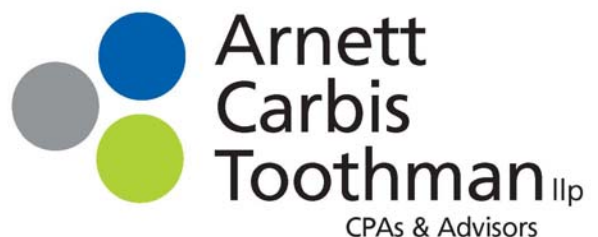


**ADAMS COUNTY REGIONAL
MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO**

**Financial and Compliance Report
October 1, 2019**



OHIO AUDITOR OF STATE
KEITH FABER



88 East Broad Street
Columbus, Ohio 43215
IPARepor@ohioauditor.gov
(800) 282-0370

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

We have reviewed the *Independent Auditor's Report* of the Adams County Regional Medical Center, Adams County, prepared by Arnett Carbis Toothman, LLP, for the audit period January 1, 2019 through October 1, 2019. 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 black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

April 8, 2020

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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 (Center), an Enterprise Fund of Adams County, Ohio, as of October 1, 2019, and for the period from January 1, 2019, through October 1, 2019, which comprise the Center's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

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 controls 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 of material misstatement.

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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Center as of October 1, 2019, and the respective changes in financial position (deficit) and, where applicable, cash flows thereof for the period then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Disposal of Operations

As discussed in Note 7, effective October 1, 2019, the Center's operations were disposed of to a nonprofit corporation. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Pension and Other Post-Employment Benefits information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a 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 basic 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 basic financial statements, and other knowledge we obtained during our audits of the basic 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.

Management has omitted the Management's Discussion and Analysis that the Governmental Accounting Standards Board require to be presented to supplement the basic financial statements. Such missing information, although not a 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 basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2020, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters for the period from January 1, 2019, through October 1, 2019. The purpose of this 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Arnett Carbis Toothman LLP

Charleston, West Virginia
March 20, 2020

ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO

BALANCE SHEET
October 1, 2019

ASSETS AND DEFERRED OUTFLOWS

CURRENT ASSETS

Cash and cash equivalents	\$	-
Patient accounts receivable, net		-
Supplies		-
Prepaid expense and other assets		-

Total current assets -

ASSETS LIMITED AS TO USE -

CAPITAL ASSETS, net -

NET PENSION ASSET -

Total assets -

DEFERRED OUTFLOWS

Pension		-
OPEB		-

Total deferred outflows -

Total assets and deferred outflows \$ -

See Notes to Financial Statements

**LIABILITIES, DEFERRED INFLOWS,
AND NET POSITION (DEFICIT)**

CURRENT LIABILITIES	
Current maturities of long-term debt	\$ -
Accounts payable	-
Estimated amounts due to third-party payors	-
Accrued expenses and other	-
	<hr/>
Total current liabilities	-
LONG-TERM DEBT, less current maturities	-
NET PENSION LIABILITY	-
NET OPEB LIABILITY	-
	<hr/>
Total liabilities	-
	<hr/>
DEFERRED INFLOWS	
Pension	-
OPEB	-
	<hr/>
Total deferred inflows	-
	<hr/>
NET POSITION (DEFICIT)	
Net invested in capital assets	-
Restricted - expendable for:	
Debt service	-
Specific operating activities	-
Unrestricted	-
	<hr/>
Total net position (deficit)	-
	<hr/>
Total liabilities, deferred inflows, and net position (deficit)	<u><u>\$ -</u></u>

See Notes to Financial Statements

**ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO**

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT)

Period from January 1, 2019, through October 1, 2019

OPERATING REVENUE	
Net patient service revenue, less provision for bad debts \$3,293,416	\$ 20,844,732
Other operating revenue	550,472
Total operating revenue	21,395,204
OPERATING EXPENSES	
Salaries and wages	7,586,420
Employee benefits	6,975,537
Medical professional fees	1,312,693
Supplies	2,845,008
Minor equipment	27,043
Purchased services	2,803,844
Equipment rentals	117,502
Repairs and maintenance	901,697
Utilities	351,596
Depreciation and amortization	967,227
Other operating expenses	688,647
Total operating expenses	24,577,214
Operating (loss)	(3,182,010)
NONOPERATING REVENUE (EXPENSE)	
Investment income	89,266
Interest expense	(1,748,103)
Total nonoperating (expense)	(1,658,837)
(Deficiency) of revenue over expenses before capital appropriations, capital grants and gifts, and gain on disposal of operations	(4,840,847)
CAPITAL APPROPRIATIONS - Adams County	946,908
CAPITAL GRANTS AND GIFTS	190
GAIN ON DISPOSAL OF OPERATIONS	20,560,363
(Decrease) in net (deficit)	16,666,614
Net position (deficit):	
Beginning of year	(16,666,614)
End of year	\$ -

See Notes to Financial Statements

**ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO**

STATEMENT OF CASH FLOWS

Period from January 1, 2019, through October 1, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from and on behalf of patients	\$ 20,263,513
Payments to suppliers and contractors	(8,442,375)
Payments to employees	(8,966,685)
Other operating payments, net	<u>(18,627)</u>
Net cash provided by operating activities	<u>2,835,826</u>
CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital grants and gifts	190
Principal paid on long-term debt and capital leases	(40,409)
Interest on long-term debt and capital leases	(1,763,311)
Purchase of capital assets	(14,913)
Capital appropriations - Adams County	3,331,139
Disposal of operations	<u>(11,623,636)</u>
Net cash (used in) capital and related financing activities	<u>(10,110,940)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends on assets limited as to use	<u>89,266</u>
(Decrease) in cash and cash equivalents	<u>(7,185,848)</u>
Cash and cash equivalents:	
Beginning	<u>7,185,848</u>
Ending	<u>\$ -</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating (loss)	\$ (3,182,010)
Depreciation and amortization	967,227
Provision for bad debts	3,293,416
Changes in operating assets and liabilities:	
Patient accounts receivable	(3,982,682)
Estimated third-party payor settlements	108,047
Other assets	129,800
Net pension asset	212,301
Deferred outflows	(3,691,292)
Accounts payable, accrued expenses, and other	278,225
Net pension liability	9,260,828
Net OPEB liability	2,158,749
Deferred inflows	<u>(2,716,783)</u>
Net cash provided by operating activities	<u>\$ 2,835,826</u>

See Notes to Financial Statements

**ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO**

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations and reporting entity: Adams County Regional Medical Center (Center) was a 25-bed critical access hospital located in Seaman, Ohio. The Center operated 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 was charged with the operation, finances, and staff of the Center. The Center was considered an enterprise fund of the County and was included in the general purpose financial statements of the County.

On October 1, 2019, the Center's operations were disposed of and transferred to a nonprofit corporation in Seaman, Ohio. As of this date, the revenue bonds payable and related accrued interest payable were satisfied. Effective with the disposal, due to the Center no longer participating in the Ohio Public Employees Retirement System (OPERS) as of October 1, 2019, the related deferred outflows, net pension asset, deferred inflows, and net pension and OPEB liabilities were no longer required to be recorded on the Center's balance sheet. All remaining assets and liabilities were transferred to the nonprofit corporation.

The accompanying financial statements are presented as of and for the period ended October 1, 2019, subsequent to the disposal.

Component unit: 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)(3) 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 Foundation was organized for the benefit of the Center, with the disposal of the Center's operations on October 1, 2019, the Foundation is no longer supporting the Center and is not considered a component unit in the Center's financial statements as of October 1, 2019.

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. Revenue, 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 revenue 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 revenue and expense. 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 accordance 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, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue 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. As of October 1, 2019, there were no cash equivalents.

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

**ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO**

NOTES TO FINANCIAL STATEMENTS

Assets limited as to use: Assets limited as to use consisted of assets restricted by donors, assets held by trustees under an indenture agreement, assets internally designated by the Board of Trustees for capital improvements, levied taxes receivable, and assets externally restricted for capital improvements.

Investments and investment income: Investments consisted of money market mutual funds, which were carried at fair value. Fair value was determined using quoted market prices. Investment income included dividend and interest income.

Patient accounts receivable: Patient accounts receivable were carried at the original charge less an estimate made for doubtful or uncollectable accounts and contractual adjustments. The allowance was based upon a review of the outstanding balances aged by financial class. Management used collection percentages based upon historical collection experience to determine collectability. Management also reviewed troubled, aged accounts to determine collection potential. Patient accounts receivable were written off when deemed uncollectable. Recoveries of accounts previously written off were recorded as a reduction to bad debt expense when received. Interest was not charged on patient accounts receivable.

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

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

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

Compensated absences: Center policies permitted 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 were recognized as vacation benefits were earned, whether the employee was expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits were recognized when earned to the extent the employee was expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off were recognized as expense when the time off occurred and no liability was accrued for such benefits employees earned but not yet realized. Compensated absence liabilities were 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 (deficit): Net position (deficit) of the Center was classified in three components. Net invested in capital assets consisted 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 was made up of noncapital assets that must have been used for a particular purpose, as specified by creditors, grantors, donors, or pension trusts, external to the Center, including amounts deposited with trustees as required by bond indentures. Unrestricted net position (deficit) is the remaining net position that does not meet the definition of net invested in capital assets or restricted net position.

Net patient service revenue: The Center had agreements with third-party payors that provided 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 payors, and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectable 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 would be revised in future periods as adjustments became known.

**ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO**

NOTES TO FINANCIAL STATEMENTS

Operating revenue and expenses: The Center's statement of revenue, expenses, and changes in net position (deficit) distinguishes between operating and nonoperating revenue and expenses. Operating revenue resulted from exchange transactions associated with providing health care services - the Center's principal activity. Nonexchange revenue (expense), including grants and contributions received for purposes other than capital asset acquisitions, were reported as nonoperating revenue (expense). Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Hospital Care Assurance Program (HCAP): As a public health provider, the Center rendered services to residents of Adams County and others regardless of their ability to pay. HCAP is the Ohio Department of Job and Family Services' mechanism for meeting the federal requirement to provide additional payments to hospitals that provided a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled approximately \$693,000 in the period from January 1, 2019, through October 1, 2019. These amounts are reported as net patient service revenue on the accompanying statement of revenue, expenses, and changes in net position (deficit).

Upper payment limit: In September 2001, the State of Ohio Supplemental Upper Payment Limit (UPL) program for Public Hospitals was approved by the Centers for Medicare and Medicaid Services (CMS). This program provides access to available federal funding up to 100% of the Medicare upper payment limits for services rendered by Ohio Public Hospitals to Ohio Medicaid consumers. The Center recognized approximately \$466,000 in 2019 in net patient service revenue related to this program on the accompanying statement of revenue, expenses, and changes in net position (deficit).

Charity care: The Center provided care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Center did not pursue collection of amounts determined to qualify as charity care, these amounts were not reported as patient service revenue. The Center maintained records to identify and monitor the level of charity care it provided. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The amount of charity care not recorded as revenue was approximately \$404,000 for the period from January 1, 2019, through October 1, 2019. The cost of caring for charity care patients for the period from January 1, 2019, through October 1, 2019, was approximately \$146,000.

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.

Subsequent events: The Center has evaluated subsequent events through March 20, 2020, the date the financial statements were available to be issued.

Recent Accounting Pronouncements

The Center was not required to adopt and did not adopt any new accounting standards for the financial statements as of October 1, 2019, due to there being no implementation dates during the period. Due to the disposal of the Center's operations on October 1, 2019, there are no unadopted pronouncements being evaluated.

**ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO**

NOTES TO FINANCIAL STATEMENTS

Note 2. Net Patient Service Revenue

The Center had agreements with third-party payors that provided for payments to the Center at amounts different from its established rates. The Center was designated as a critical access hospital under the Medicare and Medicaid programs. Contractual adjustments under third-party reimbursement programs represent the difference between the Center's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** The Center was accredited by the Centers for Medicare and Medicaid Services for the critical access hospital designation. Inpatient services and most outpatient services rendered to Medicare program beneficiaries were paid based on a cost reimbursement methodology at 101 percent of allowable cost. Other outpatient services were paid based on fee schedules, or prospectively paid.

The Center was reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Center and review thereof by the Medicare fiscal intermediary. The appropriateness of the admission of Medicare program beneficiaries is subject to an independent review by a peer review organization.

- **Medicaid:** Inpatient services rendered to Medicaid program beneficiaries were reimbursed based on prospectively determined rates per discharge. Medicaid outpatient services were reimbursed based upon the lesser of the Center's charge or predetermined fee schedule amounts. Capital related expenditures were subject to annual cost report settlement.
- **Other Payors:** 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.

Approximately 65% of net patient service revenue was from participation in the Medicare and state-sponsored Medicaid programs (including managed care) for the period from January 1, 2019, through October 1, 2019. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change.

A summary of gross and net patient service revenue for all payors for the period from January 1, 2019, through October 1, 2019, is as follows:

Gross patient service revenue	\$ 68,108,939
Less:	
Provisions for contractual adjustments under third-party reimbursement agreements	(43,566,567)
Provision for bad debts	(3,293,416)
Charity	(404,224)
Net patient service revenue	\$ 20,844,732

**ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO**

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

Capital assets activity for the period from January 1, 2019, through October 1, 2019, is as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets:					
Land and land improvements	\$ 584,182	\$ -	\$ (584,182)	\$ -	\$ -
Buildings	23,401,591	-	(23,401,591)	-	-
Equipment	20,189,122	7,313	(20,196,435)	-	-
Construction in process	6,400	7,600	(14,000)	-	-
	<u>44,181,295</u>	<u>14,913</u>	<u>(44,196,208)</u>	<u>-</u>	<u>-</u>
Less accumulated depreciation:					
Land improvements	542,837	5,727	(548,564)	-	-
Buildings	9,396,500	497,474	(9,893,974)	-	-
Equipment	18,398,370	464,026	(18,862,396)	-	-
	<u>28,337,707</u>	<u>967,227</u>	<u>(29,304,934)</u>	<u>-</u>	<u>-</u>
Capital assets, net	<u>\$ 15,843,588</u>	<u>\$ (952,314)</u>	<u>\$ (14,891,274)</u>	<u>\$ -</u>	<u>\$ -</u>

Note 4. Long-Term Obligations

The following is a summary of long-term obligation activity for the Center for the period from January 1, 2019, through October 1, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	\$ 24,680,000	\$ -	\$ (24,680,000)	\$ -	\$ -
Capital lease obligations	84,544	-	(84,544)	-	-
Long-term debt	<u>\$ 24,764,544</u>	<u>\$ -</u>	<u>\$ (24,764,544)</u>	<u>\$ -</u>	<u>\$ -</u>

Revenue Bonds Payable

The revenue bonds payable consisted of Hospital Facilities Revenue Improvement Bonds, Series 2005 (Bonds) in the original amount of \$27,480,000 dated July 28, 2005, which bore interest at 5.00% to 6.25%. The Bonds were payable in annual installments through September 1, 2036. The Center was required to make monthly deposits to the debt service fund held by the trustee. Proceeds from the issuance of these bonds were used to construct the Center's facility. The Bonds were secured by the net revenue and accounts receivable of the Center and the assets restricted under the bond indenture agreement.

The indenture agreements required that certain funds be established with the trustee. Accordingly, these funds were included in assets limited to use on the balance sheet. The indenture agreements also required 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.

**ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO**

NOTES TO FINANCIAL STATEMENTS

Since January 2014, the Center had been operating under forbearance agreements with the trustee, during which time the Center had not remitted any principal payments on the Bonds. The forbearance agreement expired on December 31, 2015. Although the forbearance agreement expired, the trustee continued to work with the Center relating to its liquidity issues, with the knowledge and consent of the majority bondholders.

On October 1, 2019, the operations of the Center were sold to a nonprofit corporation in Seaman, Ohio. The proceeds of the sale were used to satisfy the remaining principal and interest due on the Revenue Bonds payable. As of October 1, 2019, no liabilities remain with the Center.

Note 5. Pension Plans

Plans descriptions: The Center contributed to the Ohio Public Employees Retirement System (OPERS) which administers two cost-sharing, multiple-employer defined benefit pension plans and one defined contribution pension plan, which together cover substantially all Center employees. All employees were required to join OPERS. The OPERS's three pension plans are described below and are discussed in greater detail in the following sections:

1. The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan.
2. The Member-Directed (MD) 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 pension plan. Under the Combined Plan, the 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.

The OPERS issues a stand-alone financial report; these reports may be obtained by contacting the organization as follows:

OPERS
277 East Town Street
Columbus, Ohio 43215-4642
Telephone: (800) 222-7377
www.opers.org

Benefits provided: Plan benefits for the OPERS are established under Chapter 145 of the Ohio Revised Code (ORC). Members are categorized into three groups with varying provisions of the law applicable to each group. Members who were eligible to retire on January 7, 2013, and those eligible to retire no later than 5 years after that date comprise transition group A. Members who have 20 years of service credit prior to January 7, 2013, or are eligible to retire no later than 10 years after January 7, 2013, are included in transition group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013. Additionally, the OPERS has three separate divisions with varying degrees of benefits: (1) state and local, (2) law enforcement, and (3) public safety. The Center did not have any employees included in the public safety or law enforcement divisions.

**ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO**

NOTES TO FINANCIAL STATEMENTS

Benefits in the Traditional Pension Plan for state and local members are calculated on the basis of age, final average salary, and service credit. State and local members in transition groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for state and local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For group C the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. Final average salary represents the average of the 3 highest years of earnings over a member's career for groups A and B. Group C is based on the average of the 5 highest years of earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefit receive a percentage reduction in the benefit amount.

The OPERS offers a combined plan that has elements of both a defined benefit and defined contribution plan. In the combined plan, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit. Eligibility requirements under the combined plan for age and years of service are identical to the defined benefit plan described earlier. The benefit formula for the defined benefit component of the plan for state and local members in transition groups A and B applies a factor of 1.0% to the member's final average salary and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit.

Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, current law provides for an annual cost-of-living adjustment. The cost-of-living adjustment is calculated on the member's base pension benefit at the date of retirement and is not compounded. Members retiring under the Combined Plan receive a cost-of-living adjustment on the defined benefit portion of their pension benefit. For those who retired prior to January 7, 2013, current law provides for a 3% cost-of-living adjustment. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, current law provides that the adjustment will be based on the average percentage increase in the Consumer Price Index, capped at 3%. A death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional Pension Plan and Combined Plan. Death benefits are not available to beneficiaries of Member-Directed Plan participants. All employees were required to become contributing members of the OPERS when they began employment at the Center unless they were exempted or excluded as defined by the Ohio Revised Code (ORC). For actuarial purposes, employees who have earned sufficient service credit (60 contributing months) are entitled to a future benefit from the OPERS. The Center's proportionate share of inactive members is included in the net pension liability and net pension asset as discussed in the following notes.

Contributions

The ORC provides the OPERS statutory authority over employee and employer contributions. The required statutorily determined contribution rates, respective of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The contractually required contribution rate for the employee and the Center was 10% and 14%, respectively, for the period from January 1, 2019, through October 1, 2019.

For the period from January 1, 2019, through October 1, 2019, contributions to the pension plans from the Center are as follows:

Traditional	\$ 1,017,546
Combined	<u>8,623</u>
	<u>\$ 1,026,169</u>

**ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO**

NOTES TO FINANCIAL STATEMENTS

Pension Expense Related to Pensions

For the period from January 1, 2019, through October 1, 2019, the Center recognized pension expense related to the defined benefit pension plans of \$5,246,333.

Actuarial Assumptions: The total pension liability in the December 31, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

<u>Actuarial Information</u>	<u>Traditional Plan</u>	<u>Combined Plan</u>
Wage Inflation	3.25 percent	3.25 percent
Future Salary Increases, including inflation	3.25 percent to 10.75 percent, including wage inflation	3.25 percent to 8.25 percent, including wage inflation
COLA or Ad Hoc COLA	3.00 percent, simple through 2018 then 2.15 percent simple	3.00 percent, simple through 2018 then 2.15 percent simple
Investment Rate of Return	7.50 percent	7.50 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Mortality rates for the OPERS are found in the RP-2014 Healthy Annuitant mortality table. The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term expected rate of return on the OPERS defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage, adjusted for inflation.

The table below display the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equities	19.00 %	6.21 %
International equities	20.00	7.83
Fixed income	23.00	2.79
Real estate	10.00	4.9
Private equity	10.00	10.81
Other investments	18.00	5.5
	<u>100.00 %</u>	<u>5.95 %</u>

Discount rate: The discount rate used to measure the total pension liability was 7.2% as of December 31, 2018 (measurement date). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total pension asset.

Pension plans fiduciary net position: Detailed information about the pension plans' fiduciary net position is available in the separately issued OPERS financial report.

**ADAMS COUNTY REGIONAL MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS

Defined contribution plan: The OPERS also offers a defined contribution plan, the Member-Directed Plan (MD). The MD plan does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits, or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

Pension expense recorded for the period from January 1, 2019, through October 1, 2019, for contributions to the Member-Directed Plan was approximately \$28,000.

Note 6. Other Post-Employment Benefits

Plan Description, Benefits Provided, and Contributions: The OPERS provides other postemployment health care benefits (OPEB) to retirees with twenty or more years of qualifying service credit under the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan benefits include a medical plan, prescription drug program, and Medicare Part B premium reimbursement. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The ORC permits, but does not require, the OPERS to provide Other Postemployment Benefits to its eligible benefit recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the ORC.

Each year the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of the employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Pension Plan was 0.0% during 2019. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for 2019 was 4.0%. The Center's contributions for 2019 used to fund post-retirement health care benefits was \$11,233, which is included in the Center's contractually required contribution of \$1,065,486 for the period from January 1, 2019, through October 1, 2019.

Expense related to OPEB: For the period from January 1, 2019, through October 1, 2019, OPEB expense was determined by an actuarial valuation date as of December 31, 2017, rolled forward to December 31, 2018, which is the measurement date.

For the period from January 1, 2019, through October 1, 2019, the Center recognized OPEB expense of \$1,035,842.

Actuarial assumptions: The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018. The actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate	3.25 percent
Salary increases	3.25 percent to 10.75 percent, including wage inflation
Investment rate of return	6.00 percent
Health care cost trend rate	10.00 percent initial, 3.25 percent ultimate in 2029
Actuarial cost method	Individual Entry Age

Mortality rates for the OPEB are found in the RP-2014 Healthy Annuitant mortality table. The most recent experience study was completed for the five year period ended December 31, 2015.

**ADAMS COUNTY REGIONAL MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

The table below displays the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	21.00%	6.21%
International equities	22.00%	7.83%
Fixed income	34.00%	2.42%
REITs	6.00%	5.98%
Other investments	17.00%	5.57%
	<u>100.00%</u>	<u>5.16%</u>

Discount rate: The discount rate used to measure the OPEB liability was 3.96% as of December 31, 2018 (measurement date). The projection of cash flows used to determine the discount rate assumed that contributions would be made at rates equal to the actuarially determined contribution rates, in accordance with prefunding and investment policies. The OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. Discount rates are subject to change between measurement dates.

Note 7. Disposal of Operations

As discussed in Note 1, on October 1, 2019, the Center's operations were disposed of to a nonprofit corporation. The disposal was transacted through an asset purchase agreement, which resulted in the buyer acquiring all of the assets, the operations, and assuming all of the liabilities, excluding the Pension and OPEB liabilities. In consideration of the sale of the purchased assets, the buyer paid the sum of (1) the amount necessary to redeem the outstanding principal amount of the Series 2005 Bonds together with the accrued and unpaid interest after the application of approximately \$1,500,000 of the sales tax levy monies, and (2) the closing costs and attorneys' fee in connection with the sale.

The assets and liabilities that were part of the above noted transaction on October 1, 2019, approximated the following:

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 2,651,000
Patient accounts receivable, net	4,036,000
Supplies	320,000
Prepaid expense and other assets	<u>100,000</u>
Total current assets	7,107,000
ASSETS LIMITED AS TO USE	8,973,000
CAPITAL ASSETS, net	<u>14,891,000</u>
Total assets	<u>\$ 30,971,000</u>

**ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO**

NOTES TO FINANCIAL STATEMENTS

LIABILITIES

CURRENT LIABILITIES	
Current maturities of long-term debt	\$ 24,710,000
Accounts payable	1,796,000
Estimated amounts due to third-party payors	303,000
Accrued expenses and other	4,071,000
Total current liabilities	30,880,000
LONG-TERM DEBT, less current maturities	14,000
Total liabilities	\$ 30,894,000

As noted above, the Pension and OPEB related assets and liabilities were excluded from the asset purchase agreement; however, because the Center no longer employed any individuals nor continued to operate, these assets and liabilities were removed as a part of the transaction. The balances related to Pension and OPEB immediately before the transaction amounted to the following:

NET PENSION ASSET	\$ 20,472
DEFERRED OUTFLOWS	
Pension	6,430,922
OPEB	1,140,776
NET PENSION LIABILITY	19,145,562
NET OPEB LIABILITY	8,797,017
DEFERRED INFLOWS	
Pension	262,589
OPEB	23,869

The removal of these assets and liabilities as well as the assets and liabilities noted above resulted in a gain on disposal of operations in the amount of \$20,560,363.

**ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO**

REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of the Center's Proportionate Share of the Net Pension Liability (Asset)
Ohio Public Employees Retirement System (OPERS)**

	2019	2018	2017	2016	2015
Traditional Defined Benefit Pension Plan					
Center's proportion of the net pension liability	0.000000%	0.063008%	0.057405%	0.057690%	0.065966%
Center's proportionate share of the net pension liability	\$ -	\$ 9,884,734	\$ 13,035,699	\$ 9,992,635	\$ 7,956,237
Center's covered payroll	\$ 9,444,107	\$ 8,326,546	\$ 7,420,800	\$ 7,180,092	\$ 8,087,350
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%	118.71%	175.66%	139.17%	98.38%
Plan fiduciary net position as a percentage of the total pension liability	0.00%	84.66%	77.25%	81.08%	86.36%
Combined Defined Benefit Pension Plan					
Center's proportion of the net pension asset	0.000000%	0.170990%	0.030517%	0.038590%	0.047150%
Center's proportionate share of the net pension asset	\$ -	\$ 232,773	\$ 16,985	\$ 18,779	\$ 18,154
Center's covered payroll	\$ 78,300	\$ 70,031	\$ 118,783	\$ 140,433	\$ 172,350
Center's proportionate share of the net pension asset as a percentage of its covered-employee payroll	0.00%	332.39%	14.30%	13.37%	10.53%
Plan fiduciary net position as a percentage of the total pension asset	0.00%	137.28%	116.55%	116.90%	104.56%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the Center will present information for those years for which information has been determined under the provisions of GASB No. 68. Information in these schedules has been determined as of the measurement date (December 31 of the prior fiscal year) of the collective net pension liability (asset).

**Schedule of the Center's Pension Contributions
Ohio Public Employees Retirement System (OPERS)**

	2019	2018	2017	2016	2015
Traditional Defined Benefit Pension Plan					
Statutorily required contribution	\$ 1,017,546	\$ 1,322,175	\$ 1,082,451	\$ 890,496	\$ 861,611
Contributions in relation to the statutorily required contributions	(1,017,546)	(1,322,175)	(1,082,451)	(890,496)	(861,611)
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Center's covered payroll	\$ 7,268,186	\$ 9,444,107	\$ 8,326,546	\$ 7,420,800	\$ 7,180,092
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	12.00%	12.00%
Combined Defined Benefit Pension Plan					
Statutorily required contribution	\$ 8,623	\$ 10,962	\$ 9,104	\$ 14,254	\$ 16,852
Contributions in relation to the statutorily required contributions	(8,623)	(10,962)	(9,104)	(14,254)	(16,852)
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Center's covered payroll	\$ 61,593	\$ 78,300	\$ 70,031	\$ 118,783	\$ 140,433
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	12.00%	12.00%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the Center will present information for those years for which information has been determined under the provisions of GASB No. 68. Information in these schedules has been determined as of the Center's most recent fiscal year end.

**ADAMS COUNTY REGIONAL MEDICAL CENTER
AN ENTERPRISE FUND OF ADAMS COUNTY, OHIO**

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Center's Proportionate Share of the Net OPEB Liability

	2019	2018
Center's proportion of the net OPEB liability (percentage)	0.00000%	0.06113%
Center's proportionate share of the net OPEB liability	\$ -	\$ 6,638,268
Center's covered-employee payroll	\$ 9,789,307	\$ 8,658,264
Center's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	0.00%	76.67%
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	54.14%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the Center will present information for those years for which information has been determined under the provisions of GASB No. 75. The amounts presented in the above schedule correspond with the Center's fiscal reporting period and have been determined as of the measurement date (December 31 of the prior fiscal year).

Schedule of the Center's OPEB Contributions

	2019	2018	2017
Contractually required contribution	\$ 11,233	\$ 10,676	\$ 94,434
Contribution in relation to the contractually required contribution	(11,233)	(10,676)	(94,434)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Center's covered-employee payroll	\$ 7,610,614	\$ 9,789,307	\$ 8,658,264
Contributions as a percentage of covered-employee payroll	0.15%	0.11%	1.09%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the Center will present information for those years for which information has been determined under the provisions of GASB No. 75. The amounts in the above schedule correspond to the Center's October 1, 2019, December 31, 2018, and 2017's fiscal reporting years.

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**INDEPENDENT AUDITOR'S 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**

Board of Trustees
Adams County Regional Medical Center
Seaman, Ohio

We have audited, in accordance with the 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) and its discretely presented component unit, Adams County Medical Foundation, Inc. (collectively, Organization) as of October 1, 2019, and for the period from January 1, 2019, through October 1, 2019, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated March 20, 2020. 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

In planning and performing our audit of the financial statements, 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.

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 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. *A significant deficiency* is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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 Organization'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.

Arnett Carbis Toothman LLP

Charleston, West Virginia
March 20, 2020

OHIO AUDITOR OF STATE KEITH FABER



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
APRIL 21, 2020**