

**Adams County Regional Medical Center  
An Enterprise Fund of Adams County, Ohio**

Auditor's Report and Financial Statements

December 31, 2014 and 2013





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Adams County Regional Medical Center, Adams County, prepared by BKD, LLP, for the audit period January 1, 2014 through December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

August 2, 2015

**This page intentionally left blank.**

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
December 31, 2014 and 2013

**Contents**

<b>Independent Auditor’s Report.....</b>	<b>1</b>
<b>Management’s Discussion and Analysis .....</b>	<b>3</b>
<b>Financial Statements</b>	
Balance Sheets.....	9
Statements of Revenues, Expenses and Changes in Net Position .....	10
Statements of Cash Flows .....	11
Notes to Financial Statements .....	13
<b>Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....</b>	<b>31</b>
<b>Schedule of Findings and Responses.....</b>	<b>33</b>

**This page intentionally left blank.**

## Independent Auditor's Report

Board of Trustees  
Adams County Regional Medical Center  
Seaman, Ohio

### Report on the Financial Statements

We have audited the accompanying financial statements of Adams County Regional Medical Center (the "Center"), an enterprise fund of Adams County, Ohio, and its discretely presented component unit, Adams County Medical Foundation, Inc., (collectively the "Organization"), which are comprised of the balance sheets as of December 31, 2014 and 2013, and the statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Adams County Medical Foundation, Inc., a discretely presented component unit included in the financial statements of Adams County Regional Medical Center, were not audited in accordance with *Government Auditing Standards*.

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Adams County Regional Medical Center and its discretely presented component unit as of December 31, 2014 and 2013, and the respective changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

The accompanying financial statements have been prepared assuming the Center will continue as a going concern. As discussed in Note 12, the Center has suffered recurring losses and has a net position deficiency, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 13 to the financial statements, the Center is in mediation with the Medicare Administrative Contractor (MAC) regarding cost report settlements.

As discussed in Note 1 to the financial statements, the 2014 financial statements have been restated to correct a misstatement.

Our opinions are not modified with respect to these matters.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2015, except for item 2014-003 as to which the date is July 22, 2016, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

**BKD, LLP**

Cincinnati, Ohio

August 14, 2015 except for restatement of financial statements disclosures within *Note 1* as to which the date is July 22, 2016

# **Adams County Regional Medical Center**

## **An Enterprise Fund of Adams County, Ohio**

### **Management's Discussion and Analysis**

### **Years Ended December 31, 2014 and 2013**

#### ***Introduction***

This management's discussion and analysis of the financial performance of Adams County Regional Medical Center (the "Center") provides an overview of the Center's financial activities for the years ended December 31, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Center. The activities of the discretely presented component unit, Adams County Medical Foundation, Inc., are not significant to the overall Center and thus have not been included in this management's discussion and analysis.

#### ***Financial Highlights***

- Current unrestricted cash and cash equivalents decreased in 2014 by \$93,101, or 51.95%, and increased in 2013 by \$123,318, or 220.67%.
- The Center's net position decreased \$1,886,222, or 52.20%, in 2014 and \$1,271,813, or 54.31%, in 2013.
- The Center reported an operating loss in 2014 of \$860,369 and in 2013 of \$1,053,406. The operating loss in 2014 decreased by \$193,037, or 18.33%, over the operating loss reported in 2013. The operating loss in 2013 increased by \$1,710,767, or 260.25%, over the operating income reported in 2012.
- Net nonoperating expenses increased by \$741,457, or 42.52%, in 2014 compared to 2013, and increased by \$65,814, or 3.92%, in 2013 compared to 2012.

#### ***Using This Annual Report***

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

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

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

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2014 and 2013**

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

***The Statement of Cash Flows***

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

***The Center's Net Position***

The Center's net position is the difference between its assets, liabilities and deferred inflows and outflows of resources reported in the Balance Sheet. The Center's net position decreased by \$1,886,222 in 2014 from 2013, and decreased by \$1,271,813 in 2013 from 2012, as shown in Table 1.

**Table 1: Assets, Liabilities and Net Position**

	2014 (Restated - Note 1)	2013	2012
<b>Assets</b>			
Patient accounts receivable, net	\$ 2,384,844	\$ 2,556,687	\$ 2,886,916
Other current assets	2,843,940	1,748,308	3,272,691
Capital assets, net	20,228,339	22,023,243	22,836,554
Other noncurrent assets	1,863,578	3,199,925	3,602,077
Total assets	<u>\$ 27,320,701</u>	<u>\$ 29,528,163</u>	<u>\$ 32,598,238</u>
<b>Liabilities</b>			
Long-term debt	\$ 136,024	\$ 1,721,852	\$ 26,893,770
Other current liabilities	32,684,453	31,419,865	8,046,209
Total liabilities	<u>32,820,477</u>	<u>33,141,717</u>	<u>34,939,979</u>
<b>Net Position</b>			
Net investment in capital assets	(5,103,654)	(3,823,616)	(2,821,655)
Restricted expendable	1,209,449	2,696,389	3,042,973
Unrestricted	(1,605,571)	(2,486,327)	(2,563,059)
Total net position	<u>(5,499,776)</u>	<u>(3,613,554)</u>	<u>(2,341,741)</u>
Total liabilities and net position	<u>\$ 27,320,701</u>	<u>\$ 29,528,163</u>	<u>\$ 32,598,238</u>

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2014 and 2013**

Significant changes in the Center's financial position in 2014 include a decrease in capital assets related to depreciation on existing equipment. Other current assets increased significantly from the previous year, largely due to the accrual of an estimated settlement payment from the State of Ohio uncompensated care reimbursement program. Other noncurrent assets decreased as reserve funds held by the bond trustee were used to satisfy interest payments on the outstanding debt obligations. Other current liabilities increased due to the accrual of a loss contingency described in Note 1.

***Operating Results and Changes in the Center's Net Position***

In 2014, the Center's net position decreased by \$1,886,222, or 52.20%, as shown in Table 2. This decrease is made up of several components and represents a deterioration of \$614,409, or 48.31%, compared with the decrease in net position for 2013 of \$1,271,813.

**Table 2: Operating Results and Changes in Net Position**

	2014 (Restated - Note 1)	2013	2012
<b>Operating Revenues</b>			
Net patient service revenue	\$ 21,619,900	\$ 23,091,668	\$ 23,162,090
Other operating revenues	472,365	702,424	2,590,977
Total operating revenues	<u>22,092,265</u>	<u>23,794,092</u>	<u>25,753,067</u>
<b>Operating Expenses</b>			
Salaries, wages and employee benefits	10,872,490	12,029,136	11,900,616
Purchased services and professional fees	4,418,039	4,290,282	4,535,606
Depreciation and amortization	2,264,959	2,295,662	2,426,337
Other operating expenses	5,397,146	6,232,418	6,233,147
Total operating expenses	<u>22,952,634</u>	<u>24,847,498</u>	<u>25,095,706</u>
<b>Operating Income (Loss)</b>	<u>(860,369)</u>	<u>(1,053,406)</u>	<u>657,361</u>
<b>Nonoperating Revenues (Expenses)</b>			
Investment return	2,693	4,797	7,250
Interest	(1,689,649)	(1,748,450)	(1,685,089)
Loss contingency	(798,154)	-	-
Total nonoperating revenues (expenses)	<u>(2,485,110)</u>	<u>(1,743,653)</u>	<u>(1,677,839)</u>
<b>Capital Appropriations - Adams County</b>	1,284,257	1,208,625	1,152,954
<b>Capital Grants and Gifts</b>	<u>175,000</u>	<u>316,621</u>	<u>-</u>
<b>Increase (Decrease) in Net Position</b>	(1,886,222)	(1,271,813)	132,476
<b>Net Position, Beginning of Year</b>	<u>(3,613,554)</u>	<u>(2,341,741)</u>	<u>(2,474,217)</u>
<b>Net Position, End of Year</b>	<u>\$ (5,499,776)</u>	<u>\$ (3,613,554)</u>	<u>\$ (2,341,741)</u>

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2014 and 2013**

***Operating Income and Loss***

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

The operating results for 2014 improved by \$193,037, or 18.33%, as compared to 2013. The primary components of the changes in operating results are:

- A decrease in net patient service revenue of \$1,471,768, or 6.83%.
- A decrease in other operating revenue of \$230,059, or 32.75%.
- A decrease in salaries, wages and employee benefits expense of \$1,156,646, or 9.62%.
- A decrease in all other operating expenses of \$738,218, or 5.76%.

Net patient service revenue decreased from 2013 to 2014. An increase in overall patient days of 351, or 11.33%, was also reinforced by an improvement in bad debt collections associated with self-pay patients. However, as described in Note 13, the Center received unfavorable final retroactive cost report settlements which reduced overall net patient service revenue by approximately \$1,400,000.

Employee salaries and wages and benefits decreased in 2014 in connection with the Center's efforts to control operating costs as a result of ongoing financial pressures. Total FTEs in 2014 were approximately 193 compared to 219 in 2013.

Expenditures for medical supplies are a major component of the Center's costs. In 2013, medical supplies totaled \$2,809,207 or 11.31% of total operating expenses. In 2014, they totaled \$2,355,769, or 10.26%, of total operating expenses, a decrease of \$453,438, or 16.14%, over 2013. Some of the major factors contributing to the decreased medical supply and drug costs include management's efforts to control costs through negotiation of new supplier contracts at more favorable rates, and management's efforts to control and limit costs as much as possible.

The operating loss for 2014 of \$860,369 was a decrease over the operating loss of \$1,053,406 recognized in 2013. The improvement is primarily related to the decrease in net operating expenses of \$1,894,864. A substantial factor impacting the decrease in net operating expenses is the reduction of overall salaries, wages and employee benefit costs.

***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist of investment income and interest expense, each of which remained relatively constant in 2014 as compared to 2013. Also included in 2014 is a loss contingency provision as described in Note 1.

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2014 and 2013**

***Capital Appropriations***

The Center is appropriated sales and use tax revenues from the Adams County general and other funds. Use of the monies is restricted for the purpose of equipping and repairing the Center and other permanent improvements. The levy to raise the funds must be approved by a majority vote of the citizens of Adams County, and the current levy will be in force from April 1, 2011 through March 31, 2016. Amounts appropriated were \$1,284,257, \$1,208,625, and \$1,152,954, for 2014, 2013, and 2012, respectively.

***Capital Grants and Gifts***

The Center receives both capital and operating grants from various state and federal agencies for specific programs. In 2014, the Center received gifts of \$175,000 from Adams County Medical Foundation, Inc. and various individuals to purchase capital assets in 2014. Substantially all of these gifts have been expended and are reflected in unrestricted net position as of December 31, 2014.

***The Center's Cash Flows***

Changes in the Center's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2014, 2013 and 2012, discussed earlier.

***Capital Asset and Debt Administration***

**Capital Assets**

At the end of 2014, the Center had \$20,228,339 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2014, the Center purchased new equipment costing \$384,900. The Center has recently found it more economical to lease certain equipment principally due to incentives provided by equipment vendors. This allows the Center to obtain more favorable maintenance contracts on such equipment and preserve current cash flows. However, no such arrangements were entered into during 2014.

**Debt**

At December 31, 2014, the Center had \$26,402,955 in revenue bonds, notes payable and capital lease obligations outstanding including all current maturities and any unamortized discounts. The Center issued no new debt in 2014. The Center's formal debt issuances, revenue bonds, are subject to limitations imposed by state law.

***Other Economic Factors***

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

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2014 and 2013**

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

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

***Contacting the Center's Financial Management***

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

Roland Gee  
Chief Executive Officer

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Balance Sheets**  
**December 31, 2014 and 2013**

<b>Assets</b>	<b>December 31, 2014</b> <b>(Restated - Note 1)</b>		<b>December 31, 2013</b>	
	<b>Center</b>	<b>Component</b>	<b>Center</b>	<b>Component</b>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 86,100	\$ 102,285	\$ 179,201	\$ 105,868
Patient accounts receivable, net of allowance; 2014 - \$2,127,825, 2013 - \$2,897,796	2,384,844	-	2,556,687	-
Estimated amounts due from third-party payers	2,318,003	-	1,169,256	-
Supplies	265,334	-	293,196	-
Prepaid expenses and other	174,503	125,120	106,655	35,036
Total current assets	<u>5,228,784</u>	<u>227,405</u>	<u>4,304,995</u>	<u>140,904</u>
<b>Noncurrent Cash and Investments</b>				
Held by trustee for debt service	1,156,802	-	2,643,626	-
Restricted by donors - cash	52,647	87,817	52,763	89,977
Internally designated for capital improvements - cash	654,129	-	503,536	-
	<u>1,863,578</u>	<u>87,817</u>	<u>3,199,925</u>	<u>89,977</u>
<b>Capital Assets, Net</b>	<u>20,228,339</u>	<u>397,800</u>	<u>22,023,243</u>	<u>397,800</u>
Total assets	<u>\$ 27,320,701</u>	<u>\$ 713,022</u>	<u>\$ 29,528,163</u>	<u>\$ 628,681</u>
<b>Liabilities and Net Position</b>				
<b>Current Liabilities</b>				
Current maturities of long-term debt (net)	\$ 26,266,931	\$ -	\$ 26,130,575	\$ -
Accounts payable	2,157,995	-	2,843,114	16,277
Accrued expenses and other	2,125,303	183,545	1,681,097	61,017
Estimated amounts due to third-party payers	2,134,224	-	765,079	-
Total current liabilities	<u>32,684,453</u>	<u>183,545</u>	<u>31,419,865</u>	<u>77,294</u>
<b>Long-term Debt</b>				
Principal amount	136,024	-	1,755,890	-
Less unamortized discount	-	-	34,038	-
	<u>136,024</u>	<u>-</u>	<u>1,721,852</u>	<u>-</u>
Total liabilities	<u>32,820,477</u>	<u>183,545</u>	<u>33,141,717</u>	<u>77,294</u>
<b>Net Position</b>				
Net investment in capital assets	(5,103,654)	-	(3,823,616)	-
Restricted - expendable for				
Debt service	1,156,802	-	2,643,626	-
Specific operating activities	52,647	13,864	52,763	64,592
Unrestricted	(1,605,571)	515,613	(2,486,327)	486,795
Total net position	<u>(5,499,776)</u>	<u>529,477</u>	<u>(3,613,554)</u>	<u>551,387</u>
Total liabilities and net position	<u>\$ 27,320,701</u>	<u>\$ 713,022</u>	<u>\$ 29,528,163</u>	<u>\$ 628,681</u>

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2014 and 2013**

	December 31, 2014 (Restated - Note 1)		December 31, 2013	
	Center	Component	Center	Component
<b>Operating Revenues</b>				
Net patient service revenue, net of provision for uncollectible accounts; 2014 - \$2,511,211 and 2013 - \$3,575,677	\$ 21,619,900	\$ -	\$ 23,091,668	\$ -
Other	472,365	4,128	702,424	6,549
Total operating revenues	<u>22,092,265</u>	<u>4,128</u>	<u>23,794,092</u>	<u>6,549</u>
<b>Operating Expenses</b>				
Salaries and wages	8,690,264	-	9,672,047	-
Employee benefits	2,182,226	-	2,357,089	-
Medical professional fees	1,502,304	-	1,589,536	-
Supplies	2,355,769	-	2,809,207	-
Minor equipment	14,330	-	42,452	-
Purchased services	2,915,735	227,407	2,700,746	283,752
Equipment rentals	112,093	-	159,749	-
Repairs and maintenance	1,357,234	-	1,294,657	-
Utilities	495,888	-	580,154	-
Depreciation and amortization	2,264,959	-	2,295,662	-
Other operating expenses	1,061,832	249,295	1,346,199	110,263
Total operating expenses	<u>22,952,634</u>	<u>476,702</u>	<u>24,847,498</u>	<u>394,015</u>
<b>Operating Loss</b>	<u>(860,369)</u>	<u>(472,574)</u>	<u>(1,053,406)</u>	<u>(387,466)</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment income	2,693	16	4,797	22
Interest expense	(1,689,649)	-	(1,748,450)	-
Loss contingency	(798,154)	-	-	-
Noncapital grants and gifts	-	450,648	-	417,514
Total nonoperating revenues (expenses)	<u>(2,485,110)</u>	<u>450,664</u>	<u>(1,743,653)</u>	<u>417,536</u>
<b>Excess (Deficiency) of Revenues Over Expenses Before Capital Appropriations and Grants and Gifts</b>	<u>(3,345,479)</u>	<u>(21,910)</u>	<u>(2,797,059)</u>	<u>30,070</u>
<b>Capital Appropriations - Adams County</b>	1,284,257	-	1,208,625	-
<b>Capital Grants and Gifts</b>	<u>175,000</u>	<u>-</u>	<u>316,621</u>	<u>-</u>
<b>Increase (Decrease) in Net Position</b>	(1,886,222)	(21,910)	(1,271,813)	30,070
<b>Net Position, Beginning of Year</b>	<u>(3,613,554)</u>	<u>551,387</u>	<u>(2,341,741)</u>	<u>521,317</u>
<b>Net Position, End of Year</b>	<u>\$ (5,499,776)</u>	<u>\$ 529,477</u>	<u>\$ (3,613,554)</u>	<u>\$ 551,387</u>

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Statements of Cash Flows**  
**Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 22,012,141	\$ 24,636,597
Payments to suppliers and contractors	(9,410,610)	(9,308,564)
Payments to employees	(11,226,438)	(12,135,027)
Other operating payments, net	<u>(657,076)</u>	<u>(458,301)</u>
Net cash provided by operating activities	<u>718,017</u>	<u>2,734,705</u>
<b>Capital and Related Financing Activities</b>		
Capital grants and gifts	175,000	316,621
Principal paid on long-term debt and capital leases	(1,534,866)	(2,367,297)
Interest paid on long-term debt and capital leases	(1,689,649)	(1,748,450)
Purchase of capital assets	(384,900)	(427,835)
Capital appropriations - Adams County	<u>1,284,257</u>	<u>1,208,625</u>
Net cash used in capital and related financing activities	<u>(2,150,158)</u>	<u>(3,018,336)</u>
<b>Investing Activities</b>		
Interest and dividends on investments	<u>2,693</u>	<u>4,797</u>
Net cash provided by investing activities	<u>2,693</u>	<u>4,797</u>
<b>Decrease in Cash and Cash Equivalents</b>	(1,429,448)	(278,834)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>3,379,126</u>	<u>3,657,960</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,949,678</u>	<u>\$ 3,379,126</u>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents	\$ 86,100	\$ 179,201
Cash and cash equivalents in noncurrent cash and investments	<u>1,863,578</u>	<u>3,199,925</u>
Total cash and cash equivalents	<u>\$ 1,949,678</u>	<u>\$ 3,379,126</u>

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Statements of Cash Flows (continued)**  
**Years Ended December 31, 2014 and 2013**

	2014	2013
<b>Reconciliation of Net Operating Loss to Net Cash Provided by Operating Activities</b>		
Operating loss	\$ (860,369)	\$ (1,053,406)
Depreciation and amortization	2,264,959	2,295,662
Provision for bad debts	2,511,211	3,575,677
Loss on disposal of capital assets	239	200,749
Changes in operating assets and liabilities		
Accounts receivable	(2,339,368)	(3,245,448)
Estimated amounts due from and to Medicare and Medicaid	220,398	1,214,700
Accounts payable and accrued expenses	(1,039,067)	(311,141)
Other assets	(39,986)	57,912
	\$ 718,017	\$ 2,734,705
<b>Supplementary Cash Flow Information</b>		
Cash paid for interest	\$ 1,700,066	\$ 1,758,241
Capital lease obligations incurred for capital assets	\$ -	\$ 1,570,947

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Notes to Financial Statements**  
**Years Ended December 31, 2014 and 2013**

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

***Nature of Operations and Reporting Entity***

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

***Basis of Accounting and Presentation***

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

***Use of Estimates***

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

***Cash Equivalents***

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2014 and 2013, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

# **Adams County Regional Medical Center**

## **An Enterprise Fund of Adams County, Ohio**

### **Notes to Financial Statements**

#### **Years Ended December 31, 2014 and 2013**

#### ***Risk Management***

The Center is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

#### ***Investments and Investment Income***

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

#### ***Patient Accounts Receivable***

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

#### ***Supplies***

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

#### ***Capital Assets***

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

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

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Notes to Financial Statements**  
**Years Ended December 31, 2014 and 2013**

***Compensated Absences***

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

***Net Position***

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

***Net Patient Service Revenue***

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

***Charity Care***

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

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Notes to Financial Statements**  
**Years Ended December 31, 2014 and 2013**

***Income Taxes***

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

***Foundation***

Adams County Medical Foundation, Inc. (Foundation) is a legally separate, tax-exempt component unit of the Center. The Foundation is exempt under Section 501(c) as an organization described in Section 501(c)(3) of the Internal Revenue Code. The Foundation's primary function is to raise and hold funds to support the Center and its programs. The board of the Foundation is self-perpetuating.

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

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

***Electronic Health Records Incentive Program***

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

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Notes to Financial Statements**  
**Years Ended December 31, 2014 and 2013**

is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

During 2013, the Center recorded revenue of approximately \$230,000, which is included in other revenue within operating revenues in the statement of revenues, expenses and changes in net position.

***Restatement of Financial Statements***

Fiscal year 2014 financial statements have been restated for omission of a material liability of \$798,154 associated with the Center's voluntary disclosure of several arrangements between physicians and the Center that may not have complied with the Stark Law and/or the Anti-Kickback Statute. The Center has offered \$798,154 to resolve the issues, and is awaiting response from the Government to this offer. The Center has fully cooperated with the Government throughout the investigation to resolve this matter. The adjustment is reflected as a loss contingency within the nonoperating revenues (expenses) of the statements of revenues, expenses and changes in net position.

**Note 2: Net Patient Service Revenue**

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

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

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

Approximately 77% and 82% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs (including managed care) for the years ended December 31, 2014 and 2013, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

**Adams County Regional Medical Center  
An Enterprise Fund of Adams County, Ohio**

**Notes to Financial Statements  
Years Ended December 31, 2014 and 2013**

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

**Note 3: Deposits, Investments and Investment Income**

***Deposits***

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

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

At December 31, 2014 and 2013, respectively, \$1,381,557 and \$2,869,053 of the Center's bank balances of \$2,083,951 and \$3,590,127 were exposed to custodial credit risk as follows:

	<b>2014</b>	<b>2013</b>
Uninsured and collateral held by pledging financial		
institution's trust department or agent in other than		
the Center's name	\$ 1,381,557	\$ 2,869,053

***Investments***

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

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Notes to Financial Statements**  
**Years Ended December 31, 2014 and 2013**

At December 31, 2014 and 2013, the Center had the following investments and maturities:

Type	2014				
	Fair Value	Less than One Year	One to Five Years	Six to 10 Years	More than 10 Years
Money market mutual funds	\$ 1,156,802	<u>\$ 1,156,802</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

  

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

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

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

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

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**

**Notes to Financial Statements**  
**Years Ended December 31, 2014 and 2013**

**Summary of Carrying Values**

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

	<u>2014</u>	<u>2013</u>
Carrying value		
Deposits	\$ 792,876	\$ 735,500
Investments	<u>1,156,802</u>	<u>2,643,626</u>
	<u>\$ 1,949,678</u>	<u>\$ 3,379,126</u>

Included in the following balance sheet captions:

Cash and cash equivalents	\$ 86,100	\$ 179,201
Held by trustee for debt service	1,156,802	2,643,626
Externally restricted by donor - cash	52,647	52,763
Internally designated - cash	<u>654,129</u>	<u>503,536</u>
	<u>\$ 1,949,678</u>	<u>\$ 3,379,126</u>

**Investment Income**

Investment income for the years ended December 31 consisted of:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	<u>\$ 2,693</u>	<u>\$ 4,797</u>
	<u>\$ 2,693</u>	<u>\$ 4,797</u>

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**

**Notes to Financial Statements**

**Years Ended December 31, 2014 and 2013**

**Note 4: Patient Accounts Receivable**

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

	<b>2014</b>	<b>2013</b>
Medicare	\$ 2,280,633	\$ 2,753,276
Medicaid	1,740,881	1,179,882
Other third-party payers	1,193,628	1,216,614
Patients	1,905,435	2,886,496
 Total patient accounts receivable	 7,120,577	 8,036,268
 Less allowance for contractual adjustments	 2,607,908	 2,581,785
Less allowance for uncollectible amounts	2,127,825	2,897,796
 Patient accounts receivable, net	 \$ 2,384,844	 \$ 2,556,687

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31 was:

	<b>2014</b>				<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	
Land and land improvements	\$ 549,985	\$ -	\$ -	\$ -	\$ 549,985
Buildings	23,258,484	-	-	-	23,258,484
Equipment	18,377,433	384,900	(26,737)	-	18,735,596
	42,185,902	384,900	(26,737)	-	42,544,065
 Less accumulated depreciation					
Land improvements	385,308	64,394	-	-	449,702
Buildings	5,518,261	794,332	-	-	6,312,593
Equipment	14,259,090	1,320,839	(26,498)	-	15,553,431
	20,162,659	2,179,565	(26,498)	-	22,315,726
 Capital Assets, Net	 \$ 22,023,243	\$ (1,794,665)	\$ (239)	\$ -	\$ 20,228,339

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Notes to Financial Statements**  
**Years Ended December 31, 2014 and 2013**

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

**Note 6: Accounts Payable and Accrued Expenses**

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

	2014	2013
Payable to suppliers and contractors	\$ 2,157,995	\$ 2,843,114
Payable to employees (including payroll taxes and benefits)	712,526	1,060,310
Other	1,412,777	620,787
	<u>\$ 4,283,298</u>	<u>\$ 4,524,211</u>

**Note 7: Medical Malpractice Claims**

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

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Notes to Financial Statements**  
**Years Ended December 31, 2014 and 2013**

**Note 8: Long-term Obligations**

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

	2014				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable	\$ 24,680,000	\$ -	\$ -	\$ 24,680,000	\$ 24,680,000
Note payable	2,125,000	-	1,020,000	1,105,000	1,105,000
Capital lease obligations	1,166,859	-	514,866	651,993	515,969
	27,971,859	-	1,534,866	26,436,993	26,300,969
Less unamortized discount	119,432	-	85,394	34,038	34,038
Long term debt less unamortized discount	<u>\$ 27,852,427</u>	<u>\$ -</u>	<u>\$ 1,449,472</u>	<u>\$ 26,402,955</u>	<u>\$ 26,266,931</u>

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

**Revenue Bonds Payable**

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

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Notes to Financial Statements**  
**Years Ended December 31, 2014 and 2013**

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

The Center was in violation of certain restrictive covenants at December 31, 2014 and December 31, 2013. Consequently, the bond indenture is callable at the bondholder's option and is therefore classified as a current liability in the accompanying balance sheets as of December 31, 2014 and December 31, 2013.

A temporary forbearance agreement between the Center and bond trustee was executed in January 2014 and was in effect through June 2015. During this time, no principal payments were made on the Center's outstanding Bonds.

Excluding the acceleration clause due to covenant violation, the debt service requirements as of December 31, 2014, are as follows:

Years Ending December 31	Total to be Paid	Principal	Interest
2015	\$ 2,592,388	\$ 1,030,000	\$ 1,562,388
2016	2,094,263	565,000	1,529,263
2017	2,093,950	600,000	1,493,950
2018	2,091,450	635,000	1,456,450
2019	2,091,763	675,000	1,416,763
2020 - 2024	10,471,525	4,090,000	6,381,525
2025 - 2029	10,470,450	5,600,000	4,870,450
2030 - 2034	10,473,250	7,675,000	2,798,250
2035 - 2036	4,185,375	3,810,000	375,375
	<u>\$ 46,564,414</u>	<u>\$ 24,680,000</u>	<u>\$ 21,884,414</u>

***Note Payable and Capital Lease Obligations***

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

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Notes to Financial Statements**  
**Years Ended December 31, 2014 and 2013**

The Center is obligated under leases for equipment that are accounted for as capital leases that bear interest or imputed interest ranging from 3.06% to 8.62%. Assets under capital leases at December 31, 2014 and 2013, totaled \$1,943,018 and \$5,773,854, respectively, net of accumulated depreciation of \$824,767 and \$4,123,572, respectively. The following is a schedule by year of future minimum notes payable and capital lease payments as of December 31, 2014:

	<b>Note Payable</b>	<b>Unamortized Discount</b>	<b>Capital Lease Obligations</b>
2015	\$ 1,105,000	\$ 34,038	\$ 533,346
2016	-	-	111,012
2017	-	-	52,500
2018	-	-	4,375
	\$ 1,105,000	\$ 34,038	701,233
Less amount representing interest			49,240
Present value of future minimum lease payments			651,993
Less current maturities			515,969
Noncurrent portion			\$ 136,024

**Note 9: Charity Care**

Charges excluded from revenue under the Center's charity care policy, measured at cost, was approximately \$1,060,000 and \$1,365,000, in 2014 and 2013, respectively. The Center received approximately \$1,448,000 and \$745,000 in 2014 and 2013, respectively, from a State of Ohio uncompensated care fund to subsidize charity services provided under this charity care policy.

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Notes to Financial Statements**  
**Years Ended December 31, 2014 and 2013**

**Note 10: Operating Leases**

Noncancellable operating leases for office equipment expire in various years through 2018. Future minimum lease payments at December 31, 2014, were:

2015		\$ 59,918
2016		50,401
2017		39,677
2018		18,598
		\$ 168,594

Rental expense was \$112,093 and \$159,749 for 2014 and 2013, respectively.

**Note 11: Pension Plan**

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

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

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

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Notes to Financial Statements**  
**Years Ended December 31, 2014 and 2013**

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2014, 2013 and 2012 member and employer contribution rates were consistent across all three plans. Contribution rates for calendar years 2014, 2013 and 2012 were 10% for the employee share and 14% for the employer share, respectively. Employer contributions required were approximately \$1,205,000, \$1,315,000 and \$1,281,000 for 2014, 2013 and 2012, respectively, which equaled 100% of the required contributions for each year.

***Post-Employment Benefits*** – OPERS maintains a cost-sharing multiple employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for postretirement health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employers to fund post-retirement health care through their contributions to OPERS. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014, 2013 and 2012, local employer units contributed at 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care Plan was established under, and is administered in accordance with Internal Revenue Code Section 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. During 2014, the portion of employer contribution allocated to health care for members in the Traditional Plan and the Combined Plan was 2%. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries.

Payment amounts vary depending on the number of covered dependents and the coverage selected. The portion of the employer contributions that was made to fund post-employment benefits for 2014, 2013, and 2012 was approximately \$172,000, \$94,000, and \$366,000, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. In September 2012, the OPERS Retirement Board adopted a set of changes to the OPERS health care plan that will allow OPERS to continue offering retirees access to health coverage.

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Notes to Financial Statements**  
**Years Ended December 31, 2014 and 2013**

**Note 12: Going Concern**

The Center has incurred losses for several years, currently has a deficiency in net position due to recurring negative cash flows and has violated certain financial debt covenants that have caused its bonds payable to become callable at the bondholder's option. The financial statements have been prepared assuming the Center will continue as a going concern, realizing assets and liquidating liabilities in the ordinary course of business. Management is considering several alternatives for mitigating these conditions during the next year, including:

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

**Note 13: Contingencies**

***Litigation***

In the normal course of business, the Center is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Center's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. No provision has been made in the financial statements for any adverse outcome that might ultimately result from this matter, as the amount of any such loss is not reasonably estimable. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

***Cost Report Settlements***

The Center is currently in mediation with the Medicare Administrative Contractor (MAC) regarding cost report settlement issues and potentially disallowed costs. Management believes the Center's records and defenses fully support the allocated costs utilized in the preparation of the Medicare cost reports. A provision has been made in the financial statements for the adverse outcome that could ultimately result from these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Notes to Financial Statements**  
**Years Ended December 31, 2014 and 2013**

**Note 14: Adams County Medical Foundation, Inc.**

***Financial Statements***

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

***Investments and Investment Return***

At December 31, 2014 and 2013, the Foundation had \$190,102 and \$195,845, in restricted and unrestricted cash and cash equivalents, respectively, all of which was held in checking, savings, or money market funds and generated interest income of \$16 and \$22, respectively.

***Net Assets***

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

**Note 15: *Patient Protection and Affordable Care Act***

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

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Notes to Financial Statements**  
**Years Ended December 31, 2014 and 2013**

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

**Note 16: Future Change in Accounting Principle**

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

**Note 17: Subsequent Events**

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were issued. In March 2015, the Foundation was awarded \$250,000 in grant funds to be used toward the future purchase of cardiac monitoring equipment for the Center.

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

Board of Trustees  
Adams County Regional Medical Center  
Seaman, Ohio

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Adams County Regional Medical Center (Center), an enterprise fund of Adams County, Ohio, and its discretely presented component unit, Adams County Medical Foundation, Inc. (collectively the "Organization"), which comprise the balance sheets as of December 31, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 14, 2015, except for restatement of financial statements disclosures within *Note 1* as to which the date is July 22, 2016, which contained emphasis of matter paragraphs regarding substantial doubt about the Center's ability to continue as a going concern for a reasonable period of time, cost report settlement issues and restatement of financial statements to correct a misstatement. The financial statements of Adams County Medical Foundation, Inc., a discretely presented component unit, which are included in the Organization's financial statements, were not audited in accordance with *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2014-001, 2014-002, and 2014-003 to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Management's Response to Findings**

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

We also noted certain matters that we reported to the Organization's management in a separate letter dated August 14, 2015.

## **Purpose of this Report**

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

**BKD, LLP**

Cincinnati, Ohio

August 14, 2015, except for item 2014-003 as to which the date is July 22, 2016

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Schedule of Findings and Responses**  
**Year Ended December 31, 2014**

<b>Reference Number</b>	<b>Finding</b>
2014-001	<p>Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting.</p> <p>Condition: The 2014 audit of the financial statements resulted in several adjusting entries. These entries were proposed by BKD and recorded by management.</p> <p>Context: Management is responsible for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.</p> <p>Effect: Potentially material misstatements in the financial statements and disclosures.</p> <p>Cause: Audit procedures identified multiple transactions that are not properly being recorded by management.</p> <p>Recommendation: Management should continue to review these areas throughout the year.</p> <p>Views of responsible officials and planned corrective actions: The Center's management and board agree and are reviewing policies and procedures of the Center, especially those related to internal controls.</p>

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Schedule of Findings and Responses**  
**Year Ended December 31, 2014**

<b>Reference Number</b>	<b>Finding</b>
2014-002	<p>Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting.</p> <p>Condition: During the 2011 audit, it was determined that the Adams County Medical Foundation was significant to the financial statements of the Center and should be presented discretely as a component unit. Management has not yet developed proper controls and procedures for the preparation and fair presentation of financial statements. While management revised its approach to accounting for the Foundation during 2014, the 2014 audit of the financial statements resulted in several adjusting entries. These entries were proposed by BKD and recorded by management.</p> <p>Context: Management is responsible for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.</p> <p>Effect: Potentially material misstatements in the financial statements and disclosures.</p> <p>Cause: The growth of the Foundation and the discovery of unrecorded assets at the Foundation in 2011, primarily as a result of audit procedures performed resulted in management's determination that the Foundation is significant to the Center. The Foundation activity and operations continues to increase.</p> <p>Recommendation: Management should prepare and report the activities of the Foundation on a go forward basis and periodically throughout the year in accordance with accounting principles generally accepted in the United States of America.</p> <p>Views of responsible officials and planned corrective actions: The Center's management and board agree and will report the activities of the Foundation in future periods in accordance with accounting principles generally accepted in the United States of America.</p>

**Adams County Regional Medical Center**  
**An Enterprise Fund of Adams County, Ohio**  
**Schedule of Findings and Responses**  
**Year Ended December 31, 2014**

<b>Reference Number</b>	<b>Finding</b>
2014-003	<p>Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting and monitoring subsequent events.</p> <p>Condition: The 2014 audited financial statements were restated in order to include a previously omitted material loss contingency.</p> <p>Context: Management is responsible for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.</p> <p>Effect: Material misstatements in the financial statements and disclosures.</p> <p>Cause: The loss contingency existed as of the balance sheet date but was not identified until after the financial statements were issued.</p> <p>Recommendation: Management should continue to review these areas throughout the year and closely monitor subsequent events for potential impact on the financial statements.</p> <p>Views of responsible officials and planned corrective actions: The Center's management and board agree and are reviewing policies and procedures of the Center, especially those related to internal controls and monitoring of subsequent events.</p>

**This page intentionally left blank.**



# Dave Yost • Auditor of State

**ADAMS COUNTY REGIONAL MEDICAL CENTER**

**ADAMS COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 18, 2016**