

**ADAMS COUNTY HOSPITAL  
WEST UNION, OHIO**

**December 31, 2005**

*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 Auditors' Report* of the Adams County Hospital, prepared by VonLehman and Company, Inc., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Adams County Hospital is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

May 2, 2006

**This Page is Intentionally Left Blank.**

**ADAMS COUNTY HOSPITAL**

**TABLE OF CONTENTS**

**December 31, 2005**

	<b><u>PAGE</u></b>
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 - 18
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>	19
Noncompliance Citations - Ohio Revised Code	20
Status of Prior Audit Citations and Recommendations	21



## 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, 2005 and 2004, 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, 2005 and 2004, 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, 2005 and 2004, 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 10, 2006, 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 10, 2006

**ADAMS COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(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, 2005. 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 \$1.7 million and net assets includes non-operating income of \$1.1 million in 2005.
- During the year, the Hospital's operating revenues increased 9.1% to \$21.6 million while expenses increased 6.0% to \$21.0 million. The result is income from operations of approximately \$.6 million compared to a virtual break-even performance in 2004.
- During the year, the Hospital made the following significant capital acquisitions and improvements:
  - Portable X-Ray Machine
  - Electronic Medical Record System
  - Nine Mobile Computer Carts
  - Automated Pharmaceutical Supply System
  - Winchester Family Medicine Building
  - Construction has commenced on a new hospital facility in Seaman, Ohio

The source of funding for these projects was cash flows from operations, a bond issue, 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 to provide 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 beginning on page 8 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, 2005, 2004 and 2003 is presented below (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash and Cash Equivalents	\$ 31,070	\$ 4,336	\$ 3,242
Property, Plant and Equipment, Net	5,397	2,360	2,419
Patient Accounts Receivable, Net	3,499	2,771	2,741
Other Assets	<u>263</u>	<u>781</u>	<u>695</u>
Total Assets	<u>\$ 40,229</u>	<u>\$ 10,248</u>	<u>\$ 9,097</u>
Current Liabilities	\$ 2,712	\$ 1,844	\$ 1,687
Long-Term Debt	<u>27,485</u>	<u>70</u>	<u>314</u>
Total Liabilities	30,197	1,914	2,001
Net Assets	<u>10,032</u>	<u>8,334</u>	<u>7,096</u>
Total Liabilities and Net Assets	<u>\$ 40,229</u>	<u>\$ 10,248</u>	<u>\$ 9,097</u>

As can be seen in the above, net assets increased to \$9.8 million in 2005, up from \$8.3 million in 2004.

A summary of the Hospital's Changes in Net Assets for the years ended December 31, 2005, 2004 and 2003 is presented below (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues			
Net Patient Service Revenues	\$ 20,945	\$ 19,096	\$ 17,965
Other	<u>638</u>	<u>694</u>	<u>383</u>
Total Revenues	<u>21,583</u>	<u>19,790</u>	<u>18,348</u>
Expenses			
Salaries and Benefits	10,415	9,487	8,709
Supplies	2,675	2,602	2,333
Purchased Services	2,145	2,038	1,781
Provision for Bad Debts	1,969	1,830	1,425
Other	<u>3,792</u>	<u>3,845</u>	<u>3,826</u>
Total Expenses	<u>20,996</u>	<u>19,802</u>	<u>18,074</u>
Income (Loss) From Operations	587	(12)	274
Non-Operating Revenues	<u>1,111</u>	<u>1,007</u>	<u>1,068</u>
Change in Net Assets	<u>\$ 1,698</u>	<u>\$ 995</u>	<u>\$ 1,342</u>

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

During 2005, 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****Revenues**

The Hospital generated significantly more gross revenues from patients in 2005. Net patient service revenues increased \$1.8 million in 2005 primarily due to a volume increase and the opening of the Winchester Family Medicine practice.

**Expenses**

Total operating expenses increased \$1.2 million in 2005 which was attributable to an increase in personnel costs, costs for purchased and contracted services, costs for supplies and drugs, utilities and bad debt expense.

**PROPERTY, PLANT AND EQUIPMENT**

During 2005, the Hospital invested \$3.7 million in a broad range of property, plant and equipment which is included in the table below (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Land Improvements	\$ 299	\$ 299	\$ 299
Buildings and Fixed Equipment	11,859	8,491	7,782
Major Movable and Leased Equipment	<u>5,336</u>	<u>5,121</u>	<u>5,106</u>
Total Property, Plant and Equipment	17,494	13,911	13,187
Less Accumulated Depreciation	<u>12,097</u>	<u>11,551</u>	<u>10,768</u>
Property, Plant and Equipment, Net	<u>\$ 5,397</u>	<u>\$ 2,360</u>	<u>\$ 2,419</u>

Property, plant and equipment have increased because the Hospital has expanded its patient service capacity to meet the needs of the community. Also, the Hospital had a bond issuance in 2005 for \$27,480,000. The proceeds are being utilized for the building of a new hospital in Seaman, Ohio. Approximately \$2.5 million in costs have been incurred and capitalized relating to this new hospital. Additionally, the Hospital continues to replace equipment as it becomes obsolete as well as upgrade the capabilities of its information systems.

## DEBT

At December 31, 2005, the Hospital had \$27,480,000 in outstanding Hospital Facility Improvement Bonds, the entire amount of which was issued in 2005. All of this debt is long-term.

Other existing debt as of December 31, 2005 is approximately \$70,000, of which approximately \$65,000 is payable in 2006. This debt consists of notes payable and capital lease obligations.

## ECONOMIC FACTORS AND 2006 BUDGET

The Hospital's Board and management considered many factors when setting the 2006 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:

- The new Hospital facility in Seaman, Ohio and its impact on the Hospital's patient volume and demographics, as well as its results of operations
- Debt management and covenants related to bonded debt
- 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,	
	2005	2004
<b>Current Liabilities</b>		
Accounts Payable - Trade	\$ 481,285	\$ 395,689
Estimated Settlement Amounts Due to Third-Party Payors	1,149,065	206,788
Accrued Expenses	1,286,640	1,003,589
Capital Lease Obligations - Current Portion	18,731	188,780
Notes Payable - Current Portion	46,789	48,967
 Total Current Liabilities	 2,982,510	 1,843,813
<b>Long-Term Liabilities</b>		
Bond Payable	27,480,000	-
Capital Lease Obligations	4,837	23,584
Notes Payable	-	46,775
 Total Long-Term Liabilities	 27,484,837	 70,359
 Total Liabilities	 30,467,347	 1,914,172
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	4,351,180	2,051,758
Unrestricted	5,254,946	6,038,210
Restricted - Specific Purpose Funds	155,738	243,844
 Total Net Assets	 9,761,864	 8,333,812
 <b>Total Liabilities and Net Assets</b>	 \$ 40,229,211	 \$ 10,247,984

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

	Years Ended December 31,			
	2005		2004	
	Amount	Percent	Amount	Percent
<b>Gross Patient Service Revenues</b>	\$ 36,226,605	100.0 %	\$ 32,103,081	100.0 %
<b>Discounts and Allowances</b>	<u>(15,551,334)</u>	<u>(42.9)</u>	<u>(13,007,045)</u>	<u>(40.5)</u>
<b>Net Patient Service Revenues</b>	20,675,271	57.1	19,096,036	59.5
<b>Operating Grants and Other Revenues</b>	<u>638,210</u>	<u>1.7</u>	<u>694,453</u>	<u>2.1</u>
Total Operating Revenues	<u>21,313,481</u>	<u>58.8</u>	<u>19,790,489</u>	<u>61.6</u>
<b>Operating Expenses</b>				
Salaries and Benefits	10,415,109	28.7	9,487,057	29.6
Medical Professional Fees	994,820	2.8	999,013	3.1
Supplies	2,674,698	7.4	2,602,461	8.1
Purchased Services	2,144,524	5.9	2,038,148	6.3
Equipment Rentals	276,678	0.8	79,994	0.2
Repairs and Maintenance	402,223	1.1	317,392	1.0
Utilities	582,237	1.6	513,152	1.6
Depreciation	681,500	1.9	854,370	2.7
Interest	10,299	0.1	27,418	0.1
Provision for Bad Debts	1,969,285	5.4	1,830,200	5.6
Other	<u>845,141</u>	<u>2.3</u>	<u>1,053,040</u>	<u>3.3</u>
Total Operating Expenses	<u>20,996,514</u>	<u>58.0</u>	<u>19,802,245</u>	<u>61.6</u>
Income (Loss) from Operations	316,967	0.8	(11,756)	-
<b>Sales Tax Levy and Other Non-Operating Revenue</b>	<u>1,111,085</u>	<u>3.1</u>	<u>1,007,125</u>	<u>3.1</u>
<b>Change in Net Assets</b>	1,428,052	<u>3.8 %</u>	995,369	<u>3.1 %</u>
Net Assets, Beginning of Year	<u>8,333,812</u>		<u>7,338,443</u>	
Net Assets, End of Year	<u>\$ 9,761,864</u>		<u>\$ 8,333,812</u>	

See accompanying notes.

**ADAMS COUNTY HOSPITAL  
STATEMENTS OF CASH FLOWS**

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Cash Flows from Operating Activities</b>		
Cash Received from Customers	\$ 19,974,098	\$ 19,071,616
Cash Payments to Suppliers for Goods and Services	(8,711,822)	(9,142,574)
Cash Payments to Employees for Services	(10,354,508)	(9,473,548)
Other Operating Revenues	676,710	694,453
	<u>1,584,478</u>	<u>1,149,947</u>
<b>Net Cash Provided by Operating Activities</b>		
<b>Cash Flows from Non-Capital Financing Activities</b>		
Non-Operating Revenues	1,111,085	1,111,125
	<u>1,111,085</u>	<u>1,111,125</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition of Property, Plant and Equipment	(3,718,293)	(803,886)
Proceeds from Long-Term Debt	27,480,000	-
Principal Paid on Long-Term Debt	(237,749)	(379,076)
Proceeds from Sale of Property, Plant and Equipment	-	1,000
	<u>23,523,958</u>	<u>(1,181,962)</u>
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>		
<b>Net Increase in Cash and Cash Equivalents</b>	26,219,521	1,079,110
<b>Cash and Cash Equivalents at Beginning of Year</b>	4,850,289	3,771,179
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 31,069,810</u>	<u>\$ 4,850,289</u>
<b>Recap of Cash and Cash Equivalents</b>		
Undesignated Cash	\$ 3,923,372	\$ 4,130,934
Designated Cash	485,820	514,011
Restricted Cash - Bond Issuance	26,504,880	-
Other Restricted Cash	155,738	205,344
	<u>\$ 31,069,810</u>	<u>\$ 4,850,289</u>
<b>Total Cash and Cash Equivalents</b>		
<b>Reconciliation of Income (Loss) from Operations to Net Cash Provided by Operating Activities</b>		
Income (Loss) from Operations	\$ 316,967	\$ (11,756)
Adjustments to Reconcile Income (Loss) from Operations to Net Cash Provided by Operating Activities		
Depreciation	681,500	854,370
Provision for Bad Debts	1,969,285	1,830,200
Loss on Disposal of Property, Plant and Equipment	-	7,340
Changes in		
Patient Accounts Receivable	(2,696,702)	(1,860,265)
Rural Health Collaborative Grant Receivable	38,500	-
Inventories	(41,974)	17,349
Prepaid Expenses and Other Assets	5,978	20,051
Accounts Payable - Trade	85,596	19,470
Accrued Expenses and Estimated Settlement Amounts Due to Third-Party Payors	<u>1,225,328</u>	<u>273,188</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 1,584,478</u>	<u>\$ 1,149,947</u>

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 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 and Restricted Cash-Bond Issuance**

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. Restricted cash-bond issuance includes assets in separate cash accounts restricted for payments related to the new Adams County Hospital facility in Seaman, Ohio.

**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 lives of the applicable assets, are charged to expense as incurred. When property, plant and equipment is sold or otherwise disposed of, the asset accounts and related accumulated depreciation accounts are relieved, and any gain or loss is included in operations. 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.

**Compensated Absences**

It is the Hospital's policy to compensate eligible employees during authorized absences. Such employees earn sick leave credit proportionately to the paid hours in each bi-weekly pay period according to rates prescribed to by the Ohio Revised Code (ORC). This sick leave is accrued at the rate specified by the ORC (0.0575 per hour worked). Sick leave does not accrue on overtime hours. Employees who retire from active service with the Hospital, State of Ohio, or any of its political subdivisions will be paid for one-fourth (1/4) of the total of his/her accrued but unused sick leave. Payment of sick leave will be based on the employee's rate of pay at the time of retirement. The maximum payment shall not exceed 240 hours.

An employee who transfers from, or is separated and reinstated from a state or county employer shall be credited with the unused balance of accumulated sick leave provided the transfer to employment or reinstatement takes place within 10 years of the date on which the employee was last employed. It is the employee's responsibility upon hire to notify Human Resources of any previous leave credits.

An employee who transfers from full-time to pool status is no longer eligible to accrue sick benefits. Earned sick hours will be banked and available if the employee returns to full-time status under OPERS.

**Net Patient Service Revenues**

For purposes of these financial statements, operating revenues are those revenues generated by the Hospital for healthcare services rendered, grants received, or any other activity related to the Hospital's primary purpose as previously noted in Note 1.

**NOTE 1 – ACCOUNTING POLICIES (Continued)**

Also, 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:

*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 were 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.

*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.

**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.

**Restricted and Unrestricted Resources**

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

**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.

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 the investing authority purchases and the seller agrees unconditionally to repurchase any of the securities listed in categories 1 and 2 above. The seller also may sell any of such securities owned by the Hospital 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).

**NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)**

At year end, the carrying amount of the Hospital's deposits was \$31,069,810 and the bank balance was \$31,522,086. Of the bank balance:

\$300,000 was covered by federal depository insurance and would belong in the risk category "insured or collateralized"; and

\$31,222,086 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:

	December 31,	
	<u>2005</u>	<u>2004</u>
Interest	\$ <u>171,174</u>	\$ <u>27,418</u>

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

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

**NOTE 3 – CHARITY CARE**

Charges excluded from revenue under the Hospital's charity care policy for patients unable to pay were \$144,327 and \$60,986 for 2005 and 2004, 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 in the financial statements.

Estimated third-party settlements for the Medicare and Medicaid programs reflect differences between interim reimbursement and reimbursement as determined by cost reports filed after the end of each year. Such third-party settlements reflect differences owed to or by the Hospital. The years 2002 and thereafter remain unsettled at December 31, 2005 for Medicaid. The years 2004 and 2005 remain unsettled at December 31, 2005 for Medicare.

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

	December 31,	
	<u>2005</u>	<u>2004</u>
Federal Government: Medicare	\$ 1,368,888	\$ 960,594
State of Ohio: Medicaid, Workers Compensation	313,904	198,784
Commercial Insurance, Self-Pay and Other	<u>1,815,872</u>	<u>1,611,869</u>
Total	<u>\$ 3,498,664</u>	<u>\$ 2,771,247</u>

**NOTE 5 – PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment transactions for the year ended December 31, 2005 were as follows:

	Balance January 1, 2005	Additions	Transfers/ Disposals	Balance December 31, 2005
Property, Plant and Equipment Not Being Depreciated				
Construction in Progress	\$ 52,152	\$ 3,055,759	\$ -	\$ 3,107,911
Depreciable Property, Plant and Equipment				
Land Improvements	298,786	-	-	298,786
Buildings	3,668,656	149,876	-	3,818,532
Fixed Equipment	4,770,061	163,102	307	4,932,856
Major Movable Equipment	3,695,187	349,556	134,109	3,910,634
Leased Equipment	1,425,681	-	-	1,425,681
Total Property, Plant and Equipment at Historical Cost	<u>13,858,371</u>	<u>662,534</u>	<u>134,416</u>	<u>14,386,489</u>
Less Accumulated Depreciation				
Land Improvements	266,348	12,826	-	279,174
Buildings	3,263,472	69,472	-	3,332,944
Fixed Equipment	3,217,159	463,491	307	3,680,343
Major Movable Equipment	3,521,732	125,820	134,109	3,513,443
Leased Equipment	1,281,948	9,891	-	1,291,839
Total Accumulated Depreciation	<u>11,550,659</u>	<u>681,500</u>	<u>134,416</u>	<u>12,097,743</u>
Property, Plant and Equipment – Net	<u>\$ 2,359,864</u>	<u>\$ 3,036,793</u>	<u>\$ -</u>	<u>\$ 5,396,657</u>

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

	Balance January 1, 2004	Additions	Transfers/ Disposals	Balance December 31, 2004
Property, Plant and Equipment Not Being Depreciated				
Construction in Progress	\$ 272,500	\$ 52,152	\$ 272,500	\$ 52,152
Depreciable Property, Plant and Equipment				
Land Improvements	298,786	-	-	298,786
Buildings	3,645,215	23,441	-	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	1,425,681	-	-	1,425,681
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>
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	<u>10,768,214</u>	<u>854,370</u>	<u>71,925</u>	<u>11,550,659</u>
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 – LONG-TERM DEBT**

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

	<u>Year Ended December 31, 2005</u>		
	<u>Bond Payable</u>	<u>Notes Payable</u>	<u>Capital Lease Obligations</u>
Debt Outstanding January 1, 2005	\$ -	\$ 95,742	\$ 212,364
Additions of New Debt	27,480,000	-	-
Repayments	<u>-</u>	<u>48,953</u>	<u>188,796</u>
Debt Outstanding December 31, 2005	<u>\$ 27,480,000</u>	<u>\$ 46,789</u>	<u>\$ 23,568</u>
Expected to be Paid Within One Year	<u>\$ -</u>	<u>\$ 46,789</u>	<u>\$ 18,731</u>
		<u>Year Ended December 31, 2004</u>	
		<u>Notes Payable</u>	<u>Capital Lease Obligations</u>
Debt Outstanding January 1, 2004		\$ 101,178	\$ 586,004
Additions of New Debt		133,766	-
Repayments		<u>(139,202)</u>	<u>(373,640)</u>
Debt Outstanding December 31, 2004		<u>\$ 95,742</u>	<u>\$ 212,364</u>
Expected to be Paid Within One Year		<u>\$ 48,967</u>	<u>\$ 188,780</u>
<b>Notes Payable</b>		<u>2005</u>	<u>2004</u>
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
The Hospital has an uncollateralized note payable to a bank that was used to pay off a capital lease obligation. 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>46,789</u>	<u>91,328</u>
		46,789	95,742
Less Current Portion		<u>46,789</u>	<u>48,967</u>
Long-Term Portion		<u>\$ -</u>	<u>\$ 46,775</u>

## NOTE 6 – LONG-TERM DEBT (Continued)

**Bond Payable**

The Hospital is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued in 2005 by the Hospital to construct a new facility in Seaman, Ohio. The bond is dated July 28, 2005 with an original issue of \$27,480,000. Interest rates range from 5.00% to 6.25%. No principal payments were required in 2005, thus the outstanding balance at December 31, 2005 was \$27,480,000. There are certain covenants associated with this bond payable, all of which were met for the year ended December 31, 2005. Future minimum principal and interest payments on the bond are as follows:

Years Ending December 31,	Principal	Interest	Total
2006	\$ -	\$ 1,755,000	\$ 1,755,000
2007	340,000	1,755,000	2,095,000
2008	355,000	1,738,000	2,093,000
2009	375,000	1,719,363	2,094,363
2010	395,000	1,698,738	2,093,738
2011 – 2015	2,365,000	8,105,888	10,470,888
2016 – 2020	3,195,000	7,271,000	10,466,000
2021 – 2025	4,355,000	6,117,475	10,472,475
2026 – 2030	5,960,000	4,506,450	10,466,450
2031 – 2035	8,175,000	2,299,375	10,474,375
2036	<u>1,965,000</u>	<u>127,725</u>	<u>2,092,725</u>
Total	<u>\$27,480,000</u>	<u>\$37,094,014</u>	<u>\$64,574,014</u>

**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,	
	2005	2004
2006	\$ 19,624	
2007	<u>4,890</u>	
Total Net Future Minimum Lease Payments	\$ 24,514	\$ 220,146
Less: Amount Representing Interest	<u>946</u>	<u>7,782</u>
Total Capital Lease Obligations	23,568	212,364
Less: Current Portion	<u>18,731</u>	<u>188,780</u>
Long-Term Capital Lease Obligations	<u>\$ 4,837</u>	<u>\$ 23,584</u>

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

Cost	\$ 148,363	\$ 983,363
Accumulated Depreciation	<u>84,073</u>	<u>909,182</u>
Net Book Value	<u>\$ 64,290</u>	<u>\$ 74,181</u>

**NOTE 7 – 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:

2006	\$ 518,123
2007	479,610
2008	405,467
2009	239,611
2010	<u>2,889</u>
Total	<u>\$ 1,645,700</u>

Total rental expense for operating leases, including those with terms of one month or less, for the years ended December 31, 2005 and 2004 was \$515,234 and \$287,791, respectively, and were included within Other Expenses on the Statements of Revenues, Expenses and Changes in Net Assets.

**NOTE 8 – PENSION PLAN**

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

OPERS administers three separate pension plans; The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and death benefits, annual cost of living adjustments, and post-retirement healthcare benefits to qualifying members of both the Traditional and the Combined Plan; however healthcare benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS Board of Trustees.

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>
2005	\$ 1,120,884
2004	1,020,590
2003	941,014

**NOTE 9 – CAPITALIZED INTEREST**

The Hospital follows the policy of capitalizing interest as a component of the cost of property, plant and equipment constructed for its own use. In 2005, total interest incurred was \$171,174, of which \$10,299 was charged to operations. In accordance with Financial Accounting Standards Board (FASB) guidelines, interest income earned by the Hospital related to this was netted with the interest expense capitalized. In 2004, total interest incurred was \$27,418, all of which was charged to operations.

**NOTE 10 – 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 retirees 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 2005 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 \$330,888 and \$301,281 for the years ended December 31, 2005 and 2004, respectively.

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, 2005 was 376,109. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2004 was approximately \$10,800,000,000. The actuarially accrued liability and the unfunded actuarially accrued liability, based on the actuarial cost method used, were approximately \$29,500,000,000 and \$18,700,000,000, respectively, as of December 31, 2004. 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 2004 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 .5% to 6.3%.
- Health Care – Health care costs were assumed to increase 4.0% annually.

**NOTE 11 – MALPRACTICE INSURANCE**

As of December 31, 2005, 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 12 – CONCENTRATIONS**

Medicare and Medicaid accounted for approximately 58% and 59% of the Hospital's net patient service revenues during 2005 and 2004, respectively.

**NOTE 13 – RESTRICTED FUND BALANCES**

Temporarily restricted fund balances are available for the following purposes:

	December 31,	
	<u>2005</u>	<u>2004</u>
Johnson Memorial Scholarships Fund	\$ 40,763	\$ 40,638
Ruth Lyons Children’s Fund	3,892	4,039
Wilson Worthy Fund	7,959	7,885
Rural Health Collaborative Grant Fund	<u>103,124</u>	<u>191,282</u>
	<u>\$ 155,738</u>	<u>\$ 243,844</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 14 – CONTRIBUTED LAND**

The land on which the new Hospital facility is being constructed is being leased by its current owners to the Adams County Medical Foundation, Inc. (the “Foundation”). The Foundation is allowing the Hospital to construct its new facility on the land. The Foundation’s lease of the land is for \$1 for the term of the lease. The lease term is indefinite allowing the Foundation time to apply for nonprofit status under Section 501 (c) (3) under the Internal Revenue Code. Upon approval of nonprofit status the land will be contributed to the Foundation.

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

The Foundation had no financial activity in 2005 other than the lease mentioned above.

It is anticipated that the Hospital and the Foundation will report under combined financial statements beginning in 2006 when the Foundation has financial activity.



**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, 2005, and have issued our report thereon dated March 10, 2006. 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 an opinion 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 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 and Other Matters

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, the county 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 10, 2006

**ADAMS COUNTY HOSPITAL  
NONCOMPLIANCE CITATIONS - OHIO REVISED CODE  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005**

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  
MAY 16, 2006**