Adams County Regional Medical Center

Accountants' Report and Financial Statements

December 31, 2011 and 2010

BKD LLP
CPAs & Advisors

Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' Report on Financial Statements and Supplementary Information* of the Adams County Regional Medical Center, Adams County, prepared by BKD, LLP, for the audit period January 1, 2011 through December 31, 2011. 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.

Dave Yost

Dave Yost
Auditor of State

February 20, 2013

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Adams County Regional Medical Center

December 31, 2011 and 2010

Contents

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Adams County Regional Medical Center
Seaman, Ohio

We have audited the accompanying balance sheet of Adams County Regional Medical Center (Center) and its discretely presented component unit (Organization) as of December 31, 2011 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the Center as of and for the year ended December 31, 2010, before they were retroactively restated for the matters discussed in Note 1 and Note 13, were audited by other accountants whose report dated May 4, 2011, expressed an unqualified opinion that included an emphasis of matter regarding going concern issues on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Adams County Medical Foundation, Inc., a component unit included in the financial statements of the Organization, were not audited in accordance with Government Auditing Standards. 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Adams County Regional Medical Center and its discretely presented component unit as of December 31, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Organization will continue as a going concern. As discussed in Note 12, the Organization's recurring losses and deficiency in net assets at December 31, 2011 raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 1, in 2011, the Organization changed its method of accounting for its component unit by retroactively restating prior year's financial statements.

As discussed in Note 13, in 2011, the Organization changed its method of accounting for imputation of interest by retroactively restating prior years' financial statements.

We also audited the adjustments described in Notes 1 and 13 that were applied to restate the 2010 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

In accordance with Government Auditing Standards, we have also issued our report dated June 29, 2012 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

BKD, LLP

June 29, 2012

Adams County Regional Medical Center
Management's Discussion and Analysis
Years Ended December 31, 2011 and 2010

Introduction

This management's discussion and analysis of the financial performance of Adams County Regional Medical Center (the "Center") provides an overview of the Center's financial activities for the years ended December 31, 2011, 2010 and 2009. It should be read in conjunction with the accompanying financial statements of the Center. The activities of the discretely presented component unit, Adams County Medical Foundation, Inc., are not significant to the overall Center and thus have not been included in this management's discussion and analysis.

Financial Highlights

- Current unrestricted cash and cash equivalents increased in 2011 by $543,128 or 188.35% and decreased in 2010 by $314,757, or 52.19%.
- The Center's net assets decreased in each of the past two years with a $722,632 or 57.06 % decrease in 2011 and a $6,257,595 or 142.74 % decrease in 2010.
- The Center reported operating income in 2011 of $106,458 and an operating loss in 2010 of ($860,909). The operating income in 2011 increased by $967,367 or 112.37% over the operating loss reported in 2010. The operating loss in 2010 decreased by $190,076 or 18.09% from the operating loss reported in 2009.
- Net nonoperating expenses decreased by $3,955,965 or 67.29% in 2011 compared to 2010, but increased by $3,781,519 or 302% in 2010 compared to 2009.

Using This Annual Report

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

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

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

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

The Statement of Cash Flows

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

The Center's Net Assets

The Center's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Center's net assets decreased by $722,632 in 2011 from 2010, and by $5,650,299 in 2010 from 2009, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2011	2010 (Restated)	2009
Assets			
Patient accounts receivable, net	$ 2,339,262	$ 2,581,108	$ 3,092,479
Other current assets	1,440,693	1,271,340	1,401,287
Capital assets, net	23,697,483	24,724,807	26,870,623
Other noncurrent assets	4,518,511	4,630,712	4,907,964
Total assets	$ 31,995,949	$ 33,207,967	$ 36,272,353
Liabilities			
Long-term debt	$ 28,190,483	$ 29,482,443	$ 27,319,761
Other current liabilities	5,794,436	4,991,862	4,568,631
Total liabilities	33,984,919	34,474,305	31,888,392
Net Assets			
Invested in capital assets, net of related debt	(2,763,908)	(2,673,064)	(1,739,097)
Restricted - expendable for			
Debt service	3,237,060	3,011,431	3,235,833
Specific operating activities	53,009	53,190	53,205
Unrestricted	(2,515,131)	(1,657,895)	2,834,020
Total net assets	(1,988,970)	(1,266,338)	4,383,961
Total liabilities and net assets	$ 31,995,949	$ 33,207,967	$ 36,272,353

The most significant changes in the Center's financial position in 2011 were the decreases in capital assets related to depreciation on existing equipment and long-term debt related to principal payments on outstanding obligations.

Operating Results and Changes in the Hospital's Net Assets

In 2011, the Center's net assets and change in net assets decreased by $722,632 as shown in Table 2. This decrease is made up of several components and represents an improvement of 681.90% compared with the decrease in net assets and change in net assets for 2010 of $5,650,299.

Table 2: Operating Results and Changes in Net Assets

	2011	2010 (Restated)	2009
Operating Revenues			
Net patient service revenue	$ 23,909,861	$ 23,000,862	$ 24,024,898
Other operating revenues	657,254	479,620	383,024
Total operating revenues	24,567,115	23,480,482	24,407,922
Operating Expenses			
Salaries, wages and employee benefits	11,516,283	11,546,899	11,865,525
Purchased services and professional fees	3,933,922	3,920,818	4,257,329
Depreciation and amortization	2,441,853	2,511,634	2,712,699
Other operating expenses	6,568,599	6,362,040	6,623,354
Total operating expenses	24,460,657	24,341,391	25,458,907
Operating Income (Loss)	106,458	(860,909)	(1,050,985)
Nonoperating Revenues (Expenses)			
Investment return	13,544	15,050	(47,903)
Interest	(1,936,028)	(1,896,636)	(1,835,220)
Litigation settlement	-	(3,996,863)	-
Total nonoperating revenues (expenses)	(1,922,484)	(5,878,449)	(1,883,123)
Capital Appropriations - Adams County	1,093,394	1,089,059	1,065,328
Decrease in Net Assets	$ (722,632)	$ (5,650,299)	$ (1,868,780)

Operating Income and Losses

The first component of the overall change in the Center's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In two of the past three years, the Center has reported an operating loss.

Adams County Regional Medical Center
Management's Discussion and Analysis
Years Ended December 31, 2011 and 2010

The operating results for 2011 increased by $967,367 or 112.37% as compared to 2010. The primary components of the increase in operating income are:

- An increase in net patient service revenue of $908,999 or 3.95%.
- A decrease in salaries, wages and employee benefits for the Center's employees of $30,616 or 0.27%.
- The maintenance of total operating expenses nearly flat, with an increase of only $119,266, or 0.49%.

Net patient service revenue increased because of a substantial increase in pricing of services from 2010 to 2011. The price increases offset a decline in overall patient days of 122, or 3.43%.

Employee salaries and wages and benefits stayed flat in 2011 in connection with the Center's efforts to control operating costs.

Expenditures for medical supplies are a major component of the Center's costs. In 2010, medical supplies totaled $3,186,566 or 13.09% of total operating expenses. In 2011, they totaled $3,072,880 or 12.56% of total operating expenses, a decrease of $113,686 or 0.53% over 2010. Some of the major factors contributing to the decreased medical supply and drug costs include a decrease in volume of services provided and management's efforts to control costs through negotiation of new supplier contracts at more favorable rates.

The operating income for 2011 of $106,458 was an increase over the operating loss of $860,909 recognized in 2010. The increase is primarily related to the increase in net patient service revenue of 3.95% as the Center was able to hold the increase in other operating expenses to approximately 3.25%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of a county sales tax levy for the Center and investment income and interest expense, all of which remained relatively constant in 2011 as compared to 2010. The current sales tax levy expires March 31, 2016. In 2010, the Center recorded a litigation settlement expense of $3,996,863 in nonoperating expenses, which was the primary fluctuation in nonoperating expenses from 2010 to 2011, and from 2009 to 2010.

Capital Appropriations

The Center is appropriated sales and use tax revenues from the Adams County general and other funds. Use of the monies is restricted for the purpose of equipping and repairing the Center and other permanent improvements. The levy to raise the funds must be approved by a majority vote of the citizens of Adams County, and the current levy will be in force from April 1, 2011 through March 31, 2016. Amounts appropriated were $1,093,394, $1,089,059, and $1,065,328 for 2011, 2010, and 2009, respectively.

Adams County Regional Medical Center

Management's Discussion and Analysis

Years Ended December 31, 2011 and 2010

The Hospital's Cash Flows

Changes in the Center's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2011, 2010 and 2009, discussed earlier**.**

Capital Assets

At the end of 2011, the Center had $23,697,483 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2011, the Center purchased new equipment costing $1,402,732. Of this amount, $371,163 was acquired through incursion of capital lease obligations. The Center has recently found it more economical to lease certain equipment principally due to incentives provided by equipment vendors. This allows the Center to obtain more favorable maintenance contracts on such equipment and to avoid some of the costs of obsolescence caused by technological changes.

Debt

At December 31, 2011, the Center had $30,171,391 in revenue bonds, notes payable and capital lease obligations outstanding. Except for capital leases of $371,163 the Center issued no new debt in 2011. The Center's formal debt issuances, revenue bonds, are subject to limitations imposed by state law.

Contacting the Center's Financial Management

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

Scott Smith
Chief Financial Officer

Adams County Regional Medical Center

Balance Sheets

December 31, 2011 and 2010

Assets

	December 31, 2011		December 31, 2010	
	Hospital	Component	Hospital (Restated)	Component (Restated)
Current Assets				
Cash and cash equivalents	$ 831,486	$ 11,622	$ 288,358	$ 9,440
Patient accounts receivable, net of allowance; 2011 - $1,612,047, 2010 - $1,237,249	2,339,262	-	2,581,108	-
Estimated amounts due from third-party payers	-	-	586,633	-
Supplies	323,665	-	325,939	-
Prepaid expenses and other	285,542	125,000	70,410	-
Total current assets	3,779,955	136,622	3,852,448	9,440
Noncurrent Cash and Investments				
Held by trustee for debt service	3,237,060	-	3,011,431	-
Restricted by donors	53,009	97,042	53,190	-
Internally designated for capital improvements	721,629	-	808,993	-
	4,011,698	97,042	3,873,614	-
Capital Assets, Net	23,697,483	397,800	24,724,807	397,800
Other Assets				
Deferred financing costs	506,813	-	528,379	-
Note receivable	-	-	228,719	-
	506,813	-	757,098	-
Total assets	$ 31,995,949	$ 631,464	$ 33,207,967	$ 407,240

Liabilities and Net Assets

	Hospital	Component	Hospital (Restated)	Component (Restated)
Current Liabilities				
Current maturities of long-term debt (net)	$ 1,568,180	$ -	$ 1,802,542	$ -
Accounts payable	1,218,955	-	1,513,178	-
Accrued expenses and other	1,741,831	37,358	1,676,142	-
Estimated amounts due to third-party payers	1,265,470	-	-	-
Total current liabilities	5,794,436	37,358	4,991,862	-
Long-term Debt				
Principal amount	28,444,176	-	29,895,171	-
Less unamortized discount	253,693	-	412,728	-
	28,190,483	-	29,482,443	-
Total liabilities	33,984,919	37,358	34,474,305	-
Net Assets				
Invested in capital assets, net of related debt	(2,763,908)	-	(2,673,064)	-
Restricted - expendable for				
Debt service	3,237,060	-	3,011,431	-
Specific operating activities	53,009	222,042	53,190	-
Unrestricted	(2,515,131)	372,064	(1,657,895)	407,240
Total net assets	(1,988,970)	594,106	(1,266,338)	407,240
Total liabilities and net assets	$ 31,995,949	$ 631,464	$ 33,207,967	$ 407,240

Adams County Regional Medical Center

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended December 31, 2011 and 2010

	December 31, 2011		December 31, 2010	
	Hospital	Component	Hospital (Restated)	Component (Restated)
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts; 2011 - $3,254,950 and 2010 - $2,402,516	$ 23,909,861	$ -	$ 23,000,862	$ -
Other	657,254	16,406	479,620	-
Total operating revenues	24,567,115	16,406	23,480,482	-
Operating Expenses				
Salaries and wages	9,118,574	-	9,126,921	-
Employee benefits	2,397,709	-	2,419,978	-
Medical professional fees	1,377,341	-	1,467,744	-
Supplies	3,072,880	-	3,186,566	-
Minor equipment	142,842	-	124,296	-
Purchased services	2,556,581	21,478	2,453,074	-
Equipment rentals	132,852	-	118,097	-
Repairs and maintenance	1,485,720	-	1,185,178	-
Utilities	717,005	-	676,275	-
Depreciation and amortization	2,441,853	-	2,511,634	-
Other operating expenses	1,017,300	17,136	1,071,628	154
Total operating expenses	24,460,657	38,614	24,341,391	154
Operating Income (Loss)	106,458	(22,208)	(860,909)	(154)
Nonoperating Revenues (Expenses)				
Investment return	13,544	454	15,050	336
Interest	(1,936,028)	-	(1,896,636)	-
Noncapital grants and gifts	-	208,620	-	-
Litigation settlement	-	-	(3,996,863)	-
Total nonoperating expenses	(1,922,484)	209,074	(5,878,449)	336
Excess (Deficiency) of Revenues Over Expenses Before Capital Appropriations	(1,816,026)	186,866	(6,739,358)	182
Capital Appropriations - Adams County	1,093,394	-	1,089,059	-
Increase (Decrease) in Net Assets	(722,632)	186,866	(5,650,299)	182
Net Assets, Beginning of Year	(1,266,338)	407,240	4,383,961	407,058
Net Assets, End of Year	$ (1,988,970)	$ 594,106	$ (1,266,338)	$ 407,240

Adams County Regional Medical Center

Statements of Cash Flows

Years Ended December 31, 2011 and 2010

	2011	2010 (Restated)
Operating Activities		
Receipts from and on behalf of patients	$ 26,006,084	$ 23,099,420
Payments to suppliers and contractors	(9,779,444)	(9,728,111)
Payments to employees	(11,450,594)	(11,526,043)
Other operating (payments) receipts, net	(575,178)	651,521
Net cash provided by operating activities	4,200,868	2,496,787
Capital and Related Financing Activities		
Principal paid on long-term debt	(1,897,485)	(1,629,927)
Interest paid on long-term debt	(1,936,028)	(2,084,207)
Purchase of capital assets	(1,031,569)	(257,205)
Capital appropriations - Adams County	1,093,394	1,089,059
Net cash used in capital and related financing activities	(3,771,688)	(2,882,280)
Investing Activities		
Payments received on note receivable	228,719	7,522
Net (decrease) increase in investments	(9,597)	2,759
Interest and dividends on investments	13,544	15,050
Proceeds from disposition of capital assets	9,769	-
Net cash provided by investing activities	242,435	25,331
Increase (Decrease) in Cash and Cash Equivalents	671,615	(360,162)
Cash and Cash Equivalents, Beginning of Year	2,066,388	2,426,550
Cash and Cash Equivalents, End of Year	$ 2,738,003	$ 2,066,388
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 831,486	$ 288,358
Cash and cash equivalents in noncurrent cash and investments	1,906,517	1,778,030
	$ 2,738,003	$ 2,066,388

Adams County Regional Medical Center

Statements of Cash Flows (continued)

Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of Net Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	$ 106,458	$ (860,909)
Depreciation and amortization	2,441,853	2,511,634
Provision for bad debts	3,254,950	2,402,516
Changes in operating assets and liabilities		
Accounts receivable	(3,013,104)	(1,891,145)
Estimated amounts due from Medicare and Medicaid	1,852,103	(428,483)
Accounts payable and accrued expenses	(228,534)	741,782
Other assets	(212,858)	21,392
Net cash provided by operating activities	$ 4,200,868	$ 2,496,787
Supplementary Cash Flow Information		
Capital asset acquisitions included in accounts payable	$ 371,163	$ 87,037
Cash paid for interest	$ 1,741,460	$ 1,798,366
Note payable issued for accounts payable	$ -	$ 221,292
Note payable issued for litigation settlement	$ -	$ 4,710,000

Adams County Regional Medical Center

Notes to Financial Statements

December 31, 2011 and 2010

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

Nature of Operations and Reporting Entity

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

Adams County Medical Foundation, Inc. (Foundation) is a legally separate, tax-exempt component unit of the Center. The Foundation's primary function is to raise and hold funds to support the Hospital and its programs. The board of the Foundation is self-perpetuating.

Although the Center does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the Center. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the Center, the Foundation is considered a component unit of the Center and is discretely presented in the Center's financial statements.

During 2011, management determined that the Foundation was significant to the Center and not properly recognized as a component unit of the Center. The 2010 balance sheet, statement of revenues, expenses, and changes in net assets have been restated to reflect the component unit. This change had no impact on the Center's 2010 net assets.

Basis of Accounting and Presentation

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

The Center prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

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

Cash Equivalents

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

Risk Management

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

Investments, Investment Income and Assets Limited as to Use

Investments consist of money market mutual funds and U.S. treasury obligations, all of which are carried at fair value. Fair value is determined using quoted market prices. Investment income includes dividend and interest income, realized gains and losses on investments and the net change for the year in the fair value of investments carried at fair value.

Assets limited as to use include (1) assets held by trustees, (2) assets restricted by donors and (3) assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

Land improvements	5 – 20 years
Buildings and fixed equipment	5 – 40 years
Major movable equipment	2 – 20 years
Leased equipment	3 – 15 years

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Compensated Absences

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

Net Assets

Net assets of the Center are classified in three components. Net assets invested in capital assets, net of related debt, consist 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 assets are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Center, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Net Patient Service Revenue

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

Charity Care

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

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.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. The reclassifications had no effect on the changes in financial position.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were issued.

Note 2: Net Patient Service Revenue

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

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

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

Approximately 70% and 55% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs (including managed care) for the years ended December 31, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: Deposits, Investments and Investment Income

Deposits

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

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

At December 31, 2011 and 2010, respectively, $4,504,654 and $3,764,964 of the Center's bank balances of $5,273,728 and $4,459,661 were exposed to custodial credit risk as follows:

	2011	2010
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Center's name	$ 4,504,654	$ 3,764,964

Adams County Regional Medical Center
Notes to Financial Statements
December 31, 2011 and 2010

Investments

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

At December 31, 2011 and 2010, the Center had the following investments and maturities:

		2011			
Type	**Fair Value**	**Less than One Year**	**One to Five Years**	**Six to 10 Years**	**More than 10 Years**
U.S. Treasury obligations	$ 2,105,181	$ 2,105,181	$ -	$ -	$ -
Money market mutual funds	1,131,879	1,131,879	-	-	-
		$ 3,237,060	$ -	$ -	$ -

		2010			
Type	**Fair Value**	**Less than One Year**	**One to Five Years**	**Six to 10 Years**	**More than 10 Years**
U.S. Treasury obligations	$ 2,095,584	$ -	$ 2,095,584	$ -	$ -
Money market mutual funds	915,847	915,847	-	-	-
		$ 915,847	$ 2,095,584	$ -	$ -

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

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

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

Summary of Carrying Values

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

	2011	2010
Carrying value		
Deposits	$ 1,606,124	$ 288,358
Investments	3,237,060	3,873,614
	$ 4,843,184	$ 4,161,972

Included in the following balance sheet captions

	2011	2010
Cash and cash equivalents	$ 831,486	$ 288,358
Externally restricted for debt service	3,237,060	3,011,431
Externally restricted by donor - cash	53,009	53,190
Internally designated - cash	721,629	808,993
	$ 4,843,184	$ 4,161,972

	2011	2010
Interest and dividend income	$ 3,946	$ 15,050
Net increase in fair value of investments	9,598	-
	$ 13,544	$ 15,050

Adams County Regional Medical Center
Notes to Financial Statements
December 31, 2011 and 2010

Note 4: Patient Accounts Receivable

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

	2011	2010
Medicare	$ 1,585,214	$ 1,326,572
Medicaid	1,086,574	1,061,258
Other third-party payers	1,493,373	1,379,635
Patients	1,598,241	1,538,824
Total patient accounts receivable	5,763,402	5,306,289
Less allowance for contractual adjustments	1,812,093	1,487,932
Less allowance for uncollectible amounts	1,612,047	1,237,249
Patient accounts receivable, net	$ 2,339,262	$ 2,581,108

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2011			
	Beginning Balance	Additions	Disposals	Ending Balance
Land and land improvements	$ 537,426	$ -	$ -	$ 537,426
Buildings	23,011,065	-	-	23,011,065
Equipment	15,776,966	1,030,605	(897,832)	15,909,739
Construction in progress	111,466	372,127	-	483,593
	39,436,923	1,402,732	(897,832)	39,941,823
Less accumulated depreciation				
Land improvements	199,034	61,882	-	260,916
Buildings	2,984,807	1,776,653	(888,063)	3,873,397
Equipment	11,528,275	581,752	-	12,110,027
	14,712,116	2,420,287	(888,063)	16,244,340
Capital Assets, Net	$ 24,724,807	$ (1,017,555)	$ (9,769)	$ 23,697,483

Adams County Regional Medical Center

Notes to Financial Statements

December 31, 2011 and 2010

	2010				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land and land improvements	$ 537,426	$ -	$ -	$ -	$ 537,426
Buildings	22,916,666	88,396	-	6,003	23,011,065
Equipment	15,589,505	268,688	(81,227)	-	15,776,966
Construction in progress	117,469	-	-	(6,003)	111,466
	39,161,066	357,084	(81,227)	-	39,436,923
Less accumulated depreciation					
Land improvements	137,152	61,882	-	-	199,034
Buildings	2,099,048	885,759	-	-	2,984,807
Equipment	10,054,243	1,542,417	(68,385)	-	11,528,275
	12,290,443	2,490,058	(68,385)	-	14,712,116
Capital Assets, Net	$ 26,870,623	$ (2,132,974)	$ (12,842)	$ -	$ 24,724,807

Note 6: Accounts Payable and Accrued Expenses

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

	2011	2010
Payable to suppliers and contractors	$ 1,218,955	$ 1,513,178
Payable to employees (including payroll taxes and benefits)	1,191,556	1,117,467
Other	550,275	558,675
	$ 2,960,786	$ 3,189,320

Note 7: Medical Malpractice Claims

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

Note 8: Long-term Obligations

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

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable	$ 26,015,000	$ -	$ 420,000	$ 25,595,000	$ 445,000
Notes payable	4,494,410	-	784,410	3,710,000	600,000
Capital lease obligations	1,382,871	371,163	887,643	866,391	682,215
	31,892,281	371,163	2,092,053	30,171,391	1,727,215
Less unamortized discount	607,296	-	194,568	412,728	159,035
Long term debt less unamortized discount	$ 31,284,985	$ 371,163	$ 1,897,485	$ 29,758,663	$ 1,568,180

	2010 (Restated)				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable	$ 26,410,000	$ -	$ 395,000	$ 26,015,000	$ 420,000
Notes payable	-	4,931,292	436,882	4,494,410	784,410
Capital lease obligations	2,199,720	87,037	903,886	1,382,871	792,700
	28,609,720	5,018,329	1,735,768	31,892,281	1,997,110
Less unamortized discount	-	713,137	105,841	607,296	194,568
Long term debt less unamortized discount	$ 28,609,720	$ 4,305,192	$ 1,629,927	$ 31,284,985	$ 1,802,542

Revenue Bonds Payable

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

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

The debt service requirements as of December 31, 2011, are as follows:

Years Ending December 31	Total to be Paid	Principal	Interest
2012	$ 2,095,825	$ 445,000	$ 1,650,825
2013	2,093,013	470,000	1,623,013
2014	2,093,638	500,000	1,593,638
2015	2,092,388	530,000	1,562,388
2016	2,094,263	565,000	1,529,263
2017 - 2036	41,877,763	23,085,000	18,792,763
	$ 52,346,890	$ 25,595,000	$ 26,751,890

Notes Payable and Capital Lease Obligations

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

During 2010, the Center converted an account payable to a note payable totaling $221,292 to be paid over 12 months with monthly payments of $18,441. The note was fully paid in 2011.

The Center is obligated under leases for equipment that are accounted for as capital leases that bear interest ranging from 3.6% to 7.0%. Assets under capital leases at December 31, 2011 and 2010, totaled $4,185,633 and $4,426,297, respectively, net of accumulated depreciation of $3,385,815 and $2,956,945, respectively. The following is a schedule by year of future minimum notes payable and capital lease payments as of December 31, 2011:

	Notes Payable	Unamortized Discount	Capital Lease Obligations
2012	$ 600,000	$ 159,035	$ 714,407
2013	985,000	134,260	188,306
2014	1,020,000	85,394	-
2015	1,105,000	34,039	-
	$ 3,710,000	$ 412,728	902,713
Less amount representing interest			36,322
Present value of future minimum lease payments			866,391
Less current maturities			682,215
Noncurrent portion			$ 184,176

Note 9: Charity Care

Charges excluded from revenue under the Hospital's charity care policy were $506,616 and $425,743 for 2011 and 2010, respectively.

Note 10: Operating Leases

Noncancellable operating leases for office equipment expire in various years through 2016. Future minimum lease payments at December 31, 2011, were:

2012	$ 35,935
2013	32,900
2014	28,956
2015	8,826
2016	2,291
	$ 108,908

Rental expense was $132,852 and $118,097 for 2011 and 2010, respectively.

Note 11: Pension Plan

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

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

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed (MD) Plan do not qualify for ancillary benefits. Members of the MD Plan do not qualify for ancillary benefits, including post-employment healthcare coverage. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report, copies of which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642; or by calling 614.222.5601 or 800.222.7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For member and employer contribution rates were consistent across all three plans. Contribution rates for calendar years 2011 and 2010 were 10% for the employee share and 14% for the employer share, respectively. Employer contributions required were $1,294,628, $1,271,602, and $1,324,932, respectively, for 2011, 2010, and 2009 which equaled 100% of the required contributions for each year.

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

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employers to fund post-retirement health care through their contributions to OPERS. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011 and 2010, local employer units contributed at 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care Plan was established under, and is administered in accordance with Internal Revenue Code Section 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contribution allocated to health care was 7% for 2008 and from January 1 through March 31, 2009, 5.5% from April 1, 2009 through February 28, 2011 and 5% from March 1, 2011 through December 31, 2011. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries.

Payment amounts vary depending on the number of covered dependents and the coverage selected. The portion of the employer contributions that was made to fund post-employment benefits for 2011, 2010, and 2009 was approximately $370,000, $462,000 and $556,000, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1 of each year from 2006 to 2008, which allowed additional funds to be allocated to the health care plan.

Note 12: Going Concern

The Center has incurred losses for several years and currently has a deficiency in net assets due to recurring negative cash flows. The financial statements have been prepared assuming the Center will continue as a going concern, realizing assets and liquidating liabilities in the ordinary course of business. Management is considering several alternatives for mitigating these conditions during the next year, including:

- Performing an overhaul of the Center's revenue cycle procedures and implementing a contract management review process
- Increasing volume through aggressive marketing, physician recruitment and exploration of strategic affiliation agreements or joint ventures
- Continuing to reduce unnecessary expenditures and adhere to effective cost management

Note 13: Restatement of Prior Year's Financial Statements

During 2011, management discovered that a litigation settlement expense was not properly recognized because it did not include imputed interest. The 2010 balance sheets, statements of revenues, expenses and changes in net assets, and statements of cash flows have been restated to reflect $607,296 of additional net assets associated with unamortized interest expense that should have been recorded on the balance sheet at the settlement in the amount of $713,137.

Note 14: Risks and Uncertainties

Litigation

In the normal course of business, the Center is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Center's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Current Economic Conditions

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Center.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Center's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact the Center's ability to meet debt covenants or maintain sufficient liquidity.

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

Board of Trustees
Adams County Regional Medical Center
Seaman, Ohio

We have audited the financial statements of Adams County Regional Medical Center (Center) and its discretely presented component unit (Organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated June 29, 2012, which contained explanatory paragraphs regarding substantial doubt about the Organization's ability to continue as a going concern, changes in accounting principles and related audit of those adjustments as part of the restatement, and contained a reference to the report of other accountants. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Adams County Medical Foundation, Inc., a component unit included in the Organization's financial statements, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 11-1 and 11-2 to be material weaknesses.

Compliance and Other Matters

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

We also noted certain matters that we reported to the Organization's management in a separate letter dated June 29, 2012.

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Organization's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing body, management and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

June 29, 2012

Adams County Regional Medical Center

Schedule of Findings

Year Ended December 31, 2011

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
11-1	Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting. Condition: During the 2011 audit, it was determined that the Adams County Medical Foundation was significant to the financial statements of the Center and should be presented discretely as a component unit. Context: Management is responsible for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. Effect: Potentially material misstatements in the financial statements and disclosures. Cause: The growth of the Foundation and the discovery of unrecorded assets at the Foundation, primarily as a result of audit procedures performed resulted in management's determination that the Foundation is significant to the Center. Recommendation: Management should report the activities of the Foundation on a go forward basis and periodically throughout the year. Views of responsible officials and planned corrective actions: The Center's management and board agree and will report the activities of the foundation in future periods.	N/A

Adams County Regional Medical Center

Schedule of Findings (continued)

Year Ended December 31, 2011

Reference Number	Finding	Questioned Costs
11-2	Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting. Condition: During the 2011 audit, we identified several adjusting entries related accounts receivable and associated allowances, and imputed interest on the litigation settlement, which were proposed and management recorded. Context: Management is responsible for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. Effect: Potentially material misstatements in the financial statements and disclosures. Cause: Management's estimates of accounts receivable allowances were revised and adjustments were made primarily as a result of audit procedures performed. Also, audit procedures noted that no imputed interest was recorded for a significant litigation settlement, which resulted in a prior period adjustment to the 2010 financial statements. Recommendation: Management should continue to review these areas throughout the year. Views of responsible officials and planned corrective actions: The Center's management and board agree and are reviewing policies and procedures of the Center.	N/A

Dave Yost • Auditor of State

ADAMS COUNTY REGIONAL MEDICAL CENTER

ADAMS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 5, 2013

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