

Note 5. Estimated Third-Party Payor Settlements

Third-party payor settlements consist of amounts due from/(to) the Medicare programs for settlement of current and prior year cost reports and the state of Ohio's upper payment limit and hospital care assurance programs. These estimated settlements by program are as follows as of December 31:

		2017		2016
Medicare	**$**	**(750,998)**	$	(819,186)
Upper payment limit program		**(267,462)**		(387,760)
Hospital Care Assurance Program (HCAP)		**(1,642)**		1,451,514
	$	**(1,020,102)**	$	244,568

The 2017 and 2016 net patient service revenue increased approximately $266,000 and $705,000, respectively, as a result of settlements at amounts different than originally estimated.

Note 6. Capital Assets

Capital assets activity for the years ended December 31 is as follows:

	2017				
	Beginning Balance	**Additions**	**Disposals**	**Transfers**	**Ending Balance**
Capital assets:					
Land and land improvements	**$ 584,182**	**$ -**	**$ -**	**$ -**	**$ 584,182**
Buildings	**23,280,192**	**94,943**	**-**	**12,514**	**23,387,649**
Equipment	**19,592,274**	**474,246**	**(116,437)**	**56,558**	**20,006,641**
Construction in process	**24,814**	**44,258**	**-**	**(69,072)**	**-**
	43,481,462	**613,447**	**(116,437)**	**-**	**43,978,472**
Less accumulated depreciation:					
Land improvements	**511,939**	**17,472**	**-**	**-**	**529,411**
Buildings	**7,899,249**	**766,918**	**-**	**-**	**8,666,167**
Equipment	**17,090,508**	**758,875**	**(116,437)**	**-**	**17,732,946**
	25,501,696	**1,543,265**	**(116,437)**	**-**	**26,928,524**
Capital assets, net	**$ 17,979,766**	**$ (929,818)**	**$ -**	**$ -**	**$ 17,049,948**

	2016				
	Beginning Balance	**Additions**	**Disposals**	**Transfers**	**Ending Balance**
Capital assets:					
Land and land improvements	$ 549,985	$ 34,197	$ -	$ -	$ 584,182
Buildings	23,263,724	16,468	-	-	23,280,192
Equipment	18,790,315	745,768	(427,822)	484,013	19,592,274
Construction in process	484,013	24,814	-	(484,013)	24,814
	43,088,037	821,247	(427,822)	-	43,481,462
Less accumulated depreciation:					
Land improvements	496,306	15,633	-	-	511,939
Buildings	7,106,957	792,292	-	-	7,899,249
Equipment	16,627,370	890,960	(427,822)	-	17,090,508
	24,230,633	1,698,885	(427,822)	-	25,501,696
Capital assets, net	$ 18,857,404	$ (877,638)	$ -	$ -	$ 17,979,766

The cost of equipment under capital lease included in capital assets as of December 31 is as follows:

		2017		2016
Cost of equipment under capital lease	**$**	**683,752**	$	925,021
Accumulated amortization		**(544,829)**		(657,689)
Net carrying amount	**$**	**138,923**	$	267,332

Note 7. Outstanding Checks in Excess of Bank Balance, Accounts Payable, and Accrued Expenses and Other

Outstanding checks in excess of bank balance, accounts payable, and accrued expenses and other included in current liabilities as of December 31 consist of:

		2017		2016
Payable to suppliers and contractors	**$**	**2,044,031**	$	1,354,086
Payable to employees (including payroll taxes and benefits)		**757,531**		613,909
Payable to bond trustee for interest accrued		**1,859,165**		1,859,167
Loss contingency		**359,793**		359,793
Other		**489,916**		360,198
	$	**5,510,436**	$	4,547,153

Note 8. Medical Malpractice Claims

The Center purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Coverage is $1,000,000 per occurrence and $3,000,000 in the annual aggregate. In addition, the Center has umbrella coverage of $10,000,000 per occurrence and $10,000,000 in the annual aggregate. 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 9. Long-Term Obligations

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

	2017				
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Current Portion**
Revenue bonds payable	**$ 24,680,000**	**$ -**	**$ -**	**$ 24,680,000**	**$ 24,680,000**
Capital lease obligations	**182,875**	**-**	**(95,183)**	**87,692**	**49,875**
Long-term debt	**$ 24,862,875**	**$ -**	**$ (95,183)**	**$ 24,767,692**	**$ 24,729,875**

	2016				
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Current Portion**
Revenue bonds payable	$ 24,680,000	$ -	$ -	$ 24,680,000	$ 24,680,000
Capital lease obligations	156,895	182,002	(156,022)	182,875	106,723
Long-term debt	$ 24,836,895	$ 182,002	$ (156,022)	$ 24,862,875	$ 24,786,723

A summary of long-term debt as of December 31 is as follows:

	2017	2016
Revenue bonds payable, terms below	**$ 24,680,000**	$ 24,680,000
Capital lease obligations with interest rates ranging from 3.60% to 9.10% and monthly payments ranging from $751 to $4,375, secured by equipment	**87,692**	182,875
	24,767,692	24,862,875
Less current maturities	**24,729,875**	24,786,723
Long-term debt, less current maturities	**$ 37,817**	$ 76,152

Minimum payments on these obligations to maturity as of December 31, 2017, is as follows:

	Long-Term Debt		**Capital Lease Obligations**	
	Principal	**Interest**	**Principal**	**Interest**
2018	$ 24,680,000	$ 1,859,165	$ 49,875	$ 2,635
2019	-	-	37,817	941
	$ 24,680,000	$ 1,859,165	$ 87,692	$ 3,576

Revenue Bonds Payable

The revenue bonds payable consist of Hospital Facilities Revenue Improvement Bonds, Series 2015 (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 revenue 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 in assets limited to use on 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 as of December 31, 2017 and 2016. Consequently, the bond indenture is callable at the bondholder's option and is, therefore, classified as a current liability on the accompanying balance sheets as of December 31, 2017 and 2016.

Since January 2014, the Center has been operating under forbearance agreements with the trustee, during which time the Center has not remitted any principal payments on the Bonds. The forbearance agreement expired on December 31, 2015. Although the forbearance agreement expired, the trustee continues to work with the Center relating to its liquidity issues, with the knowledge and consent of the majority bondholders. Unpaid interest relative to the revenue Bonds amounted to $1,859,165 and $1,859,167 as of December 31, 2017 and 2016, respectively, and is reported within accrued expenses and other on the accompanying balance sheets.

Note 10. Operating Leases

Noncancellable operating leases for office equipment expire in various years through 2022. Future minimum lease payments as of December 31, 2017, are as follows:

Years Ending December 31:		
2018	$	142,741
2019		114,853
2020		37,781
2021		22,678
2022		1,840
	$	319,893

Equipment rental expense was $159,274 and $105,700 for 2017 and 2016, respectively.

Note 11. Pension Plans

Plans descriptions: The Center contributes to the Ohio Public Employees Retirement System (OPERS) which administers two cost-sharing, multiple-employer defined benefit pension plans and one defined contribution pension plan, which together cover substantially all Center employees. All employees are required to join OPERS. The OPERS three pension plans are described below and are discussed in greater detail in the following sections:

1. The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan.

2. The Member-Directed (MD) 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 pension plan. Under the Combined Plan, the 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.

The OPERS issues a stand-alone financial report; these reports may be obtained by contacting the organization as follows:

OPERS
277 East Town Street
Columbus, Ohio 43215-4642
Telephone: (800) 222-7377
www.opers.org

Benefits provided: Plan benefits for the OPERS are established under Chapter 145 of the Ohio Revised Code (ORC). Members are categorized into three groups with varying provisions of the law applicable to each group. Members who were eligible to retire on January 7, 2013, and those eligible to retire no later than five years after that date comprise transition group A. Members who have 20 years of service credit prior to January 7, 2013, or are eligible to retire no later than 10 years after January 7, 2013, are included in transition group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013. Additionally, the OPERS has three separate divisions with varying degrees of benefits: (1) state and local, (2) law enforcement, and (3) public safety. The Organization does not have any employees included in the public safety or law enforcement divisions.

Benefits in the Traditional Pension Plan for state and local members are calculated on the basis of age, final average salary, and service credit. State and local members in transition groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for state and local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For group C the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. Final average salary represents the average of the three highest years of earnings over a member's career for groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefit receive a percentage reduction in the benefit amount.

The OPERS offers a combined plan that has elements of both a defined benefit and defined contribution plan. In the combined plan, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit. Eligibility requirements under the combined plan for age and years of service are identical to the defined benefit plan described earlier. The benefit formula for the defined benefit component of the plan for state and local members in transition groups A and B applies a factor of 1.0% to the member's final average salary and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit.

A cost-of-living adjustment (COLA) is provided each year and is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

All employees are required to become contributing members of the OPERS when they begin employment at the Center unless they are exempted or excluded as defined by the ORC. For actuarial purposes, employees who have earned sufficient service credit (60 contributing months) are entitled to a future benefit from the OPERS. As of December 31, 2017 and 2016, 266 and 255 employees, respectively, participated in the OPERS defined benefit pension plans. The Center's proportionate share of inactive members is included in the net pension liability and net pension asset as discussed in the following notes.

Contributions

The ORC provides the OPERS statutory authority over employee and employer contributions. The required statutorily determined contribution rates, respective of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The contractually required contribution rates for the employee and the Center were 10% and 14%, respectively, for each of the years ended December 31, 2017 and 2016.

For the years ended December 31 contributions to the pension plans from the Center are as follows:

	2017	2016
Traditional	**$ 1,082,451**	$ 890,496
Combined	**9,104**	14,254
	$ 1,091,555	$ 904,750

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Relate to Pensions

As of December 31 the Center reported a net pension liability and net pension asset for the OPERS defined benefit plans as follows:

	2017	2016
Net pension liability (asset):		
Traditional	**$ 13,035,699**	$ 9,992,635
Combined	**(16,985)**	(18,779)

The net pension liability and net pension asset as of December 31, 2017, are measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability (asset) were determined by an actuarial valuation as of that date. The net pension liability and net pension asset as of December 31, 2016, are measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability (asset) were determined by an actuarial valuation as of that date. The Center's proportion of the net pension liability and net pension asset were based on the Center's share of contributions to the respective defined benefit pension plans relative to the contributions of all participating employers during the measurement period. As of December 31, 2017, the Center's proportion was .057405% for the Traditional Plan and .030517% for the Combined Plan. As of December 31, 2016, the Center's proportion was .057690% for the Traditional Plan and .038590% for the Combined Plan.

For the years ended December 31, 2017 and 2016, the Center recognized pension expense related to the defined benefit pension plans of $2,744,658 and $452,391, respectively. As of December 31, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017					
	Traditional Plan		**Combined Plan**		**Total Defined Benefit Plan**	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	**$ -**	**$ 77,582**	**$ -**	**$ 8,687**	**$ -**	**$ 86,269**
Net difference between projected and actual earnings on pension plan investments	**4,026,606**	**-**	**8,284**	**-**	**4,034,890**	**-**
Center's contributions subsequent to the measurement date	**1,082,451**	**-**	**9,104**	**-**	**1,091,555**	**-**
	$ 5,109,057	**$ 77,582**	**$ 17,388**	**$ 8,687**	**$ 5,126,445**	**$ 86,269**

	2016					
	Traditional Plan		Combined Plan		Total Defined Benefit Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 193,077	$ -	$ 8,569	$ -	$ 201,646
Net difference between projected and actual earnings on pension plan investments	2,937,210	-	8,108	-	2,945,318	-
Center's contributions subsequent to the measurement date	890,496	-	14,254	-	904,750	-
	$ 3,827,706	$ 193,077	$ 22,362	$ 8,569	$ 3,850,068	$ 201,646

Deferred outflows of resources resulting from the Center's defined benefit pension plan contributions subsequent to the measurement date in the amount of $1,091,555 is recognized as a reduction of the net pension liability for the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources as of December 31, 2017, related to pension plans will be recognized in pension expense as follows:

	Traditional Plan	Combined Plan	Total Defined Benefit Plans
2018	$ 1,628,900	$ 805	$ 1,629,705
2019	1,686,933	805	1,687,738
2020	690,097	626	690,723
2021	(56,905)	(843)	(57,748)
2022	-	(688)	(688)
Thereafter	-	(1,108)	(1,108)
	$ 3,949,025	$ (403)	$ 3,948,622

Actuarial Assumptions: The total pension liability in the December 31, 2016 and 2015, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	December 31, 2016	
Actuarial Information	**Traditional Plan**	**Combined Plan**
Wage Inflation	3.25 percent	3.25 percent
Future Salary Increases, including inflation	3.25 percent to 10.75 percent, including wage inflation	3.25 percent to 8.25 percent, including wage inflation
COLA or Ad Hoc COLA	3.00 percent, simple	3.00 percent, simple
Investment Rate of Return	7.50 percent	7.50 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

December 31, 2015		
Actuarial Information	**Traditional Plan**	**Combined Plan**
Wage Inflation	3.75 percent	3.75 percent
Future Salary Increases, including inflation	4.25 percent to 10.05 percent, including wage inflation	4.25 percent to 8.05 percent, including wage inflation
COLA or Ad Hoc COLA	3.00 percent, simple	3.00 percent, simple
Investment Rate of Return	8.00 percent	8.00 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Mortality rates for the OPERS are the RP-2014 Healthy Annuitant mortality table. The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term expected rate of return on the OPERS defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage, adjusted for inflation.

The tables below display the Board-approved asset allocation policy for 2016 and 2015 and the long-term expected real rates of return:

	2016	
Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Domestic equities	**20.70%**	**6.34%**
International equities	**18.30%**	**7.95%**
Fixed income	**23.00%**	**2.75%**
Real estate	**10.00%**	**4.75%**
Private equity	**10.00%**	**8.97%**
Other investments	**18.00%**	**4.92%**
	100.00%	

	2015	
Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Domestic equities	20.70%	5.84%
International equities	18.30%	7.40%
Fixed income	23.00%	2.31%
Real estate	10.00%	4.25%
Alternative investments	10.00%	9.25%
Other investments	18.00%	4.59%
	100.00%	

Discount rate: The discount rate used to measure the total pension liability was 7.5% and 8.0% as of December 31, 2016 and 2015, respectively, (measurement dates). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total pension asset.

Sensitivity of the Center's proportionate share of the net pension liability (asset) to changes in the discount rate: The Center's proportionate share of the net pension liability (asset) has been calculated using a discount rate of 7.5%. The following presents the Center's proportionate share of the net pension liability and net pension asset calculated using a discount rate 1% higher and 1% lower than the current rate as of December 31:

	2016		
	1% Discount 6.50%	**Current Discount Rate 7.50%**	**1% Increase 8.50%**
Traditional Plan Net Pension Liability	**$ 19,914,943**	**$ 13,035,699**	**$ 7,303,064**
Combined Plan Net Pension Liability (Asset)	**1,221**	**(16,985)**	**(31,127)**

	2015		
	1% Discount 7.00%	**Current Discount Rate 8.00%**	**1% Increase 9.00%**
Traditional Plan Net Pension Liability	$ 15,920,709	$ 9,992,635	$ 4,992,493
Combined Plan Net Pension Liability (Asset)	(386)	(18,779)	(33,573)

Pension plans fiduciary net position: Detailed information about the pension plans' fiduciary net position is available in the separately issued OPERS financial report.

Payable to the pension plans: As of December 31, 2017 and 2016, the Center had a payable of approximately $104,000 and $88,000, respectively, for an outstanding amount of required employer contributions to the plans.

Defined contribution plan: The OPERS also offers a defined contribution plan, the Member-Directed Plan. The MD plan does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits, or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

Pension expense recorded for the years ended December 31, 2017 and 2016, for contributions to Member-Directed Plan was approximately $37,000 and $31,000, respectively.

Other postemployment benefits: The OPERS provides postemployment health care benefits to retirees with ten or more years of qualifying service credit under the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan benefits include a medical plan, prescription drug program, and Medicare Part B premium reimbursement. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The ORC permits, but does not require, the OPERS to provide Other Postemployment Benefits to its eligible benefit recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the ORC.

Each year the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For the calendar years ended December 31, 2017 and 2016, the OPERS allocated 1.0% and 2.0%, respectively, of the employer contribution rate to fund the health care program for members in the Traditional Pension Plan and Combined Plan. The allocated percentage is the statutorily required contribution rates for the OPERS; payment amounts vary depending on the number of covered dependents and the coverage selected. As recommended by the OPERS's actuary, the portion of the employer contributions allocated to health care beginning January 1, 2017, decreased to 1.0% for both plans. The Center's employer contributions to the OPERS to fund OPEB for 2017 and 2016 approximated 1% and 2%, or approximately $84,000 and $151,000, respectively.

Note 12. Going Concern

The Center currently has a deficiency in net position and has violated certain financial debt covenants that have caused its bonds payable to become callable at the bondholder's option. 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:

- Continuing to restructure 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. Settlement Agreement

During the year ended December 31, 2015, the Center voluntarily disclosed several arrangements between physicians and the Center that may not have complied with the Stark Law and/or the Anti-Kickback Statute. The Center recorded a liability of $798,154 as of December 31, 2015, relative to settling these issues, and was awaiting response from the government to this offer. The liability is reflected as a loss contingency within accrued expenses and other on the accompanying balance sheets.

On March 13, 2017, the Center settled with the United States of America relative to one arrangement that was included in the voluntary disclosure noted above. As per the settlement agreement, the Center was released from civil and administrative sanctions relative to this arrangement once the obligation is paid in full. The total settlement amount was $1,079,380 and the Center agreed to make monthly principal and interest payments starting in May 2017 through April 2020. The Center made a down payment of $150,000 in March 2017. The interest rate on the obligation is a fixed rate of 2.375%. As of December 31, 2017, a liability of $283,977 is reported as an other liability within accrued expenses and other and a liability of $413,108 is reported in other long-term liabilities on the accompanying balance sheets relative to the settlement agreement obligation. As of December 31, 2017 and 2016, the Center also reported a liability of $359,793 relative to the remaining arrangements from the voluntary disclosure noted above. The liability is reflected as a loss contingency within accrued expenses and other on the accompanying balance sheets.

Note 14. Other 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.

Cost report settlements: The Center is currently in mediation with the Medicare Administrative Contractor (MAC) regarding cost report settlement issues and potentially disallowed costs. Management believes the Center's records and defenses fully support the allocated costs utilized in the preparation of the Medicare cost reports. A provision has been made in the financial statements for the adverse outcome that could ultimately result from these matters. 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 Foundation in the basic financial statements of the Center's reporting entity.

Cash, assets limited as to use, and investment return: As of December 31, 2017 and 2016, the Foundation had $407,140 and $331,452, respectively, in donor restricted and unrestricted cash and cash equivalents, all of which was held in checking, savings, or money market funds and generated interest income of $0 and $12, respectively.

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

Grants and gifts: During the years ended December 31, 2017 and 2016, the Foundation transferred grants of $45,000 and $250,000, respectively, to the Center for the purchase of capital equipment.

Schedule of the Center's Proportionate Share of the Net Pension Liability (Asset)
Ohio Public Employees Retirement System (OPERS)

	2017	2016	2015
Traditional Defined Benefit Pension Plan			
Center's proportion of the net pension liability	**0.057405%**	0.057690%	6.596600%
Center's proportionate share of the net pension	**$ 13,035,699**	$ 9,992,635	$ 7,956,237
Center's covered payroll	**$ 8,326,546**	$ 7,420,800	$ 8,087,659
Center's proportionate share of the net pension percentage of its covered-employee payroll	**156.56%**	134.66%	98.38%
Plan fiduciary net position as a percentage of the pension liability	**77.25%**	81.08%	86.45%
Combined Defined Benefit Pension Plan			
Center's proportion of the net pension asset	**0.030517%**	0.038590%	0.047150%
Center's proportionate share of the net pension	**$ 16,985**	$ 18,779	$ 18,154
Center's covered payroll	**$ 70,031**	$ 118,783	$ 165,960
Center's proportionate share of the net pension percentage of its covered-employee payroll	**24.25%**	13.37%	10.94%
Plan fiduciary net position as a percentage of the pension asset	**116.55%**	116.90%	114.83%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the Center will present information for those years for which information has been determined under the provisions of GASB No. 68. Information in these schedules has been determined as of the measurement date (December 31 of the prior fiscal year) of the collective net pension liability (asset).

Schedule of the Center's Contributions
Ohio Public Employees Retirement System (OPERS)

	2017	2016	2015
Traditional Defined Benefit Pension Plan			
Statutorily required contribution	**$ 1,082,451**	$ 890,496	$ 863,124
Contributions in relation to the statutorily required contributions	**(1,082,451)**	(890,496)	(863,124)
Contributions deficiency (excess)	**$ -**	$ -	$ -
Center's covered payroll	**$ 8,326,546**	$ 7,420,800	$ 7,192,697
Contributions as a percentage of covered-employee payroll	**13.00%**	12.00%	12.00%
Combined Defined Benefit Pension Plan			
Statutorily required contribution	**$ 9,104**	$ 14,254	$ 16,852
Contributions in relation to the statutorily required contributions	**(9,104)**	(14,254)	(16,852)
Contributions deficiency (excess)	**$ -**	$ -	$ -
Center's covered payroll	**$ 70,031**	$ 118,783	$ 140,433
Contributions as a percentage of covered-employee payroll	**13.00%**	12.00%	12.00%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the Center will present information for those years for which information has been determined under the provisions of GASB No. 68. Information in these schedules has been determined as of the Center's most recent fiscal year end.

Arnett Carbis Toothman llp
CPAs & Advisors

actcpas.com

101 Washington Street, East
P.O. Box 2629
Charleston, WV 25329
304.346.0441 | 304.346.8333 fax
800.642.3601

INDEPENDENT AUDITOR'S 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*

Board of Trustees
Adams County Regional Medical Center
Seaman, Ohio

We have audited, in accordance with the 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, Organization) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated June 28, 2018, which contained an emphasis of matter paragraph regarding substantial doubt about the Center's ability to continue as a going concern. 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

In planning and performing our audit of the financial statements, we considered the Organization's internal control to determine the audit procedures that are appropriate in the circumstances 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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 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. *A significant deficiency* is a deficiency, or 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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Bridgeport, WV • Buckhannon, WV • Charleston, WV • Columbus, OH • Meadville, PA • Morgantown, WV • New Castle, PA • Pittsburgh, PA

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.*

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 Organization'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.

Arnett Carbis Toothman LLP

Charleston, West Virginia
June 28, 2018

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 2, 2018