

**ADAMS COUNTY HOSPITAL
WEST UNION, OHIO**

December 31, 2004

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT



**Auditor of State
Betty Montgomery**

Board of Trustees
Adams County Hospital
210 North Wilson Drive
West Union, Ohio 45693

We have reviewed the Independent Auditor's Report of Adams County Hospital, prepared by VonLehman and Company, Inc., for the audit period January 1, 2004 through December 31, 2004. 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. Adams County Hospital is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 8, 2005

This Page is Intentionally Left Blank.

ADAMS COUNTY HOSPITAL

TABLE OF CONTENTS

December 31, 2004

	<u>PAGE</u>
Independent Auditors' Report	
Management's Discussion and Analysis	1 - 4
Financial Statements	
Statements of Net Assets	5
Statements of Revenues, Expenses and Changes in Net Assets	6
Statements of Cash Flows	7
Notes to the Financial Statements	8 - 17
Other Information	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Performed in Accordance with <u>Government Auditing Standards</u>	18
Noncompliance Citations - Ohio Revised Code	19
Status of Prior Audit Citations and Recommendations	20

This Page is Intentionally Left Blank.



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Adams County Hospital
West Union, Ohio

We have audited the accompanying basic financial statements of Adams County Hospital of Adams County, Ohio, as of and for the years ended December 31, 2004 and 2003, as listed in the table of contents. These basic financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the basic financial statements present only the Hospital and do not purport to, and do not present fairly the financial position of Adams County, Ohio as of December 31, 2004 and 2003, and the changes in its financial position for the years then ended in accordance with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Adams County Hospital as of December 31, 2004 and 2003, and the results of its operations, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 4, 2005, on our consideration of Adams County Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

VonLehman and Company Inc.

Fort Mitchell, Kentucky
March 4, 2005

4695 LAKE FOREST DRIVE √ CINCINNATI, OH √ 45242-3745 √ 513-891-5911 √ 513-891-5969 fax

**ADAMS COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)**

This section of Adams County Hospital's (the Hospital) annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance during the year ended December 31, 2004. This MD&A includes a discussion and analysis of the activities and results of the Hospital.

This MD&A should be read together with the financial statements included in this report.

FINANCIAL HIGHLIGHTS

- The Hospital's net assets increased by \$1.0 million and includes non-operating income of \$1.0 million in 2004.
- During the year, the Hospital's net operating revenues increased 7.9% to \$19.8 million while expenses increased 9.6% to \$19.8 million. The result is a break even from operations and a decrease when compared to 2003 operations.
- During the year, the Hospital made the following significant capital acquisitions and improvements:
 - Alpha Imaging X-Ray System
 - ER Monitoring System
 - Hematology Analyzer
 - Dictation System

The source of funding for these projects was cash flows from operations and funds reserved for capital acquisitions.

FINANCIAL STATEMENTS

The financial statements of the Hospital present information about the Hospital using financial reporting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information. The statements of net assets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the financial results of the Hospital's operations and present revenues earned and expenses incurred. The final financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash flows from operating activities, capital and related financing activities, and investing activities, and provides information on the sources and uses of cash during the year. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided. The notes to the financial statements can be found on pages 8 through 17 of this report.

FINANCIAL ANALYSIS

The Statements of Net Assets and Revenues, Expenses and Changes in Net Assets report information about the Hospital's net assets and the Hospital's changes in net assets. Increases or decreases in the Hospital's net assets are one indicator of whether the Hospital's financial health is improving or deteriorating. However, other non-financial factors, such as changes in economic conditions, population growth (including uninsured and medically indigent individuals and families), new or changed government legislation and the Hospital's strategic plan should also be considered.

A summary of the Hospital's Statements of Net Assets as of December 31, 2004 and 2003 is presented below (in thousands):

	<u>2004</u>	<u>2003</u>	<u>\$ Change</u>	<u>% Change</u>
Cash and Cash Equivalents	\$ 4,336	\$ 3,341	\$ 995	29.8%
Property, Plant and Equipment, Net	2,360	2,419	(59)	(2.4)
Patient Accounts Receivable, Net	2,771	2,741	30	-
Other Assets	<u>781</u>	<u>838</u>	<u>(57)</u>	<u>(6.8)</u>
Total Assets	<u>\$ 10,248</u>	<u>\$ 9,339</u>	<u>\$ 909</u>	
Current Liabilities	\$ 1,844	\$ 1,687	\$ 157	9.3
Long-Term Debt	<u>70</u>	<u>314</u>	<u>(244)</u>	<u>(77.7)</u>
Total Liabilities	1,914	2,001	(87)	
Net Assets	<u>8,334</u>	<u>7,338</u>	<u>996</u>	13.6%
Total Liabilities and Net Assets	<u>\$ 10,248</u>	<u>\$ 9,339</u>	<u>\$ 909</u>	

As can be seen in the above, net assets increased to \$8.3 million in 2004, up from \$7.3 million in 2003.

A summary of the Hospital's Changes in Net Assets for the years ended December 31, 2004 and 2003 is presented below (in thousands):

	<u>2004</u>	<u>2003</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues				
Net Patient Service Revenues	\$ 19,096	\$ 17,965	\$ 1,131	
Other Revenues	<u>694</u>	<u>383</u>	<u>311</u>	
Total Revenues	<u>19,790</u>	<u>18,348</u>	<u>1,442</u>	7.9%
Expenses				
Salaries and Benefits	9,487	8,709	778	
Supplies	2,602	2,333	269	
Purchased Services	2,038	1,781	257	
Provision for Bad Debts	1,830	1,425	405	
Other	<u>3,845</u>	<u>3,826</u>	<u>19</u>	
Total Expenses	<u>19,802</u>	<u>18,074</u>	<u>1,728</u>	9.6
(Loss) Income from Operations	<u>(12)</u>	<u>274</u>	<u>(286)</u>	
Non-Operating Revenues	<u>1,007</u>	<u>1,068</u>	<u>(61)</u>	
Changes in Net Assets	<u>\$ 995</u>	<u>\$ 1,342</u>	<u>\$ (347)</u>	(25.9)%

FINANCIAL ANALYSIS (Continued)**Sources of Revenues**

During 2004, the Hospital derived substantially all of its revenues from patient services and other related activities. Revenues include, among other items, revenues from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

Payer Mix

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

OPERATING AND FINANCIAL PERFORMANCE

The Hospital generated significantly more gross revenues from patients in 2004, but sustained a loss from operations due to an increase in expenses (see below) and an increase in its contractual allowances. This section will discuss highlights of 2004 operations and changes in activity.

Revenues

Net patient service revenues increased \$1.1 million in 2004 primarily due to a 'charge-per-episode' increase, a volume increase and an increase in outpatient ancillary services.

Expenses

Total operating expenses increased \$1.7 million in 2004 which was attributed to an increase in personnel costs, costs for other services, costs for supplies and drugs, utilities and bad debt expense.

PROPERTY, PLANT AND EQUIPMENT

During 2004, the Hospital invested \$0.8 million in a broad range of property, plant and equipment which is included in the table below (in thousands):

	<u>2004</u>	<u>2003</u>	<u>\$ Change</u>	<u>% Change</u>
Land Improvements	\$ 299	\$ 299	\$ -	
Buildings and Fixed Equipment	8,491	7,782	709	
Major Movable and Leased Equipment	<u>5,121</u>	<u>5,106</u>	<u>15</u>	
Total Property, Plant and Equipment	13,911	13,187	724	5.5%
Less Accumulated Depreciation	<u>11,551</u>	<u>10,768</u>	<u>783</u>	
Property, Plant and Equipment, Net	<u>\$ 2,360</u>	<u>\$ 2,419</u>	<u>\$ (59)</u>	(2.4)%

Property, plant and equipment have increased due to the fact that the Hospital has expanded its patient service capacity to meet the needs of the community. Additionally, the Hospital continues to replace equipment as it becomes obsolete as well as upgrade the capabilities of its information systems.

ECONOMIC FACTORS AND 2005 BUDGET

The Hospital's Board and management considered many factors when setting the 2005 budget. Of primary importance in setting the budget was the status of the economy, which takes into account market focus and other environmental factors such as the following:

- Demographics and impact areas of population growth and the expanding need for services
- Continuously increasing expectations for quality improvement
- Advances in medical equipment technology and the need to replace obsolete equipment
- Privacy legislation – Health Insurance Portability and Accountability Act (HIPAA)
- Increasing emphasis on the integrity of financial information
- Increasing number of uninsured patients
- Increasing cost of medical supplies
- Access to additional capital
- Increasing drug costs

The focus of management is to implement a multi-year plan that will emphasize expanded services to all areas of Adams County, continuous quality improvement, cost control, capital requirements, and financing in support of net asset improvement.

LIABILITIES AND NET ASSETS

	December 31,	
	2004	2003
Current Liabilities		
Accounts Payable - Trade	\$ 395,689	\$ 376,219
Accrued Expenses	1,210,377	937,189
Capital Lease Obligations - Current Portion	188,780	276,564
Notes Payable - Current Portion	48,967	96,764
Total Current Liabilities	1,843,813	1,686,736
Long-Term Liabilities		
Capital Lease Obligations	23,584	309,440
Notes Payable	46,775	4,414
Total Long-Term Liabilities	70,359	313,854
Total Liabilities	1,914,172	2,000,590
Net Assets		
Invested in Capital Assets, Net of Related Debt	2,051,758	1,731,506
Unrestricted	6,038,210	5,364,497
Restricted - Specific Purpose Funds	243,844	242,440
Total Net Assets	8,333,812	7,338,443
Total Liabilities and Net Assets	\$ 10,247,984	\$ 9,339,033

ADAMS COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Years Ended December 31,			
	2004		2003	
	Amount	Percent	Amount	Percent
Net Patient Service Revenues	\$ 19,096,036	96.5 %	\$ 17,964,997	97.9 %
Operating Grants and Other Revenues	694,453	3.5	382,872	2.1
Total Operating Revenues	<u>19,790,489</u>	<u>100.0</u>	<u>18,347,869</u>	<u>100.0</u>
Operating Expenses				
Salaries and Benefits	9,487,057	47.9	8,708,810	47.5
Medical Professional Fees	999,013	5.1	1,047,398	5.7
Supplies	2,602,461	13.2	2,332,733	12.7
Purchased Services	2,038,148	10.3	1,781,341	9.7
Equipment Rentals	79,994	0.4	62,805	0.3
Repairs and Maintenance	317,392	1.6	319,185	1.7
Utilities	513,152	2.6	511,223	2.8
Depreciation	854,370	4.3	933,704	5.1
Interest	27,418	0.1	72,829	0.4
Provision for Bad Debts	1,830,200	9.2	1,424,679	7.8
Other	<u>1,053,040</u>	<u>5.3</u>	<u>879,268</u>	<u>4.8</u>
Total Operating Expenses	<u>19,802,245</u>	<u>100.1</u>	<u>18,073,975</u>	<u>98.5</u>
(Loss) Income from Operations	(11,756)	(0.1)	273,894	1.5
Sales Tax Levy and Other Non-Operating Revenue	<u>1,007,125</u>	<u>5.1</u>	<u>1,068,566</u>	<u>5.8</u>
Change in Net Assets	995,369	<u>5.0</u>	1,342,460	<u>7.3</u>
Net Assets, Beginning of Year	<u>7,338,443</u>		<u>5,995,983</u>	
Net Assets, End of Year	<u>\$ 8,333,812</u>		<u>\$ 7,338,443</u>	

See accompanying notes.

**ADAMS COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS**

	December 31,	
	2004	2003
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 19,071,616	\$ 17,706,592
Cash Payments to Suppliers for Goods and Services	(9,142,574)	(8,391,817)
Cash Payments to Employees for Services	(9,473,548)	(8,829,491)
Other Operating Revenues	694,453	382,872
Net Cash Provided by Operating Activities	1,149,947	868,156
Cash Flows from Non-Capital Financing Activities		
Non-Operating Revenues	1,111,125	926,066
Cash Flows from Capital and Related Financing Activities		
Acquisition of Property, Plant and Equipment	(803,886)	(762,174)
Principal Paid on Long-Term Debt	(379,076)	(410,118)
Proceeds from Sale of Property, Plant and Equipment	1,000	827
Net Cash Used by Capital and Related Financing Activities	(1,181,962)	(1,171,465)
Net Increase in Cash and Cash Equivalents	1,079,110	622,757
Cash and Cash Equivalents at Beginning of Year	3,771,179	3,148,422
Cash and Cash Equivalents at End of Year	\$ 4,850,289	\$ 3,771,179
Recap of Cash and Cash Equivalents		
Undesignated Cash	\$ 4,130,934	\$ 3,241,537
Designated Cash	514,011	429,702
Restricted Cash	205,344	99,940
Total Cash and Cash Equivalents	\$ 4,850,289	\$ 3,771,179
Reconciliation of (Loss) Income from Operations to Net Cash Provided by Operating Activities		
(Loss) Income from Operations	\$ (11,756)	\$ 273,894
Adjustments to Reconcile (Loss) Income from Operations to Net Cash Provided by Operating Activities		
Depreciation	854,370	933,704
Provision for Bad Debts	1,830,200	1,424,679
Loss on Disposal of Property, Plant and Equipment	7,340	700
Changes in		
Patient Accounts Receivable	(1,860,265)	(1,707,538)
Inventories	17,349	(11,147)
Prepaid Expenses and Other Assets	20,051	141,930
Accounts Payable - Trade	19,470	(149,261)
Accrued Expenses	273,188	(38,805)
Total Adjustments	1,161,703	594,262
Net Cash Provided by Operating Activities	\$ 1,149,947	\$ 868,156

See accompanying notes.

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

NOTE 1 – ACCOUNTING POLICIES

Adams County Hospital (the Hospital) is a 25-bed facility, located in Adams County, Ohio and operated by a Board of Trustees as provided for under Ohio Revised Code Section 339. The Hospital is part of the primary government of Adams County, Ohio. Members of the Board of Trustees are appointed by Adams County Judges and County Commissioners.

Nature of Operations

The Hospital's operations consist almost exclusively of providing healthcare services to the residents of Adams County, Ohio, and the surrounding area. During the 2004 year, the Hospital elected to become designated as a 'Critical Access Hospital'.

Basis of Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements, including those issued after November 30, 1989.

Estimates

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

Cash and Cash Equivalents

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

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

Cash and Cash Equivalents Whose Use is Limited

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

Inventories

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

NOTE 1 – ACCOUNTING POLICIES (Continued)**Property, Plant and Equipment**

Property, plant and equipment is recorded at cost or at fair market value at the date received if acquired by gift. It is the Hospital's policy to capitalize acquired property, plant and equipment with a cost or fair market value of \$5,000 or greater. Expenditures for maintenance and repairs, which do not extend the useful life of the applicable assets, are charged to expense as incurred. Depreciation is computed using the straight line method over the estimated useful lives of the depreciable assets as follows:

Land Improvements	5 - 20 Years
Buildings and Fixed Equipment	5 - 40 Years
Major Movable Equipment	2 - 20 Years
Leased Equipment	3 - 15 Years

Lease Agreements

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

Net Patient Service Revenues

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services are paid at a prospectively determined rate per day based on clerical, diagnostic and other factors. Outpatient services are reimbursed on a prospective rate scale based on Ambulatory Patient Classifications (APC's). Home Health Services are reimbursed on a prospective basis for episodes of care spanning 60 days. There are exceptions which could adjust the 60-day payment period. The payment rates are based on a clinical assessment system called OASIS (the Outcome and Assessment Information Set). Final settlements are determined upon submission of the annual cost report by the Hospital and audits thereof by the Medicare Fiscal Intermediary.

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

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

NOTE 1 – ACCOUNTING POLICIES (Continued)

Critical Access Hospital (CAH). Effective October 1, 2004, the Hospital elected to convert to Critical Access Hospital status. Reimbursements for Medicare services are now paid at 101% of reasonable costs for Medicare services for both inpatient and outpatient services. Inpatient services are reimbursed on an average inpatient per diem basis. Outpatient services are reimbursed based upon a percentage of cost-to-charge for each ancillary service. Final settlements are determined upon submission of the annual cost report by the Hospital and audits thereof by the Medicare Fiscal Intermediary. For fiscal year 2004, two separate Medicare cost reports are required to be filed covering the time periods from January 1, 2004 to September 30, 2004 and October 1, 2004 to December 31, 2004. There is no change to Medicaid reimbursements for Critical Access Hospitals.

Charity Care

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

Governmental Accounting Standards Board (Statement) No. 34

The Hospital has implemented Statement of Governmental Accounting Standards Board (Statement) No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", as amended by Statement No.'s 37 and 38. These statements established new financial reporting requirements for state and local governments.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Risk Management

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

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

NOTE 2 – CASH AND CASH EQUIVALENTS**Legal Requirements**

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

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

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

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

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

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

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

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

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

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

The State Treasurer's investment pool.

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

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

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

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

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

At year end, the carrying amount of the Hospital's deposits was \$4,850,289 and the bank balance was \$5,314,931. Of the bank balance:

\$241,706 was covered by federal depository insurance and would belong in the risk category "insured or collateralized"; and

\$5,073,225 was covered by collateral held by third-party trustees pursuant to Section 135.181 of the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, and belongs in the risk category "uncollateralized".

Cash paid for interest was as follows:

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Interest	<u>\$ 27,418</u>	<u>\$ 72,829</u>

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

The Hospital had the following non-cash financing and investing transaction:

Installment Loan Incurred for the Payoff Of a Capital Lease Obligation	\$ <u>133,766</u>	\$ <u> -</u>
---	-------------------	-----------------------

NOTE 3 – CHARITY CARE

Charges excluded from revenue under the Hospital's charity care policy for patients unable to pay were \$60,986 and \$3,851 for 2004 and 2003, respectively.

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

In addition to those patients unable to pay, there are patients receiving services who refuse to pay. The Hospital has established credit and collection policies to hold this cost to a minimum. Provisions for bad debts are recorded as operating expenses on the financial statements.

Estimated third-party settlements for the Medicare and Medicaid programs reflect differences between interim reimbursement and reimbursement as determined by reports filed after the end of each year. Such third-party settlements reflect differences owed to or by the Hospital. The year 1998 for Medicaid remains unsettled at December 31, 2004.

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

	December 31,	
	2004	2003
Federal Government: Medicare	\$ 960,594	\$ 732,066
State of Ohio: Medicaid, Workers Compensation	198,784	297,060
Commercial Insurance, Self-Pay and Other	<u>1,611,869</u>	<u>1,712,056</u>
Total	<u>\$ 2,771,247</u>	<u>\$ 2,741,182</u>

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment transactions for the year ended December 31, 2004 were as follows:

<u>Business-Type Activities</u>	Balance January 1, 2004	Additions	Transfers/ Disposals	Balance December 31, 2004
Property, Plant and Equipment Not Being Depreciated				
Construction in Progress	\$ <u>272,500</u>	\$ <u>52,152</u>	\$ <u>272,500</u>	\$ <u>52,152</u>
Depreciable Property, Plant and Equipment				
Land Improvements	298,786	-	-	298,786
Buildings	3,645,215	2,441	-	3,668,656
Fixed Equipment	3,864,516	956,431	50,886	4,770,061
Major Movable Equipment	3,680,204	44,528	29,545	3,695,187
Leased Equipment	<u>1,425,681</u>	<u>-</u>	<u>-</u>	<u>1,425,681</u>
Total Property, Plant and Equipment at Historical Cost	<u>12,914,402</u>	<u>1,024,400</u>	<u>80,431</u>	<u>13,858,371</u>

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT (Continued)

	Balance January 1, 2004	Additions	Transfers/ Disposals	Balance December 31, 2004
Less Accumulated Depreciation				
Land Improvements	253,522	12,826	-	266,348
Buildings	3,198,272	65,200	-	3,263,472
Fixed Equipment	2,950,025	309,993	42,859	3,217,159
Major Movable Equipment	3,309,645	241,153	29,066	3,521,732
Leased Equipment	1,056,750	225,198	-	1,281,948
Total Accumulated Depreciation	10,768,214	854,370	71,925	11,550,659
Business-Type Activities				
Property, Plant and Equipment - Net	\$ <u>2,418,688</u>	\$ <u>222,182</u>	\$ <u>281,006</u>	\$ <u>2,359,864</u>

NOTE 6 – NOTES PAYABLE

The following is a summary of the Hospital's long-term debt transactions for the year ended December 31, 2004:

	Notes Payable	Capital Lease Obligations
Debt Outstanding January 1, 2004	\$ 101,178	\$ 586,004
Additions of New Debt	133,766	-
Repayments	(139,202)	(373,640)
Debt Outstanding December 31, 2004	\$ <u>95,742</u>	\$ <u>212,364</u>
Amount Expected to be Paid Within One Year	\$ <u>48,967</u>	\$ <u>188,780</u>
	2004	2003

The Hospital had a note payable to a bank that funded a roof renovation project. The note charged interest at 5%. Monthly principal and interest payments were \$5,097, and the final payment was made in September, 2004. The note was collateralized by money held in the Hospital's general checking account.

	\$ -	\$ 44,930
--	------	-----------

The Hospital had a note payable to a bank that funded the purchase of medical equipment. The note charged interest at 4%. Monthly principal and interest payments were \$4,428, and the final payment was made in January, 2005. The note was collateralized by the equipment purchased with the note proceeds.

	4,414	56,248
--	-------	--------

NOTE 6 – NOTES PAYABLE (Continued)

	2004	2003
The Hospital has an uncollateralized note payable to a bank that was used to pay off a capital lease obligation for medical equipment. The note charges interest at 4.88%. The monthly principal and interest payments are \$4,000 and the final payment is due in December, 2006.	\$ <u>91,328</u>	\$ <u>-</u>
Less Current Portion	95,742 <u>48,967</u>	101,178 <u>96,764</u>
Long-Term Portion	\$ <u>46,775</u>	\$ <u>4,414</u>

The remaining maturities on these notes payable are as follows:

2005	\$ 48,967
2006	<u>46,775</u>
	<u>\$ 95,742</u>

NOTE 7 – CAPITAL AND OPERATING LEASES

Capital Lease Obligations

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

	December 31,	
	2004	2003
2005	\$ 195,613	
2006	19,624	
2007	<u>4,909</u>	
Total Net Future Minimum Lease Payments	\$ 220,146	\$ 651,560
Less: Amount Representing Interest	<u>7,782</u>	<u>65,556</u>
Total Capital Lease Obligations	212,364	586,004
Less: Current Portion	<u>188,780</u>	<u>276,564</u>
Long-Term Capital Lease Obligations	\$ <u>23,584</u>	\$ <u>309,440</u>

Net book value of leased equipment included within Property, Plant and Equipment, was as follows:

Cost	\$ 983,363	\$ 1,425,681
Accumulated Depreciation	<u>909,182</u>	<u>1,056,750</u>
Net Book Value	\$ <u>74,181</u>	\$ <u>368,931</u>

NOTE 7 – CAPITAL AND OPERATING LEASES (Continued)**Operating Leases**

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

2005	\$ 519,508
2006	519,261
2007	480,748
2008	404,971
2009	<u>230,944</u>
Total	<u>\$ 2,155,432</u>

Total rental expense for operating leases, including those with terms of one month or less, for the years ended December 31, 2004 and 2003 was \$287,791 and \$122,831, respectively, and were included within Other Expenses on the Statements of Operations.

NOTE 8 – PENSION PLAN

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

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

The plan issues a separate, publicly available financial report that includes a balance sheet and required supplementary information. This report may be obtained by contacting: Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215, Telephone 1-800-222-7377.

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

<u>Year</u>	<u>Contribution</u>
2004	\$ 1,020,590
2003	941,014
2002	883,402

NOTE 9 – POSTEMPLOYMENT HEALTHCARE BENEFITS

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

OPERS provides post-retirement health care coverage to age and service retirants and dependents with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The 2004 employer rate for employees' coverage by OPERS was 13.55%, of which 4.0% was used to fund health care. The total Hospital contribution used to fund health care was \$301,281 and \$347,238 for the years ended December 31, 2004 and 2003, respectively.

NOTE 9 – POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

OPEB are advanced-funded on an actuarially-determined basis. The number of active contributing participants at December 31, 2004 was 369,885. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2003 was approximately \$10,500,000,000. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were approximately \$26,900,000,000 and \$16,400,000,000, respectively, as of December 31, 2003. The actuarial assumptions used to calculate these amounts are as follows:

- Funding Method – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.
- Assets Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.
- Investment Return – The investment assumption rate for 2003 was 8.0%.
- Active Employee Total Payroll – An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%.
- Health Care – Health care costs were assumed to increase 4.0% annually.

NOTE 10 – MALPRACTICE INSURANCE

As of December 31, 2004, the Hospital carried occurrence basis malpractice insurance coverage of \$1,000,000 per claim and \$3,000,000 aggregate, plus excess liability coverage of \$5,000,000.

NOTE 11 – CONCENTRATIONS

Medicare and Medicaid accounted for approximately 59% and 58% of the Hospital's net patient service revenues during 2004 and 2003, respectively.

NOTE 12 – RESTRICTED FUND BALANCES

Temporarily restricted fund balances are available for the following purposes:

	December 31,	
	2004	2003
Johnson Memorial Scholarships Fund	\$ 40,638	\$ 40,559
Ruth Lyons Children's Fund	4,039	4,039
Wilson Worthy Fund	7,885	7,827
Rural Health Collaborative Grant Fund	<u>191,282</u>	<u>190,015</u>
	<u>\$ 243,844</u>	<u>\$ 242,440</u>

The expenditures of restricted funds relate to the purchase of gifts, the issuance of scholarships, and for the purchase of medical equipment to be used to treat those with tobacco-related illnesses.

NOTE 13 – COMMITMENT

The Hospital's Board of Trustees has approved the construction of a new facility contingent on obtaining adequate financing. The Hospital is working with an investment banker to obtain financing. The facility is estimated to cost approximately \$28 million including bond issuance costs and would be funded with a 30 year bond issue with anticipated interest rates ranging from 6.0% to 6.5%. Assuming successful financing, the estimated completion date is 2007.



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

Board of Trustees
Adams County Hospital

We have audited the basic financial statements of Adams County Hospital as of and for the year ended December 31, 2004, and have issued our report thereon dated March 4, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adams County Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Adams County Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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.

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

VonLehman and Company Inc.

Fort Mitchell, Kentucky
March 4, 2005

**ADAMS COUNTY HOSPITAL
NONCOMPLIANCE CITATIONS - OHIO REVISED CODE
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**

NONE

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

NONE



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

ADAMS COUNTY HOSPITAL

ADAMS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 21, 2005**