

ADAMS COUNTY HOSPITAL

FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008



Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Adams County Hospital, Adams County, prepared by Blue & Co., LLC, for the audit period January 1, 2009 through December 31, 2009. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 22, 2010

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ADAMS COUNTY HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Adams County Hospital
Seaman, Ohio

We have audited the accompanying balance sheets of Adams County Hospital, as of December 31, 2009 and 2008, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 financial statements of Adams County Hospital are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Adams County that is attributable to the transactions of Adams County Hospital. They do not purport to, and do not, present fairly the financial position of Adams County as of December 31, 2009 and 2008, the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Adams County Hospital as of December 31, 2009 and 2008, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees
Adams County Hospital

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in footnote 14 to the financial statements, the Hospital did not meet certain covenants related to the bonds outstanding at December 31, 2009 (footnote 5). These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Management's Discussion and Analysis on pages i through vii is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2010 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 audits.

Blue & Co., LLC

June 21, 2010

Adams County Hospital

A Component Unit of Adams County, State of Ohio
Management's Discussion and Analysis (unaudited)

The discussion and analysis of Adams County Hospital (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2009, 2008 and 2007. Please read it in conjunction with the Hospital's financial statements, which begin on page 3.

Financial Highlights

- The Hospital's net assets decreased approximately \$1,869,000 and \$1,406,000 in 2009 and 2008, respectively.
- During 2009, the Hospital's operating revenues increased by 3% to approximately \$24,025,000 while expenses increased 4% to \$25,459,000. The result is a loss from operations of approximately \$1,051,000 in 2009 compared to an operating loss of \$701,000 in 2008.
- The Hospital did not meet certain covenants related to its bonds outstanding at December 31, 2009. These conditions, coupled with recurring losses, raise substantial doubt about the Hospital's ability to continue as a going concern. Management intends to return the Hospital to profitability through evaluation of contribution margins of certain lines of business, rates charged and evaluation of staffing levels consistent with service level needs.

Using This Annual Report

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

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

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

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

Adams County Hospital

A Component Unit of Adams County, State of Ohio
Management's Discussion and Analysis (unaudited)

as well as local economic factors to assess the overall health of the Hospital.

Statement of Cash Flows

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

Net Assets

Net assets decreased by \$1,869,000 in 2009, as you can see in Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets			
Cash and cash equivalents and assets whose use is limited	\$ 4,524,893	\$ 5,149,935	\$ 6,176,748
Capital assets	26,870,623	28,219,273	29,775,939
Patient accounts receivable, net	3,092,479	3,573,850	2,917,536
Other assets	1,784,358	1,324,657	1,871,552
Total assets	<u>\$ 36,272,353</u>	<u>\$ 38,267,715</u>	<u>\$ 40,741,775</u>
Liabilities			
Current liabilities	\$ 4,368,631	\$ 3,946,216	\$ 3,895,434
Long - term obligations	27,519,761	28,068,758	29,187,604
Total liabilities	<u>31,888,392</u>	<u>32,014,974</u>	<u>33,083,038</u>
Net assets			
Invested in capital assets, net of debt	(1,739,097)	(946,579)	(517,822)
Unrestricted	2,834,020	3,511,355	3,397,171
Restricted	3,289,038	3,687,965	4,779,388
Total net assets	<u>4,383,961</u>	<u>6,252,741</u>	<u>7,658,737</u>
Total liabilities and net assets	<u>\$ 36,272,353</u>	<u>\$ 38,267,715</u>	<u>\$ 40,741,775</u>

As can be seen above, net assets decreased to approximately \$4,384,000 in 2009, down from \$6,253,000 in 2008.

Adams County Hospital

A Component Unit of Adams County, State of Ohio
Management's Discussion and Analysis (unaudited)

A summary of the Hospital's changes in net assets for the years ended December 31, 2009, 2008 and 2007 is presented below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues			
Net patient service revenues	\$ 24,024,898	\$ 23,302,088	\$ 18,536,228
Other	383,024	385,144	526,069
	<u>24,407,922</u>	<u>23,687,232</u>	<u>19,062,297</u>
Operating expenses			
Salaries and benefits	11,865,525	11,827,560	10,749,847
Supplies	3,757,207	3,236,960	2,972,399
Purchased services	2,906,586	2,906,444	2,379,468
Other	6,929,589	6,417,123	5,651,574
	<u>25,458,907</u>	<u>24,388,087</u>	<u>21,753,288</u>
Loss from operations	(1,050,985)	(700,855)	(2,690,991)
Other changes in net assets	<u>(817,795)</u>	<u>(705,141)</u>	<u>(25,274)</u>
Change in net assets	<u>\$ (1,868,780)</u>	<u>\$ (1,405,996)</u>	<u>\$ (2,716,265)</u>

Sources of Revenue

During 2009 the Hospital derived substantially all of its revenue from patient service and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

Adams County Hospital

A Component Unit of Adams County, State of Ohio
Management's Discussion and Analysis (unaudited)

Payer Mix

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

Operating Gains/Losses

Revenues

The Hospital generated more revenues from patients in 2009. Net patient service revenues increased approximately \$723,000 in 2009 primarily due to a 12% increase in outpatient volumes this year.

Expenses

Total operating expenses increased approximately \$1,071,000 or 4% in 2009 which was primarily attributable to increases in medical professional fees and supplies.

CAPITAL ASSETS

During 2009, the Hospital invested \$1,356,000 in a broad range of capital assets which is included in the table below (in thousands):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Land improvements	\$ 537,426	\$ 483,762	\$ 443,784
Buildings and fixed equipment	27,820,160	27,485,127	25,432,326
Major moveable and leased equipment	10,686,011	9,860,310	9,713,487
Construction in progress	117,469	288,988	1,778,611
	<hr/>	<hr/>	<hr/>
Total capital assets	39,161,066	38,118,187	37,368,208
Less accumulated depreciation	12,290,443	9,898,914	7,592,269
	<hr/>	<hr/>	<hr/>
Capital assets, net	<u>\$ 26,870,623</u>	<u>\$ 28,219,273</u>	<u>\$ 29,775,939</u>

Capital assets have decreased due to disposals of \$313,000 in 2009, as well as increased depreciation on the new assets.

Adams County Hospital

A Component Unit of Adams County, State of Ohio
Management's Discussion and Analysis (unaudited)

DEBT

At December 31, 2009, the Hospital had \$26,410,000 in outstanding Hospital Facility Improvement Bonds, the entire amount of which was issued in 2005. All but \$395,000 of this debt is long-term.

Other existing debt as of December 31, 2009 is approximately \$2,200,000, of which approximately \$895,000 is payable in 2009. This debt consists of capital lease obligations.

At December 31, 2009 the Hospital was not in compliance with the provisions of the bond covenants which require days cash on hand to be greater than 50 days and debt service coverage equal to at least 120% of maximum annual debt service. The Hospital has obtained a waiver of these covenants.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The fragility of the state's economy continues to pose a threat to most hospitals. Locally, our hospital has not been spared from the economic downturn. For most of 2009 and thus far in 2010, our organization has noticed a decline in inpatient volumes and an increase in outpatient volumes with a growing shift toward a larger under and uninsured population.

These declines have caused all hospitals to focus on finding viable solutions to endure the current economic storm. While the solutions are often difficult to communicate and implement, administration strongly believes they are necessary to our primary goals of providing quality patient care, securing jobs, health insurance and retirement for our employees. In addition, taking these steps will assist in sustaining our current financial position while strengthening the organization for future growth when the economy recovers.

In July, to complicate the financial outlook even further, the State of Ohio passed its biennial budget including the provision for imposing a franchise fee, or tax, to hospitals and long-term care facilities. The tax is to be assessed on a percentage of a hospital's operating expenses at 1.52% in the first year and 1.61% in the second. The assessment percentage increased from the original proposal of 1.27% and 1.37%, respectively. The fee will generate \$718 million from hospitals and be used to draw down an additional \$2 billion in federal matching dollars to fund Medicaid health services, all to reduce the pressure off the State's General Revenue Fund. The concern, however, is that the State will only return \$573 million to hospitals by increasing Medicaid reimbursement by 5% and eliminating the fee associated with the Upper Payment Limit program (UPL). This means Ohio hospitals will have to make up the \$136 million difference. The gross expected impact to our Hospital is estimated to be \$278,000 over this year's budget.

Adams County Hospital

A Component Unit of Adams County, State of Ohio
Management's Discussion and Analysis (unaudited)

We share the same concerns as many organizations in that the proposed fee will further complicate the future of healthcare as reductions in staff and elimination of low margin or community-based service lines are almost assured. The negative impact it will have on patient care will be profound. In late 2009, the Ohio Hospital Association (OHA) conducted a survey and found the following:

- 50% have incurred reductions in staff
- 67% have not filled open positions (vacancies)
- 33% have eliminated service lines
- 10% have cancelled or delayed expansion or renovation projects.

At this time, (OHA) is working with the State to seek an adjustment to the second year tax by allowing hospitals to decrease its operating expenses by the amount of uncompensated care it provides. The current model unfairly taxes hospitals on the amount it provides to the under and uninsured population.

CONTACTING THE HOSPITAL'S MANAGEMENT

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

Dan Urban
Chief Financial Officer

ADAMS COUNTY HOSPITAL

BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Current assets		
Cash and cash equivalents	\$ 603,115	\$ 797,580
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$1,202,000 and \$1,262,000 in 2009 and 2008, respectively	3,092,479	3,573,850
Inventories	323,558	239,974
Estimated third party settlements	158,150	98,021
Prepaid expenses and other current assets	316,464	202,893
Total current assets	<u>4,493,766</u>	<u>4,912,318</u>
Asset whose use is limited		
Board designated for future capital purposes	632,740	664,390
Trustee held funds	3,235,833	3,619,187
Donor restricted funds	53,205	68,778
	<u>3,921,778</u>	<u>4,352,355</u>
Capital assets, net	26,870,623	28,219,273
Bond issuance costs, net	549,945	571,511
Other assets	<u>436,241</u>	<u>212,258</u>
Total assets	<u>\$ 36,272,353</u>	<u>\$ 38,267,715</u>

See accompanying notes to financial statements.

ADAMS COUNTY HOSPITAL

BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
Current liabilities		
Accounts payable	\$ 1,003,086	\$ 909,531
Accrued expenses	2,075,586	1,939,591
Current portion of bonds payable	395,000	375,000
Current portion of capital lease obligations	894,959	722,094
Total current liabilities	<u>4,368,631</u>	<u>3,946,216</u>
Long-term liabilities		
Bonds payable	26,015,000	26,410,000
Capital lease obligations	1,304,761	1,658,758
Other long-term liabilities	200,000	-
Total long-term liabilities	<u>27,519,761</u>	<u>28,068,758</u>
 Total liabilities	 31,888,392	 32,014,974
Net assets		
Invested in capital assets, net of related debt	(1,739,097)	(946,579)
Unrestricted	2,834,020	3,511,355
Restricted:		
For debt service	3,235,833	3,619,187
Expendable for specific operating activities	<u>53,205</u>	<u>68,778</u>
 Total net assets	 <u>4,383,961</u>	 <u>6,252,741</u>
 Total liabilities and net assets	 <u><u>\$ 36,272,353</u></u>	 <u><u>\$ 38,267,715</u></u>

See accompanying notes to financial statements.

ADAMS COUNTY HOSPITAL

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Operating revenues		
Net patient service revenue	\$ 24,024,898	\$ 23,302,088
Operating grants and other revenues	383,024	385,144
	<u>24,407,922</u>	<u>23,687,232</u>
Operating expenses		
Salaries and benefits	11,865,525	11,827,560
Medical professional fees	1,350,743	1,145,227
Supplies	3,757,207	3,236,960
Purchased services	2,906,586	2,906,444
Equipment rentals	238,110	145,979
Repairs and maintenance	1,087,276	817,485
Utilities	548,070	623,723
Depreciation and amortization	2,712,699	2,673,352
Other	992,691	1,011,357
	<u>25,458,907</u>	<u>24,388,087</u>
Loss from operations	(1,050,985)	(700,855)
Sales tax levy and other non-operating revenue (loss)	<u>(817,795)</u>	<u>(705,141)</u>
Change in net assets	(1,868,780)	(1,405,996)
Net assets beginning of year	6,252,741	7,658,737
Net assets, end of year	<u>\$ 4,383,961</u>	<u>\$ 6,252,741</u>

See accompanying notes to financial statements.

ADAMS COUNTY HOSPITAL

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Operating activities		
Cash received from patient services	\$ 24,446,140	\$ 23,332,396
Cash paid to vendors for goods and services	(10,784,283)	(10,052,974)
Cash paid to employees for wages and benefits	(11,929,530)	(11,786,993)
Other operating activities	383,024	385,144
Net cash from operating activities	2,115,351	1,877,573
Cash flow from non-capital financing activities		
Non-operating revenues (losses)	(817,795)	(705,141)
Cash flow from capital and related financing activities		
Acquisition of capital assets	(812,251)	(1,112,195)
Loss on disposal of capital assets	13,560	8,211
Proceed from disposal of capital assets	-	11,156
Principal paid on long-term debt and capital leases	(1,099,924)	(1,127,909)
Net cash from capital and related financing activities	(1,898,615)	(2,220,737)
Cash flow from investing activities		
Advances under note receivable	(33,499)	-
Payments received under note receivable	9,516	21,492
Net cash from investing activities	(23,983)	21,492
Net change in cash and cash equivalents	(625,042)	(1,026,813)
Cash and cash equivalents		
Beginning of year	5,149,935	6,176,748
End of year	\$ 4,524,893	\$ 5,149,935
Balance sheet classifications of cash		
Cash and cash equivalents	\$ 603,115	\$ 797,580
Assets whose use is limited	3,921,778	4,352,355
Total cash and cash equivalents	\$ 4,524,893	\$ 5,149,935
Reconciliation of loss from operations to net cash from operating activities		
Loss from operations	\$ (1,050,985)	\$ (700,855)
Adjustment to reconcile loss from operations to net cash from operating activities		
Depreciation and amortization	2,712,699	2,673,352
Bad debts	2,185,823	2,307,734
Changes in operating assets and liabilities		
Patient accounts receivable	(1,704,452)	(2,964,048)
Inventories	(83,584)	(8,654)
Prepaid expenses and other current assets	(113,571)	(176,423)
Other assets	(200,000)	-
Estimated third-party settlements	(60,129)	686,622
Accounts payable	93,555	19,278
Accrued expenses	135,995	40,567
Other long-term liabilities	200,000	-
Net cash from operating activities	\$ 2,115,351	\$ 1,877,573
Supplemental disclosure of non-cash capital and financing activity:		
Equipment acquired under capital leases	\$ 543,792	\$ -
Cash paid for interest	\$ 1,842,095	\$ 1,913,627

See accompanying notes to financial statements.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Adams County Hospital (the Hospital) is a 25-bed facility located in Adams County, Ohio and operated by a Board of Trustees as provided for under Ohio Revised Code Section 339. The board of trustees, appointed by Adams County judges and commissioners, is charged with the management and operation, finances and staff of the Hospital. The Hospital is considered a component unit of Adams County, Ohio, and is included as a component unit in the general-purpose financial statements of Adams County. The Hospital's operations consist of providing healthcare services to residents of Adams County, Ohio, and the surrounding area.

Basis of Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenue and expenses are subject to accrual. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements, including those issues after November 30, 1989.

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

Use of Estimates

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

Cash and Cash Equivalents

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

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Inventories

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

Bond Issuance Costs

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

Assets Whose Use is Limited

Assets whose use is limited represent cash and cash equivalents set aside by the board of trustees for future capital improvements, over which the Board of Trustees retains control and may at its discretion subsequently, use for other purposes. Assets whose use is limited also includes various externally restricted funds.

Capital Assets

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

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

Compensated absences

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

Reclassification

Certain amounts in the 2008 financial statements have been reclassified to conform to the current year presentation. There were no changes to previously reported change in net assets as a result of these classifications.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Lease agreements

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

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. There has been no reduction in insurance coverage from the previous year.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under payment agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Operating Revenues

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

Third-Party Payors

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

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Medicare and Medicaid

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

Other Payors

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

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the years ended December 31, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
Gross patient service revenue	\$ 45,447,883	\$ 43,616,786
less:		
Third party allowances	18,799,140	17,604,697
Charity care	438,022	402,267
Bad debts	2,185,823	2,307,734
Net patient service revenue	<u>\$ 24,024,898</u>	<u>\$ 23,302,088</u>

Charity Care

The Hospital provides care to patients who meet criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues. Charges excluded from revenue under the Hospital's charity care policy for patients unable to pay were \$438,022 and \$402,267 for 2009 and 2008, respectively.

Restricted 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.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Physician Recruitment Agreements

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

The hospital recorded a liability of \$500,000 in accrued liability in December 31, 2009 for the estimated obligation to the Hospital under these arrangements with a corresponding asset recorded in other assets within the accompanying balance sheets.

Subsequent Events

The hospital has evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued, which is June 21, 2010.

2. DEPOSITS

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

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

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

Uncollateralized (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).

For the years ending 2009 and 2008, the carrying amount of the Hospital's deposits was \$4,524,893 and \$5,149,935 and the bank balance was \$4,810,604 and \$5,459,497, respectively. Of the bank balances for 2009 and 2008, \$697,236 and \$439,612 was covered by federal depository insurance, respectively and would belong in the risk category "insured or collateralized"; and \$3,827,657 and \$5,019,885, respectively, was covered by collateral held by third-party trustees pursuant to Section 135.181 of the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, and belongs in the risk category "uncollateralized".

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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

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

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

3. THIRD-PARTY SETTLEMENTS AND COMPONENTS OF PATIENT ACCOUNTS RECEIVABLE

Estimated third-party settlements for the Medicare and Medicaid programs reflect differences between interim reimbursement and reimbursement as determined by cost reports filed after the end of each year. Such third-party settlements reflect differences owed to or by the Hospital. The years 2004 and thereafter remain unsettled at December 31, 2009 for Medicaid. The years 2008 and thereafter remain unsettled at December 31, 2009 for Medicare.

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

	2009		2008	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	22%	37%	23%	40%
Medicaid	27%	26%	24%	24%
Commercial and other	26%	28%	27%	27%
Self-pay	25%	9%	26%	9%
Total	100%	100%	100%	100%

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

4. CAPITAL ASSETS

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

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

Capital asset activity for the year ended December 31, 2008:

	12/31/07	Additions	Disposals	12/31/08
Capital assets				
Construction in progress	\$ 1,778,611	\$ 288,986	\$ (1,778,609)	\$ 288,988
Depreciable capital assets				
Land improvements	443,784	39,978	-	483,762
Buildings	20,821,877	313,247	1,773,293	22,908,417
Fixed equipment	4,610,449	93,409	(127,148)	4,576,710
Major moveable equipment	4,492,348	376,575	(229,752)	4,639,171
Leased equipment	5,221,139	-	-	5,221,139
Total capital assets	<u>37,368,208</u>	<u>1,112,195</u>	<u>(362,216)</u>	<u>38,118,187</u>
Less accumulated depreciation				
Land improvements	20,517	55,847	-	76,364
Buildings	530,836	868,802	(755)	1,398,883
Fixed equipment	2,763,923	412,676	(282,582)	2,894,017
Major moveable equipment	2,712,138	533,194	(59,512)	3,185,820
Leased equipment	1,564,855	778,975	-	2,343,830
Total accumulated depreciation	<u>7,592,269</u>	<u>2,649,494</u>	<u>(342,849)</u>	<u>9,898,914</u>
Capital assets, net	<u>\$ 29,775,939</u>	<u>\$ (1,537,299)</u>	<u>\$ 19,367</u>	<u>\$ 28,219,273</u>

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

5. LONG-TERM DEBT

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

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

	December 31, 2008	
	Bond payable	Capital lease
Debt outstanding December 31, 2007	\$ 27,140,000	\$ 3,153,761
Repayments	355,000	772,909
Debt outstanding December 31, 2008	\$ 26,785,000	\$ 2,380,852
Expected to be paid within one year	\$ 375,000	\$ 722,094

Bonds payable

The Hospital is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued in 2005 to construct a new facility in Seaman, Ohio. The bonds are dated July 28, 2005 with an original issue of \$27,480,000. Interest rates range from 5.00% to 6.25%. The outstanding balance at December 31, 2009 was \$26,410,000. Future minimum principal and interest payments follow:

	Principal	Interest	Total
2010	\$ 395,000	\$ 1,698,738	\$ 2,093,738
2011	420,000	1,676,025	2,096,025
2012	445,000	1,650,828	2,095,828
2013	470,000	1,623,013	2,093,013
2014	500,000	1,593,638	2,093,638
2015-2019	3,005,000	7,458,812	10,463,812
2020-2024	4,090,000	6,381,528	10,471,528
2025-2029	5,600,000	4,870,452	10,470,452
2030-2034	7,675,000	2,798,250	10,473,250
2035-2036	3,810,000	375,375	4,185,375
	\$ 26,410,000	\$ 30,126,659	\$ 56,536,659

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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

At December 31, 2009, the Hospital was not in compliance with the provisions of the bond covenants which require day's cash on hand to be greater than 50 days and debt service coverage equal to at least 120% of maximum annual debt service. The Hospital has obtained a waiver of these covenants.

Interest expense for 2009 and 2008 was \$1,835,220 and \$1,907,415, respectively.

Capital lease obligations

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

	<u>December 31</u> <u>2009</u>
2010	\$ 992,075
2011	793,818
2012	515,940
2013	<u>64,855</u>
Total net future minimum lease payments	2,366,688
Less: amount representing interest	<u>166,968</u>
Total capital lease obligations	2,199,720
Less: current portion	<u>894,959</u>
Long-term capital lease obligations	<u><u>\$ 1,304,761</u></u>

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

	<u>2009</u>	<u>2008</u>
Cost	\$ 5,764,931	\$ 5,221,139
Accumulated depreciation	<u>3,064,802</u>	<u>2,343,830</u>
Net book value	<u><u>\$ 2,700,129</u></u>	<u><u>\$ 2,877,309</u></u>

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

6. SALARIES, WAGES AND RELATED ACCRUALS

The details of accrued liabilities at December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Payroll and related items	\$ 1,150,788	\$ 1,127,166
Physician guarantees	300,000	-
Other accrued expenses	<u>624,798</u>	<u>812,425</u>
Total salaries, wages and related accruals	<u>\$ 2,075,586</u>	<u>\$ 1,939,591</u>

7. OPERATING LEASES

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

2010	\$ 24,606
2011	17,292
2012	11,095
2013	2,793
2014	256
Total	<u>\$ 56,042</u>

Total rental expense for operating leases for the years ended December 31, 2009 and 2008 was \$238,110 and \$145,979, respectively, and is included within other expenses on the statements of operations and changes in net assets.

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 maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

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

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

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

Funding Policy

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

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

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

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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

<u>Year</u>	<u>Contribution</u>
2009	\$ 1,324,932
2008	1,304,174
2007	1,195,437

The total Hospital contribution used to fund health care was approximately \$556,000, \$652,000 and \$388,000 for 2009, 2008 and 2007, respectively.

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

11. MALPRACTICE INSURANCE

As of December 31, 2009 and 2008, 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.

12. RESTRICTED FUND BALANCES

Temporarily restricted fund balances are available for the issuance of scholarships, purchase of gifts and for the purchase of medical equipment to be used to treat those with tobacco-related illnesses.

13. FOUNDATION AND CONTRIBUTED LAND

The land on which the new Hospital facility is being leased by its current owners to the Adams County Medical Foundation, Inc (the "Foundation"). The Foundation allowed 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 Sections 501 (c)(3) under the Internal Revenue Code. Upon approval of nonprofit status the land will be contributed to the Foundation.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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 financial activity of \$9,258 and \$9,232 in 2009 and 2008.

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

14. GOING CONCERN AND MANAGEMENT'S PLANS

The Hospital did not meet certain covenants related to the bonds outstanding at December 31, 2009 (footnote 5). The Hospital's net assets decreased approximately \$1,869,000 and \$1,406,000 in 2009 and 2008, respectively. Further, while the Hospital's operating revenues increased to approximately \$24,025,000, expenses increased to \$25,459,000. The result is a loss from operations of approximately \$1,051,000 in 2009. The loss from operations in 2008 was approximately \$701,000. These factors could be indicative of the entity's inability to continue as a going concern.

The Hospital occupied a newly constructed facility in 2007. This facility was financed through a bond issue of \$27,480,000 which required annual debt service payments of approximately \$2,093,000 beginning in 2008. The covenants include debt service coverage equal to at least 120% of maximum annual debt service and days cash on hand of not less than 50.

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

It is not possible at this time to predict the success of the Hospital's future plans, and there is no assurance that these plans will be realized. The Hospital's continued existence is dependent on its ability to achieve profitable operations and positive cash flows, and to maintain adequate financing.



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

To the Board of Trustees
Adams County Hospital
Seaman, Ohio

We have audited the financial statements of Adams County Hospital, as of and for the year ended December 31, 2009, and have issued our report thereon dated June 21, 2010. Our report included additional language stating the financial statements have been prepared assuming that the Hospital will continue as a going concern. The Hospital did not meet certain covenants related to the bonds outstanding. The Hospital has obtained a waiver of the covenant violations. These conditions raise substantial doubt about its ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses (items 2009-1, 2009-2 and 2009-3) to be material weaknesses.

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

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*.

We noted certain matters that we reported to management of Adams County Hospital in a separate letter dated June 21, 2010.

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

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

Blue & Co., LLC

June 21, 2010

Adams County Hospital
Schedule of Prior Audit Findings and Responses
December 31, 2008

2008 – 1: Monitoring Bond Covenants

Condition: The Hospital did not monitor their debt covenants for compliance relating to the 2005 Bond issuance.

Criteria: The Hospital should monitor their bond covenants on a monthly basis, to verify compliance.

Cause: The Hospital does not monitor compliance with covenants related to its bond obligations on an interim or annual basis. The Hospital is required to maintain day's cash on hand in excess of 50 days and maintain debt service coverage equal to at least 120% of maximum annual debt service.

Effect: The Hospital was unaware they were not in compliance with the bond covenants listed above, and were required to obtain a waiver from the bond holders.

Recommendation: We recommend that the Hospital calculate and monitor these requirements monthly to identify any compliance issues and communicate them as required to necessary parties.

Management's Response: We incorporated the calculation of required covenants monthly as part of the monthly financial statement close process and communicated the results of the calculations to the required parties.

2008 – 2: Classification of current and long-term portions of debt and capital leases

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

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

Cause: The Hospital has outstanding debt relating to a 2005 bond issuance and capital leases, and per the agreements a portion of the amount is to be required to be paid during 2009, that was not classified as a current liability.

Effect: During the audit, reclassification entries totaling \$404,063 was necessary to adjust the current and long-term portions of long-term debt and capital lease obligations to actual amounts.

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

Management's Response: We had planned to adjust during the current year, but added additional lease agreements, and wanted to verify with the auditors the correct payment schedules. See current year response.

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

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

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

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

Cause: The Hospital has outstanding debt relating to a 2005 bond issuance and capital leases, and per the agreements a portion of the amount is to be required to be paid during 2010, that was not classified as a current liability.

Effect: During the audit, reclassification entries totaling \$454,495 were necessary to adjust the current and long-term portions of long-term debt and capital lease obligations to actual amounts.

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

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

2009 – 2: Physician Recruitment Assets and Liabilities

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

Criteria: Physician contracts should be evaluated against FIN 45-3 for potential income guarantees which would require the Hospital to make payments in the future.

Cause: During 2009, the Hospital entered into a physician agreement which included an income guarantee which was not recorded by the Hospital.

Effect: An audit adjustment was necessary to record an intangible asset and related liability related to physician and physician group agreements.

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

Management's Response: We will review future physician contracts entered into by the Hospital, and record any necessary guarantees.

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

2009 – 3: Capital Lease Analysis

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

Criteria: All leases entered into by the Hospital should be evaluated for proper treatment between a capital lease or operating lease.

Cause: During 2009, the Hospital entered into lease agreements for equipment that were not properly recorded at year-end.

Effect: Under generally accepted accounting principles, these leases were determined to be capital leases.

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

Management's Response: We will review all future leases entered into by the Hospital, for proper accounting treatment and classification.



Mary Taylor, CPA
Auditor of State

ADAMS COUNTY HOSPITAL

ADAMS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 5, 2010**