

# **ADAMS COUNTY HOSPITAL**

## **FINANCIAL STATEMENTS**

**DECEMBER 31, 2007 AND 2006**





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, 2007 through December 31, 2007. 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

August 27, 2008

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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, a component unit of Adams County, Ohio, as of December 31, 2007 and 2006, 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.

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, 2007 and 2006, 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

Management's Discussion and Analysis on pages I through vi 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 April 15, 2008, on our consideration of Adams County Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Blue & Co., LLC*

April 15, 2008

# Adams County Hospital

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

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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, 2007 and 2006. 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 \$2,716,000 and \$343,000 in 2007 and 2006, respectively.
- During the year, the Hospital's operating revenues decreased 7% to approximately \$19,121,000 while expenses increased 2% to \$21,753,000. The result is a loss from operations of approximately \$2,632,000 compared to an operating loss of \$719,000 in 2006.
- Significant capital acquisitions included a new hospital facility, MRI and computer network equipment. Funding for these projects included cash flow from operations and prior-year bond issue proceeds.

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



# Adams County Hospital

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

## Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and related 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 \$2,716,000 in 2007, as you can see in Table 1.

*Table 1: Assets, Liabilities, and Net Assets (in thousands)*

|   | <u>2007</u>      | <u>2006</u>      | <u>\$ change</u> |
|---|------------------|------------------|------------------|
| <b>Assets</b>                           |                  |                  |                  |
| Cash and cash equivalents               | \$ 6,177         | \$ 20,443        | \$ (14,266)      |
| Capital assets                          | 29,776           | 15,994           | 13,782           |
| Patient accounts receivable, net        | 2,918            | 3,486            | (568)            |
| Other assets                            | 1,872            | 1,392            | 480              |
| Total assets                            | <u>\$ 40,742</u> | <u>\$ 41,317</u> | <u>\$ (575)</u>  |
| <b>Liabilities</b>                      |                  |                  |                  |
| Current liabilities                     | \$ 3,895         | \$ 2,473         | \$ 1,422         |
| Long - term obligations                 | 29,188           | 28,469           | 719              |
| Total liabilities                       | 33,083           | 30,942           | 2,141            |
| <b>Net assets</b>                       | <u>7,659</u>     | <u>10,375</u>    | <u>(2,716)</u>   |
| <b>Total liabilities and net assets</b> | <u>\$ 40,742</u> | <u>\$ 41,317</u> | <u>\$ (575)</u>  |

As can be seen above, net assets decreased to approximately \$7,659,000 in 2007, down from \$10,375,000 in 2006.

## Adams County Hospital

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

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A summary of the Hospital's changes in net assets for the years ended December 31, 2007 and 2006 is presented below (in thousands):

|                                    | <b>2007</b> | <b>2006</b> | <b>\$ change</b> | <b>% change</b> |
|------------------------------------|-------------|-------------|------------------|-----------------|
| <b>Operating revenues</b>          |             |             |                  |                 |
| Net patient service revenues       | \$ 18,536   | \$ 20,111   | \$ (1,575)       | -7.8%           |
| Other                              | 585         | 494         | 91               | 18.4%           |
| Total revenue                      | 19,121      | 20,605      | (1,484)          |                 |
| <b>Operating expenses</b>          |             |             |                  |                 |
| Salaries and benefits              | 10,750      | 11,454      | (704)            | -6.1%           |
| Supplies                           | 2,971       | 2,852       | 119              | 4.2%            |
| Purchased services                 | 2,360       | 2,602       | (242)            | -9.3%           |
| Other                              | 5,672       | 4,416       | 1,256            | 28.4%           |
| Total operating expenses           | 21,753      | 21,324      | 429              | 2.0%            |
| Loss from operations               | (2,632)     | (719)       | (1,913)          |                 |
| <b>Other changes in net assets</b> | (84)        | 1,062       | (1,146)          |                 |
| <b>Change in net assets</b>        | \$ (2,716)  | \$ 343      | \$ (3,059)       |                 |

### Sources of Revenue

During 2007 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

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

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## **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 significantly less revenues from patients in 2007. Net patient service revenues decreased approximately \$1,575,000 in 2007 primarily due to decreased volume during the year due to disruptions associated with the Hospital relocating from West Union to Seaman, Ohio.

### **Expenses**

Total operating expenses increased approximately \$429,000 or 2% in 2007 which was attributable to an increase in depreciation, utilities, costs for supplies and drugs, medical professional fees as well as repairs and maintenance expenses.

# Adams County Hospital

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

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## PROPERTY, PLANT AND EQUIPMENT

During 2007, the Hospital invested \$16.0 million gross of disposals and transfers in a broad range of property, plant and equipment which is included in the table below (in thousands):

|                                     | <u>2007</u>      | <u>2006</u>      |
|-------------------------------------|------------------|------------------|
| Land improvements                   | \$ 444           | \$ 299           |
| Buildings and fixed equipment       | 25,432           | 8,829            |
| Major moveable and leased equipment | 9,713            | 7,616            |
| Construction in progress            | <u>1,779</u>     | <u>12,236</u>    |
| Total property, plant and equipment | 37,368           | 28,980           |
| Less accumulated depreciation       | <u>7,592</u>     | <u>12,986</u>    |
| Capital assets, net                 | <u>\$ 29,776</u> | <u>\$ 15,994</u> |

Property, plant, and equipment have increased because the Hospital has expanded its patient service capacity to meet the needs of the community. Also, there was a bond issuance in 2005 for \$27,480,000. The proceeds were utilized for the building of a new hospital in Seaman, Ohio which opened in 2007. In addition, the Hospital continues to replace equipment as it becomes obsolete as well as upgrading the capabilities of its information system.

# Adams County Hospital

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

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## DEBT

At December 31, 2007, the Hospital had \$27,140,000 in outstanding Hospital Facility Improvement Bonds, the entire amount of which was issued in 2005. All but \$355,000 of this debt is long-term.

Other existing debt as of December 31, 2007 is approximately \$3,154,000, of which approximately \$751,000 is payable in 2008. This debt consists of capital lease obligations.

## ECONOMIC FACTORS AND 2008 BUDGET

The Hospital's Board and management considered many factors when setting the 2008 budget. Of primary importance in setting the budget was the status of the economy, which takes into account market focus and other environmental factors such as the following:

- The new Hospital facility in Seaman, Ohio and its impact on the Hospital's patient volume and demographics, as well as its results of operations.
- Debt management and covenants related to bonded debt
- Demographics and impact areas of population growth and the expanding need for services
- Continuously increasing expectations of quality improvements
- Advances in medical equipment technology and the need to replace obsolete equipment
- Privacy legislation - Health Insurance Portability and Accountability Act (HIPAA)
- Increasing emphasis on the integrity of financial information
- Increasing number of uninsured patients
- Increasing cost of medical supplies
- Access to additional capital
- Increasing drug costs

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

# ADAMS COUNTY HOSPITAL

## BALANCE SHEETS DECEMBER 31, 2007 AND 2006

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### ASSETS

|   | <u>2007</u>          | <u>2006</u>          |
|---|----------------------|----------------------|
| <b>Current assets</b>   |                      |                      |
| Cash and cash equivalents   | \$ 1,466,392         | \$ 3,088,678         |
| Patient accounts receivable, net of allowance for doubtful accounts of approximately \$1,130,667 and \$766,322 in 2007 and 2006, respectively | 2,917,536            | 3,486,109            |
| Inventories   | 231,320              | 225,830              |
| Estimated third party settlements   | 784,643              | 236,237              |
| Prepaid expenses and other current assets   | 26,470               | 31,866               |
| <b>Total current assets</b>   | <u>5,426,361</u>     | <u>7,068,720</u>     |
| <b>Asset whose use is limited</b>   |                      |                      |
| Board designated for future capital purposes  | 268,443              | 485,589              |
| Trustee held funds  | 4,441,913            | 16,869,492           |
|   | <u>4,710,356</u>     | <u>17,355,081</u>    |
| <b>Capital assets, net</b>  | 29,775,939           | 15,993,810           |
| <b>Bond issuance costs, net</b>   | 595,369              | 649,493              |
| <b>Note receivable</b>  | 233,750              | 250,000              |
|   | <u>29,605,058</u>    | <u>16,913,303</u>    |
| <b>Total assets</b>   | <u>\$ 40,741,775</u> | <u>\$ 41,317,104</u> |

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See accompanying notes to financial statements.

# ADAMS COUNTY HOSPITAL

BALANCE SHEETS  
DECEMBER 31, 2007 AND 2006

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## LIABILITIES AND NET ASSETS

|   | <u>2007</u>              | <u>2006</u>              |
|---|--------------------------|--------------------------|
| <b>Current liabilities</b>                      |                          |                          |
| Accounts payable                                | \$ 890,253               | \$ 410,260               |
| Accrued expenses                                | 1,899,024                | 1,745,018                |
| Current portion of bonds payable                | 355,000                  | 340,000                  |
| Current portion of capital lease obligations    | 751,157                  | 318,235                  |
| Total current liabilities                       | <u>3,895,434</u>         | <u>2,813,513</u>         |
| <b>Long-term liabilities</b>                    |                          |                          |
| Bonds payable                                   | 26,785,000               | 27,140,000               |
| Capital lease obligations                       | 2,402,604                | 988,589                  |
| Total long-term liabilities                     | <u>29,187,604</u>        | <u>28,128,589</u>        |
| <br>Total liabilities                           | <br>33,083,038           | <br>30,942,102           |
| <b>Net assets</b>                               |                          |                          |
| Invested in capital assets, net of related debt | 3,924,091                | 4,702,583                |
| Unrestricted                                    | 3,665,614                | 5,544,478                |
| Restricted by donors                            | 69,032                   | 127,941                  |
| Total net assets                                | <u>7,658,737</u>         | <u>10,375,002</u>        |
| <br><b>Total liabilities and net assets</b>     | <br><u>\$ 40,741,775</u> | <br><u>\$ 41,317,104</u> |

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See accompanying notes to financial statements.

# ADAMS COUNTY HOSPITAL

## STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2007 AND 2006

|  | <u>2007</u>         | <u>2006</u>          |
|--|---------------------|----------------------|
| <b>Operating revenues</b>  |                     |                      |
| Net patient service revenue                                      | \$ 18,536,228       | \$ 20,111,445        |
| Operating grants and other revenues                              | <u>584,978</u>      | <u>493,885</u>       |
| Total operating revenues   | 19,121,206          | 20,605,330           |
| <b>Operating expenses</b>  |                     |                      |
| Salaries and benefits  | 10,749,847          | 11,453,660           |
| Medical professional fees  | 1,151,250           | 1,046,001            |
| Supplies   | 2,971,312           | 2,851,739            |
| Purchased services   | 2,359,996           | 2,602,169            |
| Equipment rentals  | 160,968             | 172,228              |
| Repairs and maintenance  | 740,168             | 553,354              |
| Utilities  | 679,776             | 561,716              |
| Depreciation and amortization                                    | 1,836,279           | 1,006,085            |
| Other  | <u>1,103,692</u>    | <u>1,077,083</u>     |
| Total operating expenses   | <u>21,753,288</u>   | <u>21,324,035</u>    |
| <b>Loss from operations</b>                                      | (2,632,082)         | (718,705)            |
| <b>Sales tax levy and other<br/>non-operating revenue (loss)</b> | <u>(25,274)</u>     | <u>1,089,641</u>     |
| <b>Change in unrestricted net assets</b>                         | (2,657,356)         | 370,936              |
| <b>Change in restricted net assets</b>                           | <u>(58,909)</u>     | <u>(27,798)</u>      |
| <b>Change in net assets</b>                                      | (2,716,265)         | 343,138              |
| <b>Net assets beginning of year</b>                              | 10,375,002          | 10,031,864           |
| <b>Net assets, end of year</b>                                   | <u>\$ 7,658,737</u> | <u>\$ 10,375,002</u> |

See accompanying notes to financial statements.



**ADAMS COUNTY HOSPITAL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

|   | 2007                | 2006                 |
|---|---------------------|----------------------|
| <b>Operating activities</b>   |                     |                      |
| Cash received from patient services   | \$ 18,556,395       | \$ 19,008,698        |
| Cash paid to vendors for goods and services   | (8,663,875)         | (8,458,976)          |
| Cash paid to employees for wages and benefits                                       | (10,595,841)        | (11,488,625)         |
| Other operating activities  | 584,978             | 493,885              |
| Net cash from operating activities  | <u>(118,343)</u>    | <u>(445,018)</u>     |
| <b>Cash flow from non-capital financing activities</b>                              |                     |                      |
| Non-operating revenues  | 332,877             | 822,091              |
| <b>Cash flow from capital and related financing activities</b>                      |                     |                      |
| Acquisition of property and equipment   | (13,708,137)        | (10,091,235)         |
| Bond issuance costs   | -                   | (649,493)            |
| Principal paid on long-term debt & capital leases                                   | <u>(766,270)</u>    | <u>(285,784)</u>     |
| Net cash from capital and related financing activities                              | <u>(14,474,407)</u> | <u>(11,026,512)</u>  |
| <b>Cash flow from investing activities</b>  |                     |                      |
| Payments received under note receivable   | <u>16,250</u>       | <u>-</u>             |
| Net change in cash and cash equivalents   | (14,243,623)        | (10,649,439)         |
| Cash and cash equivalents   |                     |                      |
| Beginning of year   | 20,420,371          | 31,069,810           |
| End of year   | <u>\$ 6,176,748</u> | <u>\$ 20,420,371</u> |
| <b>Recap of cash and cash equivalents</b>   |                     |                      |
| Undesignated cash   | \$ 1,397,360        | \$ 2,960,737         |
| Designated cash   | 268,443             | 485,589              |
| Restricted cash - bond issuance   | 4,441,913           | 16,846,104           |
| Other restricted cash   | <u>69,032</u>       | <u>127,941</u>       |
| Total cash and cash equivalents   | <u>\$ 6,176,748</u> | <u>\$ 20,420,371</u> |
| <b>Reconciliation of loss from operations to net cash from operating activities</b> |                     |                      |
| Loss from operations  | \$ (2,632,082)      | \$ (718,705)         |
| Adjustment to reconcile loss from operations to net cash from operating activities  |                     |                      |
| Depreciation and amortization   | 1,836,279           | 1,006,085            |
| Bad debts   | 2,789,249           | 2,436,929            |
| Changes in operating assets and liabilities   |                     |                      |
| Patient accounts receivable   | (2,220,676)         | (2,424,374)          |
| Inventories   | (5,490)             | 7,258                |
| Prepaid expenses and other current assets   | 28,784              | (24,262)             |
| Estimated third-party settlements   | (548,406)           | (1,115,302)          |
| Accounts payable  | 479,993             | (71,025)             |
| Accrued expenses  | 154,006             | 458,378              |
| Net cash from operating activities  | <u>\$ (118,343)</u> | <u>\$ (445,018)</u>  |
| <b>Supplemental disclosure of non-cash capital and financing activity:</b>          |                     |                      |
| Equipment acquired under capital leases   | \$ 2,273,207        | \$ -                 |
| Assets exchanged for note receivable  | \$ -                | \$ 250,000           |

*See accompanying notes to financial statements.*

# ADAMS COUNTY HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### 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 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 mature in three months or less.

# ADAMS COUNTY HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### Inventories

Inventories are valued at the lower of cost or market as determined by the first-in, first-out (FIFO) 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 included various externally restricted funds as well as trustee-held assets.

### Property, Plant and Equipment

Property, plant and equipment 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 property, plant and equipment 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  |

### Reclassifications

Certain 2006 accounts have been reclassified to conform to the 2007 presentation.

# ADAMS COUNTY HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### 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.

### 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.

### 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.

### 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 as previously noted in Note 1.

# ADAMS COUNTY HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### 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:

### 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, 2007 and 2006, are as follows:

|                               | <u>2007</u>          | <u>2006</u>          |
|-------------------------------|----------------------|----------------------|
| Gross patient service revenue | \$ 35,764,287        | \$ 39,900,387        |
| less:                         |                      |                      |
| Third party allowances        | 14,363,342           | 17,174,838           |
| Charity care                  | 75,468               | 177,175              |
| Bad debts                     | 2,789,249            | 2,436,929            |
| Net patient service revenue   | <u>\$ 18,536,228</u> | <u>\$ 20,111,445</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 \$75,468 and \$177,175 for 2007 and 2006, respectively.

# ADAMS COUNTY HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### 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.

## 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 2007 and 2006, the carrying amount of the Hospital's deposits was \$6,176,748 and \$20,420,371 and the bank balance was \$6,544,955 and \$20,742,523, respectively. Of the bank balances for 2007 and 2006, \$300,000 was covered by federal depository insurance and would belong in the risk category "insured or collateralized"; and \$6,244,955 and \$20,443,523, 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".

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.

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# ADAMS COUNTY HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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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 2003 and thereafter remain unsettled at December 31, 2007 for Medicaid. The years 2006 and 2007 remain unsettled at December 31, 2007 for Medicare.

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

|                      | December 31 |             |
|----------------------|-------------|-------------|
|                      | 2007        | 2006        |
| Medicare             | 28%         | 34%         |
| Medicaid             | 23%         | 16%         |
| Commercial and other | 20%         | 20%         |
| Self-pay             | 29%         | 30%         |
|                      | <u>100%</u> | <u>100%</u> |

### 4. CAPITALIZED INTEREST

The hospital follows the policy of capitalizing interest as a component of the cost of capital assets constructed for its own use. In 2007 and 2006, total interest incurred relating to Facility Improvement Bonds was \$1,773,293 and \$1,241,278, of which \$850,595 and \$85,904 was charged to interest expense during the year, respectively. In accordance with Financial Accounting Standards Board (FASB) guidelines, interest income earned by the Hospital related to this was netted with the interest expense capitalized.

# ADAMS COUNTY HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

### 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007:

|   | 12/31/06             | Additions            | Transfers/<br>Disposals | 12/31/07             |
|---|----------------------|----------------------|-------------------------|----------------------|
| Property, plant and equipment             |                      |                      |                         |                      |
| Construction in progress                  | \$ 12,205,672        | \$ 13,253,592        | \$ (23,680,653)         | \$ 1,778,611         |
| Depreciable property, plant and equipment |                      |                      |                         |                      |
| Land improvements                         | 298,786              | -                    | 144,998                 | 443,784              |
| Buildings                                 | 3,818,532            | -                    | 17,003,345              | 20,821,877           |
| Fixed equipment                           | 5,040,165            | 196,615              | (626,331)               | 4,610,449            |
| Major moveable equipment                  | 4,669,168            | 257,930              | (434,750)               | 4,492,348            |
| Leased equipment                          | 2,947,932            | 2,273,207            | -                       | 5,221,139            |
| Total capital assets                      | <u>28,980,255</u>    | <u>15,981,344</u>    | <u>(7,593,391)</u>      | <u>37,368,208</u>    |
| Less accumulated depreciation             |                      |                      |                         |                      |
| Land improvements                         | 291,999              | 25,244               | (296,726)               | 20,517               |
| Buildings                                 | 3,398,180            | 369,966              | (3,237,310)             | 530,836              |
| Fixed equipment                           | 4,152,627            | 859,602              | (2,248,306)             | 2,763,923            |
| Major moveable equipment                  | 3,618,441            | 487,686              | (1,393,989)             | 2,712,138            |
| Leased equipment                          | 1,525,198            | 39,657               | -                       | 1,564,855            |
| Total accumulated depreciation            | <u>12,986,445</u>    | <u>1,782,155</u>     | <u>(7,176,331)</u>      | <u>7,592,269</u>     |
| Capital assets, net                       | <u>\$ 15,993,810</u> | <u>\$ 14,199,189</u> | <u>\$ 417,060</u>       | <u>\$ 29,775,939</u> |

Capital asset activity for the year ended December 31, 2006:

|   | 12/31/05            | Additions            | Transfers/<br>Disposals | 12/31/06             |
|---|---------------------|----------------------|-------------------------|----------------------|
| Property, plant and equipment             |                     |                      |                         |                      |
| Construction in progress                  | \$ 3,107,911        | \$ 9,712,709         | \$ 614,948              | \$ 12,205,672        |
| Depreciable property, plant and equipment |                     |                      |                         |                      |
| Land improvements                         | 298,786             | -                    | -                       | 298,786              |
| Buildings                                 | 3,818,532           | -                    | -                       | 3,818,532            |
| Fixed equipment                           | 4,932,856           | 107,309              | -                       | 5,040,165            |
| Major moveable equipment                  | 3,910,634           | 271,217              | (487,317)               | 4,669,168            |
| Leased equipment                          | 1,425,681           | 1,522,251            | -                       | 2,947,932            |
| Total capital assets                      | <u>17,494,400</u>   | <u>11,613,486</u>    | <u>127,631</u>          | <u>28,980,255</u>    |
| Less accumulated depreciation             |                     |                      |                         |                      |
| Land improvements                         | 279,174             | 12,825               | -                       | 291,999              |
| Buildings                                 | 3,332,944           | 65,236               | -                       | 3,398,180            |
| Fixed equipment                           | 3,680,343           | 472,284              | -                       | 4,152,627            |
| Major moveable equipment                  | 3,523,334           | 212,490              | (117,383)               | 3,618,441            |
| Leased equipment                          | 1,281,948           | 243,250              | -                       | 1,525,198            |
| Total accumulated depreciation            | <u>12,097,743</u>   | <u>1,006,085</u>     | <u>(117,383)</u>        | <u>12,986,445</u>    |
| Capital assets, net                       | <u>\$ 5,396,657</u> | <u>\$ 10,607,401</u> | <u>\$ 10,248</u>        | <u>\$ 15,993,810</u> |



# ADAMS COUNTY HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

### 6. LONG-TERM DEBT

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

|                                     | December 31, 2007 |              |               |
|-------------------------------------|-------------------|--------------|---------------|
|                                     | Bond payable      | Note payable | Capital lease |
| Debt outstanding December 31, 2006  | 27,480,000        | \$ -         | 1,306,824     |
| Additions of new debt               | -                 | -            | 2,273,207     |
| Repayments                          | 340,000           | -            | 426,270       |
| Debt outstanding December 31, 2007  | \$ 27,140,000     | \$ -         | \$ 3,153,761  |
| Expected to be paid within one year | \$ 355,000        | \$ -         | \$ 751,157    |
|                                     | December 31, 2006 |              |               |
|                                     | Bond payable      | Note payable | Capital lease |
| Debt outstanding December 31, 2005  | \$ 27,480,000     | \$ 46,789    | \$ 23,568     |
| Additions of new debt               | -                 | -            | 1,522,251     |
| Repayments                          | -                 | 46,789       | 238,995       |
| Debt outstanding December 31, 2006  | \$ 27,480,000     | \$ -         | \$ 1,306,824  |
| Expected to be paid within one year | \$ 340,000        | \$ -         | \$ 318,235    |

#### 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, 2007 was \$27,140,000. There are certain covenants associated with this bond issue that are in effect one year subsequent to the completion of the Hospital project. Future minimum principal and interest payments follow:

|           | Principal     | Interest      | Total         |
|-----------|---------------|---------------|---------------|
| 2008      | \$ 355,000    | \$ 1,738,000  | \$ 2,093,000  |
| 2009      | 375,000       | 1,719,362     | 2,094,362     |
| 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     |
| 2013-2017 | 2,665,000     | 7,802,250     | 10,467,250    |
| 2018-2022 | 3,610,000     | 6,857,214     | 10,467,214    |
| 2023-2027 | 4,935,000     | 5,533,128     | 10,468,128    |
| 2028-2032 | 6,765,000     | 3,706,302     | 10,471,302    |
| 2033-2036 | 7,175,000     | 1,202,178     | 8,377,178     |
|           | \$ 27,140,000 | \$ 33,584,025 | \$ 60,724,025 |

# ADAMS COUNTY HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### Capital lease obligations

The Hospital leases certain equipment under capital lease obligations. Interest rates range from 5.96% to 7.00%. The following are the net minimum future lease payments under these leases:

|   |    |                         |
|---|----|-------------------------|
| 2008                                    | \$ | 918,948                 |
| 2009                                    |    | 844,638                 |
| 2010                                    |    | 829,776                 |
| 2011                                    |    | 600,051                 |
| 2012                                    |    | <u>397,197</u>          |
| Total net future minimum lease payments |    | 3,590,610               |
| Less: amount representing interest      |    | <u>436,849</u>          |
| Total capital lease obligations         |    | 3,153,761               |
| Less: current portion                   |    | <u>751,157</u>          |
| Long-term capital lease obligations     | \$ | <u><u>2,402,604</u></u> |

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

|                          | <u>2007</u>                | <u>2006</u>                |
|--------------------------|----------------------------|----------------------------|
| Cost                     | \$ 5,221,139               | \$ 2,947,932               |
| Accumulated depreciation | <u>1,564,855</u>           | <u>1,525,198</u>           |
| Net book value           | <u><u>\$ 3,656,284</u></u> | <u><u>\$ 1,422,734</u></u> |

### 7. OPERATING LEASES

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

|       |    |                         |
|-------|----|-------------------------|
| 2008  | \$ | 600,768                 |
| 2009  |    | 518,402                 |
| 2010  |    | 505,115                 |
| 2011  |    | 257,703                 |
| 2012  |    | <u>31,792</u>           |
| Total | \$ | <u><u>1,913,780</u></u> |

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# ADAMS COUNTY HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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Total rental expense for operating leases, including those with terms of one month or less, for the years ended December 31, 2007 and 2006 was \$160,968 and \$172,228, 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 provides retirement, disability, survivor and death benefits, annual cost of living adjustments, and post-retirement healthcare benefits to qualifying members of both the Traditional and Combined Plan; however healthcare benefits are not statutorily guaranteed.

Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS Board of Trustees.

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

The Ohio Revised Code provides OPERS statutory authority for employer and employee contributions. The required, actuarially-determined contribution rates for the Hospital and for the employee are 13.85% and 9.5% respectively. The Hospital's contributions, representing 100% employer contributions, for the last three years are as follows:

| <u>Year</u> | <u>Contribution</u> |
|-------------|---------------------|
| 2007        | \$ 1,195,437        |
| 2006        | 1,251,934           |
| 2005        | 1,120,884           |

# ADAMS COUNTY HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### 9. POSTEMPLOYMENT HEALTHCARE BENEFITS

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

OPERS provides post-retirement health care coverage to age and service retirants and dependents with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The portion of the 2007 employer contribution rate of 13.85% used to fund healthcare was 5% from January 1, 2007 through June 30, 2007 and 6% from July 1, 2007 through December 31, 2007. The total Hospital contribution used to fund health care was approximately \$388,000 and \$411,000 for the years ended December 31, 2007 and 2006, respectively.

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

OPEB are advanced-funded on an actuarially-determined basis. The number of active contributing participants at December 31, 2007 was 374,979. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2007 was approximately \$12.0 billion. The actuarially accrued liability and the unfunded actuarially accrued liability, based on the actuarial cost method used, were approximately \$30.7 billion and \$18.7 billion, respectively, as of December 31, 2007.

The actuarial assumptions used to calculate these amounts are as follows:

- **Funding Method-** An entry age normally actuarial cost method of valuations is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.
- **Assets Valuations Method-** All investments are carried at market value. For actuarial valuations purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.
- **Investment Return-** The investment assumption rate for 2006 was 6.5%.

# ADAMS COUNTY HOSPITAL

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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- **Active Employee Total Payroll-** An annual increase of 4.0% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from .5% to 6.3%.
- **Health Care-** Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.5% to 6.3% for the next 9 years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4.0% (the projected wage inflation rate).

### 10. MALPRACTICE INSURANCE

As of December 31, 2007, 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.

### 11. CONCENTRATIONS

Medicare and Medicaid accounted for approximately 69% and 60% of the Hospital's net patient service revenues during 2007 and 2006, respectively.

### 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 constructed is being leased by its current owners to the Adams County Medical Foundation, Inc (the "Foundation"). The Foundation is allowing the Hospital to construct its new facility on the land. The Foundation's lease of the land is for \$1 for the term of the lease. The lease term is indefinite allowing the Foundation time to apply for nonprofit status under 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, 2007 AND 2006

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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 approximately \$9,000 and \$5,000 in 2007 and 2006.

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

### 14. RISKS AND UNCERTAINTIES

The Hospital's net assets decreased approximately \$2,716,000 and \$343,000 in 2007 and 2006, respectively. Further, the Hospital's operating revenues decreased 7% to approximately \$19,121,000 while expenses increased 2% to \$21,753,000. The result is a loss from operations of approximately \$2,632,000 in 2007.

The Hospital occupied a newly constructed facility in 2007. This facility was financed through a bond issue of \$27,480,000 which requires annual debt service payments of approximately \$2,000,000 beginning in 2008. The agreement calls for certain debt covenants to be met beginning the first year upon completion of the project. The covenants include debt service coverage equal to at least 120% of maximum annual debt service.

Management of the Hospital plans to return the Hospital to profitability through evaluation of contribution margins of certain lines of business, renegotiation of supplies contracts and vendor agreements, flexing staff levels consistent with inpatient census needs in addition to other cost containment initiatives.



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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, 2007, and have issued our report thereon dated April 15, 2008. 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 the 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider the item (2007-1) to be a material weakness.

**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 April 15, 2008.

Adams County Hospital's response 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*

April 15, 2008



**Adams County Hospital  
Schedule of Prior Audit Findings  
December 31, 2006**

**2006 – 1: Payroll Approval**

During testing of the payroll cycle we noted that the payroll department did not always receive timecards indicating management review and approval for certain groups of employees. Management asserted that there were no concerns historically with the completeness and accuracy of submitted timecards; however, the missing approval did not document management's monitoring control activities. We recommended that department managers review and sign off on all submitted timesheets.

Current Status:

This was addressed with the managers in a Department Manager's meeting. The corrective action included the prohibition against processing payroll without departmental manager's review and signature.

**2006 – 2: Controls over non-routine and nonsystematic transactions**

Adjustments were necessary to record capital leases and a note receivable which represented non-routine transactions for the Hospital. We recommended that the Hospital implement policies to ensure unusual and non-routine transactions are accounted for in accordance with prescribed accounting principles at the time they occur.

Current Status:

We will consult with the auditors to address non-routine and nonsystematic transactions to ensure that these transactions are addressed during the year and that they are accounted for in accordance with prescribed accounting principles.

**2006 – 3: Contractual Allowances – Commercial Payors**

The Hospital did not apply an allowance to commercial patient accounts receivable. An audit entry was proposed to allow for commercial accounts. We recommended that the client revise its contractual allowance model to consider commercial accounts in the analysis to help ensure that interim reporting is complete and accurate.

Current Status:

The contractual model was revised to include commercial accounts as a part of the contractual allowance monitoring.

**Adams County Hospital**  
**Schedule of Audit Findings and Responses**  
**December 31, 2007**

**2007 – 1: Controls over non-routine and nonsystematic transactions**

Adjustments were necessary to record capital leases and also book the liability under a related imaging equipment agreement, which represent non-routine transactions for the Hospital. We recommend that the Hospital implement policies to ensure unusual and non-routine transactions are accounted for in accordance with prescribed accounting principles at the time they occur.

Management's Response

We will continue to consult with the auditors to address non-routine and nonsystematic transactions to ensure that these transactions are addressed during the year and that they are accounted for in accordance with prescribed accounting principles.



**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  
SEPTEMBER 9, 2008**