

**ADAMS COUNTY HOSPITAL
WEST UNION, OHIO**

December 31, 2003

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT



**Auditor of State
Betty Montgomery**

Board of Trustees
Adams County Hospital
210 North Wilson Drive
West Union, Ohio 45693

We have reviewed the Independent Auditor's Report of the Adams County Hospital, prepared by VonLehman & Company Inc., for the audit period January 1, 2003 through December 31, 2003. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

April 21, 2004

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ADAMS COUNTY HOSPITAL

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Adams County Hospital
West Union, Ohio

We have audited the accompanying general purpose financial statements of Adams County Hospital as of December 31, 2003 and 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2003 and 2002, and the results of its operations, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, in 2003 the Hospital implemented Statement of Governmental Accounting Standards Board (Statement) No. 34 as amended by Statements No. 37 and 38 and, as a result, reclassified its general purpose financial statements.

The Management's Discussion and Analysis and Budgetary Comparison information are not a required part of the general purpose financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the 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 a report dated February 19, 2004, 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 grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

VonLehman and Company Inc.

Fort Mitchell, Kentucky
February 19, 2004

**ADAMS COUNTY HOSPITAL
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(UNAUDITED)**

Adams County Hospital (the Hospital) is designated as a county hospital by Title III, Chapter 339 of the Ohio Revised Code. The Hospital strives to provide the residents of Adams County and surrounding areas with quality health care services. To meet this goal, Adams County Hospital is governed by a Board of Directors that is appointed by the County Commissioners and the Senior Probate Judge of the county. The Joint Commission on the Accreditation of Healthcare Organizations accredits the Hospital.

The Hospital provides a variety of outpatient medical services in addition to inpatient care. Charges are generated for all services provided. Charges are recorded as gross patient services revenue and are reduced to net patient services revenue by contractual allowances to various third party payors. There were 6,233 days of inpatient services provided, 212,509 lab tests, and 92,971 other outpatient services performed during 2003.

An analysis and discussion of specific financial information for 2003 and 2002 is below.

Operating Revenues

Operating revenues for the year ended December 31, 2003 were \$18,156,897. This figure represents an increase of \$1,489,340 and 8.94% over 2002. This increase was due primarily to the increase in inpatient services for 2003.

Operating Expenses

Operating expenses for 2003 were \$18,072,238 compared to \$16,953,591 for 2002. This figure represents an increase of \$1,118,647 and 6.60% over 2002. The increase was made up primarily of personnel costs and costs for supplies and utilities.

Non-Operating Revenue

Non-operating revenue for 2003 was \$1,258,581. This was an increase of 3.76% or \$45,654 from 2002. County sales tax levy income generated for the Hospital was \$935,904 in 2003 in comparison to \$894,390 for 2002.

Excess of Revenue Over Expenses

Excess of revenue over expenses for 2003 was \$1,342,460, an increase of \$416,555 over 2002. This increase was mainly due to an increase in income from operations of \$370,901.

Increase in Total Assets

General Fund assets increased by \$555,041 to \$9,096,593 in 2003. Cash and cash equivalents increased by \$536,484. This increase was generated by cash flows from operations of \$678,921, and non-operating income of \$1,068,566, less cash used for acquisition of property, plant and equipment, payments on long-term debt and other related financing activities of \$1,211,003.

Liabilities

General Fund liabilities decreased by \$598,184 in 2003 to \$2,010,590. This decrease can be attributed primarily to the payoff of capital leases and other long-term debt.

Cash Flow

For 2003, cash and cash equivalents amounted to \$3,241,537. This represents an increase of \$536,484 above 2002. Cash provided by operations was received from patients and their insurance providers. In turn, cash from operations was used to pay suppliers and employees.

**ADAMS COUNTY HOSPITAL
BALANCE SHEETS**

**ASSETS
General Fund**

	December 31,	
	2003	2002
Current Assets		
Cash and Cash Equivalents	\$ 3,241,537	\$ 2,705,053
Patient Accounts Receivable, Net of Estimated Uncollectibles (2003-\$628,676, 2002-\$653,130)	2,741,182	2,458,323
Inventories	208,463	197,316
Prepaid Expenses and Other Assets	57,021	198,951
 Total Current Assets	 6,248,203	 5,559,643
 Cash and Cash Equivalents Whose Use is Limited		
Board Designated for Future Capital Purposes:		
Cash and Cash Equivalents	429,702	390,164
 Property, Plant and Equipment, Net	 2,418,688	 2,591,745
 Total Assets	 \$ 9,096,593	 \$ 8,541,552

Restricted Funds

Specific Purpose Funds		
Cash and Cash Equivalents	\$ 99,940	\$ 53,205
Rural Health Collaborative Grant Receivable	142,500	-
 Total Specific Purpose Funds	 \$ 242,440	 \$ 53,205

See accompanying notes.

LIABILITIES AND FUND BALANCE
General Fund

	December 31,	
	2003	2002
Current Liabilities		
Accounts Payable - Trade	\$ 376,219	\$ 525,480
Accrued Expenses	937,189	975,994
Capital Lease Obligations - Current Portion	276,564	295,612
Notes Payable - Current Portion	96,764	114,510
 Total Current Liabilities	 1,686,736	 1,911,596
Long-Term Liabilities		
Capital Lease Obligations	309,440	586,000
Notes Payable	4,414	101,178
 Total Long-Term Liabilities	 313,854	 687,178
 Total Liabilities	 2,000,590	 2,598,774
 Fund Balance	 7,096,003	 5,942,778
 Total Liabilities and Fund Balance	 \$ 9,096,593	 \$ 8,541,552

Restricted Funds

Specific Purpose Funds		
Johnson Memorial Scholarship Fund	\$ 40,559	\$ 41,408
Rural Health Collaborative Grant	190,015	-
Other Funds	11,866	11,797
 Total Specific Purpose Funds	 \$ 242,440	 \$ 53,205

**ADAMS COUNTY HOSPITAL
STATEMENTS OF OPERATIONS**

	Year Ended December 31, 2003			Year Ended December 31, 2002				
	General Fund	Restricted Funds	Total Funds	General Fund	Restricted Funds	Total Funds		
Net Patient Service Revenues	\$ 17,964,997	\$ -	\$ 17,964,997	\$ 16,525,207	\$ -	\$ 16,525,207	98.9 %	99.1 %
Other Operating Revenues	191,900	957	192,857	142,350	3,976	146,326	1.1	0.9
Total Operating Revenues	18,156,897	957	18,157,854	16,667,557	3,976	16,671,533	100.0	100.0
Operating Expenses								
Salaries and Benefits	8,708,810	-	8,708,810	7,991,169	-	7,991,169	48.1	47.9
Medical Professional Fees	1,047,398	-	1,047,398	1,149,828	-	1,149,828	5.8	6.9
Supplies	2,332,733	-	2,332,733	2,045,668	-	2,045,668	12.8	12.3
Purchased Services	1,781,341	-	1,781,341	1,822,634	-	1,822,634	9.8	10.9
Equipment Rentals	62,805	-	62,805	85,896	-	85,896	0.3	0.5
Repairs and Maintenance	319,185	-	319,185	263,891	-	263,891	1.8	1.6
Utilities	511,223	-	511,223	364,746	-	364,746	2.8	2.2
Depreciation	933,704	-	933,704	982,812	-	982,812	5.1	5.9
Interest	72,829	-	72,829	102,671	-	102,671	0.4	0.6
Provision for Bad Debts	1,424,679	-	1,424,679	1,563,706	-	1,563,706	7.8	9.4
Other	877,531	1,737	879,268	580,570	4,964	585,534	4.8	3.5
Total Operating Expenses	18,072,238	1,737	18,073,975	16,953,591	4,964	16,958,555	99.5	101.7
Income (Loss) from Operations	84,659	(780)	83,879	(286,034)	(988)	(287,022)	0.5	(1.7)
Sales Tax Levy, Grants, and Other Non-Operating Revenue	1,068,566	190,015	1,258,581	1,212,927	-	1,212,927	7.0	7.3
Excess (Deficit) of Revenues Over Expenses	\$ 1,153,225	\$ 189,235	\$ 1,342,460	\$ 926,893	\$ (988)	\$ 925,905	7.5 %	5.6 %

See accompanying notes.

**ADAMS COUNTY HOSPITAL
STATEMENTS OF CHANGES IN FUND BALANCES**

	<u>2003</u>		<u>2002</u>	
	<u>General Fund</u>	<u>Restricted Funds</u>	<u>General Fund</u>	<u>Restricted Funds</u>
Balance Beginning of Year	\$ 5,942,778	\$ 53,205	\$ 5,015,885	\$ 54,193
Excess (Deficit) of Revenues Over Expenses	<u>1,153,225</u>	<u>189,235</u>	<u>926,893</u>	<u>(988)</u>
Balance End of Year	<u>\$ 7,096,003</u>	<u>\$ 242,440</u>	<u>\$ 5,942,778</u>	<u>\$ 53,205</u>

See accompanying notes.

**ADAMS COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS OF UNRESTRICTED NET ASSETS**

	December 31,	
	2003	2002
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 17,706,592	\$ 17,531,194
Cash Payments to Suppliers for Goods and Services	(8,390,080)	(8,021,635)
Cash Payments to Employees for Services	(8,829,491)	(8,297,272)
Other Operating Revenues	191,900	142,350
Net Cash Provided by Operating Activities	678,921	1,354,637
Cash Flows from Non-Capital Financing Activities		
Non-Operating Revenues	1,068,566	1,212,927
Cash Flows from Capital and Related Financing Activities		
Acquisition of Property, Plant and Equipment	(762,174)	(274,756)
Principal Paid on Long-Term Debt	(410,118)	(437,812)
Proceeds from Sale of Property, Plant and Equipment	827	2,950
Increase in Value of Board Designated Cash	(39,538)	(117,091)
Net Cash Used by Capital and Related Financing Activities	(1,211,003)	(826,709)
Net Increase in Cash and Cash Equivalents	536,484	1,740,855
Cash and Cash Equivalents at Beginning of Year	2,705,053	964,198
Cash and Cash Equivalents at End of Year	\$ 3,241,537	\$ 2,705,053
Reconciliation of Income (Loss) from Operations to Net Cash Provided by Operating Activities		
Income (Loss) from Operations	\$ 84,659	\$ (286,034)
Adjustments to Reconcile Income (Loss) from Operations to Net Cash Provided by Operating Activities		
Depreciation	933,704	982,812
Provision for Bad Debts	1,424,679	1,563,706
Loss on Disposal of Property, Plant and Equipment	700	414
Changes in		
Patient Accounts Receivable	(1,707,538)	(621,562)
Inventories	(11,147)	(1,365)
Prepaid Expenses and Other Assets	141,930	(88,186)
Accounts Payable - Trade	(149,261)	(151,837)
Accrued Expenses	(38,805)	(43,311)
Total Adjustments	594,262	1,640,671
Net Cash Provided by Operating Activities	\$ 678,921	\$ 1,354,637

See accompanying notes.

ADAMS COUNTY HOSPITAL
STATEMENT OF OPERATIONS - BUDGET AND ACTUAL
GENERAL FUND
Year Ended December 31, 2003

	Budgeted Amounts (Unaudited)		Actual
	Original	Final	
Net Patient Service Revenues	\$ 16,226,732	\$ 16,226,732	\$ 17,964,997
Other Operating Revenues	134,531	134,531	191,900
Total Operating Revenues	16,361,263	16,361,263	18,156,897
Operating Expenses			
Salaries and Benefits	8,343,759	8,343,759	8,708,810
Medical Professional Fees	1,172,313	1,172,313	1,047,398
Supplies	2,059,134	2,059,134	2,332,733
Purchased Services	1,691,429	1,691,429	1,781,341
Equipment Rentals	89,664	89,664	62,805
Repairs and Maintenance	377,744	377,744	319,185
Utilities	393,751	393,751	511,223
Depreciation	1,069,200	1,069,200	933,704
Provision for Bad Debts	1,441,617	1,441,617	1,424,679
Other	717,448	717,448	950,360
Total Operating Expenses	17,356,059	17,356,059	18,072,238
(Loss) Income from Operations	(994,796)	(994,796)	84,659
Sales Tax Levy, Grants and Other Non-Operating Revenue	854,780	854,780	1,068,566
(Deficit) Excess of Revenues Over Expenses	\$ (140,016)	\$ (140,016)	\$ 1,153,225

See accompanying notes.

**ADAMS COUNTY HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 – ACCOUNTING POLICIES

Adams County Hospital (the Hospital) is a 46-bed facility, located in Adams County, Ohio and operated by a Board of Trustees as provided for under Ohio Revised Code Section 339. Members of the Board of Trustees are appointed by Adams County Judges and County Commissioners.

Nature of Operations

The Hospital's operations consist almost exclusively of providing healthcare services to the residents of Adams County, Ohio, and the surrounding area.

Basis of Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements, including those issued after November 30, 1989.

Funds

In accordance with the published recommendations of the American Institute of Certified Public Accountants, the Hospital segregates its accounting records into the following funds:

General Fund

This fund is used to account for all the revenues derived and expenses incurred in the day-to-day activities of the Hospital together with all unrestricted donor contributions.

Restricted Funds

These funds are used to account for the receipts and disbursements of donor-restricted contributions.

Estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 1 – ACCOUNTING POLICIES (Continued)**Cash and Cash Equivalents**

Cash and cash equivalents are deposited in financial institutions as authorized and directed by State statutes. All deposits are collateralized by pledged securities of the financial institutions up to or exceeding the value of the deposits, as specified by State statutes.

Cash and cash equivalents are defined as those funds on deposit which mature in three months or less.

Cash and Cash Equivalents Whose Use is Limited

Cash and cash equivalents whose use is limited include assets set aside by the Board of Trustees for future capital improvements, over which the Board of Trustees retains control and may at its discretion subsequently use for other purposes.

Inventories

Inventories consist primarily of supplies and are valued at the lower of cost under the first-in, first-out (FIFO) method, or market.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost or at fair market value at the date received if acquired by gift. It is the Hospital's policy to capitalize acquired property and equipment with a cost or fair market value of \$5,000 or greater. Expenditures for maintenance and repairs, which do not extend the life of the applicable assets, are charged to expense as incurred. Depreciation is computed using the straight line method over the estimated useful lives of the depreciable assets as follows:

Land Improvements	5 - 20 Years
Buildings and Fixed Equipment	5 - 40 Years
Major Movable Equipment	2 - 20 Years
Leased Equipment	3 - 15 Years

Lease Agreements

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

NOTE 1 – ACCOUNTING POLICIES (Continued)**Net Patient Service Revenue**

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. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services are paid at a prospectively determined rate per day based on clerical, diagnostic and other factors. Outpatient services are reimbursed on a prospective rate scale based on Ambulatory Patient Classifications (APC's). Home Health Services are reimbursed on a prospective basis for episodes of care spanning 60 days. There are exceptions which could adjust the 60-day payment period. The payment rates are based on a clinical assessment system called OASIS (the Outcome and Assessment Information Set). Final settlements are determined upon submission of the annual cost report by the Hospital and audits thereof by the Medicare Fiscal Intermediary.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed on a rate per discharge basis. Outpatient services rendered to Medicaid program beneficiaries are reimbursed on a fee schedule basis. Inpatient capital costs are reimbursed at a tentative rate with a final settlement to be determined after submission of the annual cost report by the Hospital and audits thereof by the Medicaid Fiscal Intermediary.

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

Charity Care

The Hospital provides care to patients who meet criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues.

New Pronouncement

In 2003, the Hospital implemented Statement of Governmental Accounting Standards Board (Statement) No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", as amended by Statement No.'s 37 and 38. These statements established new financial reporting requirements for state and local governments. As a result, certain prior year amounts have been reclassified to conform with the current year's presentation.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and employee health, dental and accident benefits.

Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE 2 – CASH AND CASH EQUIVALENTS**Legal Requirements**

Statutes require the classification of monies held by the Hospital into three categories:

Category 1 consists of "active" monies, those monies required to be kept in a "cash" or "near-cash" status for current demands. Such monies must be maintained either as cash or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" monies, those monies not required for use within the current two year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" monies; those monies which are not needed for immediate use, but will be needed before the end of the current period of depositories. Interim monies may be invested or deposited in the following securities:

Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the full faith and credit of the United States is pledged for the payment of principal and interest;

Bonds, notes, debentures, or other obligations or securities issued by a federal government agency or instrumentality. The securities fall into three categories: obligations of the federal government, federal agencies, and federal instrumentalities;

Time certificates of deposit or savings or deposit accounts, including, but not limited to passbook accounts in any eligible institution mentioned in Section 135.32 of the Ohio Revised Code having an office located within the territorial limits of the county;

Bonds or other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this state or its political subdivisions;

Effective October 7, 1993, no load money market funds consisting exclusively of obligations described as "active" and "inactive" monies above, and repurchase agreements secured by such obligations so long as they are made through eligible institutions mentioned in Section 135.32 of the Ohio Revised Code;

The State Treasurer's investment pool.

The investing authority may also enter into a written repurchase agreement under the terms of which agreement the investing authority purchases and the seller agrees unconditionally to repurchase any of the securities listed in categories 1 and 2 above. He also may sell any of such securities owned by the county under the same terms and conditions for repurchase.

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

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

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

Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name).

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

At year end, the carrying amount of the Hospital's deposits was \$3,771,179 and the bank balance was \$4,217,507. Of the bank balance:

\$242,112 was covered by federal depository insurance and would belong in the risk category "insured or collateralized"; and

\$3,975,395 was covered by collateral held by third-party trustees pursuant to Section 135.181 of the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, and belongs in the risk category "uncollateralized".

Cash paid for interest was as follows:

	December 31,	
	<u>2003</u>	<u>2002</u>
Interest	\$ <u>72,829</u>	\$ <u>102,671</u>

Non-cash investing or financing activities in 2003 and 2002 was as follows:

Assets Acquired Under Capital Lease Obligations	\$ <u>-</u>	\$ <u>150,000</u>
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NOTE 3 – CHARITY CARE

Charges excluded from revenue under the Hospital's charity care policy for patients unable to pay were \$3,851 and \$-0- for 2003 and 2002, respectively.

NOTE 4 – THIRD-PARTY SETTLEMENTS AND COMPONENTS OF PATIENT ACCOUNTS RECEIVABLE

In addition to those patients unable to pay, there are patients receiving services who will not pay. The Hospital has established credit and collection policies to hold this cost to a minimum. Provisions for bad debts are recorded as operating expenses on the financial statements.

Estimated third-party settlements for the Medicare and Medicaid programs reflect differences between interim reimbursement and reimbursement as determined by reports filed after the end of each year. Such third-party settlements reflect differences owed to or by the Hospital. The year 1998 for Medicaid remains unsettled at the balance sheet date. Additionally, a letter requesting the reopening of the 2002 Medicare Cost Report has been issued by the Hospital.

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

Federal Government: Medicare	\$ 732,066	\$ 714,062
State of Ohio: Medicaid, Workers Compensation	297,060	194,792
Commercial Insurance, Self-Pay and Other	<u>1,712,056</u>	<u>1,549,469</u>
Total	<u>\$ 2,741,182</u>	<u>\$ 2,458,323</u>

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Major categories of property, plant and equipment are as follows:

	December 31,	
	2003	2002
Land Improvements	\$ 298,786	\$ 298,786
Buildings	3,645,215	3,603,631
Fixed Equipment	3,864,516	3,465,294
Major Movable Equipment	3,680,204	3,371,129
Leased Equipment	1,425,681	1,738,703
Building Project	272,500	2,683
 Total	 13,186,902	 12,480,226
Less Accumulated Depreciation	10,768,214	9,888,481
 Property, Plant and Equipment, Net	 <u>\$ 2,418,688</u>	 <u>\$ 2,591,745</u>

NOTE 6 – NOTES PAYABLE

The Hospital has a note payable to a bank that funded a roof renovation project. The note charges interest at 5%. Monthly principal and interest payments are \$5,097, and the final payment is due in September, 2004. The note is collateralized by money held in the Hospital's general checking account.

	\$ 44,930	\$ 102,264
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The Hospital has a note payable to a bank that funded the purchase of medical equipment. The note charges interest at 4%. Monthly principal and interest payments are \$4,428, and the final payment is due January, 2005. The note is collateralized by the equipment purchased with the note proceeds.

	56,248	106,056
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The Hospital had a note payable to a medical facility for certain medical equipment. The note charged interest at 8.25%. The monthly principal and interest payments were \$1,875 and the final payment was made in April, 2003. The note was collateralized by the equipment purchased with the note proceeds.

	-	7,368
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	\$ 101,178	\$ 215,688
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Less Current Portion	96,764	114,510
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Long-Term Portion	\$ 4,414	\$ 101,178
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The remaining maturities on these notes payable are as follows:

2004	\$ 96,764
2005	4,414
	<u>\$ 101,178</u>

NOTE 7 – CAPITAL AND OPERATING LEASES**Capital Leases**

The Hospital leases certain equipment under non-cancelable capital leases. The following are the net minimum lease payments for these leases:

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
2004	\$ 318,793	
2005	266,688	
2006	61,173	
2007	<u>4,906</u>	
Total Net Minimum Lease Payments	\$ 651,560	\$ 1,005,829
Less: Amount Representing Interest	<u>65,556</u>	<u>124,217</u>
Total Capital Lease Obligations	586,004	881,612
Less: Current Portion	<u>276,564</u>	<u>295,612</u>
Long-Term Capital Lease Obligations	\$ <u>309,440</u>	\$ <u>586,000</u>

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

Cost	\$ 1,425,681	\$ 1,738,703
Accumulated Depreciation	<u>1,056,750</u>	<u>797,391</u>
Net Book Value	\$ <u>368,931</u>	\$ <u>941,312</u>

Operating Leases

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

2004	\$ 122,831
2005	122,707
2006	122,460
2007	83,947
2008	<u>8,170</u>
Total	\$ <u>460,115</u>

Total rental expense for operating leases, including those with terms of one month or less, for the years ended December 31, 2003 and 2002 was \$122,831 and \$72,850, respectively, and were included within Other Expenses on the Statements of Operations.

NOTE 8 – PENSION PLAN

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

The OPERS plan is a cost sharing, multiple employer, defined benefit, public employee retirement plan. It provides retirement, disability and death benefits to plan members and beneficiaries. The OPERS plan also provides health care benefits to vested retirees. Benefits provided under the plan are established by State Statute.

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

The Ohio Revised Code provides OPERS statutory authority for employer and employee contributions. The required, actuarially-determined contribution rates for the Hospital and for the employee are 13.55% and 8.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years are as follows:

<u>Year</u>	<u>Contribution</u>
2003	\$ 941,014
2002	883,402
2001	891,837

NOTE 9 – POSTEMPLOYMENT HEALTHCARE BENEFITS

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

OPERS provides post-retirement health care coverage to age and service retirees and dependents with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The 2003 employer rate for employees' coverage by OPERS was 13.55%, of which 5.0% was used to fund health care. The total Hospital contribution used to fund health care was \$347,238 and \$325,979 for the years ended December 31, 2003 and 2002, respectively.

OPEB are financed through employer contributions and investment earning 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, 2002 was 364,881. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2002 was approximately \$10,000,000,000. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were approximately \$18,700,000,000 and \$8,700,000,000, respectively, as of December 31, 2002. The actuarial assumptions used to calculate these amounts are as follows:

NOTE 9 – POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

- Funding Method – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.
- Assets Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.
- Investment Return – The investment assumption rate for 2002 was 8.0%.
- Active Employee Total Payroll – An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%.
- Health Care – Health care costs were assumed to increase 4.0% annually.

NOTE 10 – MALPRACTICE INSURANCE

As of December 31, 2003, the Hospital carried occurrence basis malpractice insurance coverage of \$1,000,000 per claim and \$3,000,000 aggregate, plus excess liability coverage of \$5,000,000.

NOTE 11 – CONCENTRATIONS

Medicare and Medicaid accounted for approximately 58% and 49% of the Hospital's net patient service revenue during 2003 and 2002, respectively.

NOTE 12 – RESTRICTED FUND BALANCES

Temporarily restricted fund balances are available for the following purposes:

	December 31,	
	2003	2002
Johnson Memorial Scholarships Fund	\$ 40,559	\$ 41,408
Ruth Lyons Children's Fund	4,039	4,039
Wilson Worthy Fund	7,827	7,758
Rural Health Collaborative Grant Fund	190,015	-
	\$ 242,440	\$ 53,205

The expenditures of restricted funds relate to the purchase of gifts, the issuance of scholarships, and for the purchase of medical equipment to be used to treat those with tobacco-related problems.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED
UPON THE AUDIT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Adams County Hospital

We have audited the general purpose financial statements of Adams County Hospital as of and for the year ended December 31, 2003, and have issued our report thereon dated February 19, 2004, in which we included an explanatory paragraph discussing the Hospital's implementation of Governmental Accounting Standards Board No.'s 34, 37 and 38. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adams County Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

VonLehman and Company Inc.

Fort Mitchell, Kentucky
February 19, 2004

**ADAMS COUNTY HOSPITAL
NONCOMPLIANCE CITATIONS - OHIO REVISED CODE
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

NONE

**ADAMS COUNTY HOSPITAL
STATUS OF PRIOR AUDIT CITATIONS AND RECOMMENDATIONS**

NONE



**Auditor of State
Betty Montgomery**

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ADAMS COUNTY HOSPITAL

ADAMS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 6, 2004**