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

Independent Auditor's Report and Financial Statements

December 31, 2015

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 Auditor's Report* of the Adams County Regional Medical Center, prepared by BKD, LLP, for the audit period January 1, 2015 through December 31, 2015. 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
Auditor of State

October 26, 2016

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Adams County Regional Medical Center
An Enterprise Fund of Adams County, Ohio
December 31, 2015

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Independent Auditor's Report

Board of Trustees
Adams County Regional Medical Center
Seaman, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Adams County Regional Medical Center (the "Center"), an enterprise fund of Adams County, Ohio, and its discretely presented component unit, Adams County Medical Foundation, Inc., (collectively the "Organization"), as of and for the year ended December 31, 2015, and related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement. The financial statements of Adams County Medical Foundation, Inc., a discretely presented component unit included in the financial statements of Adams County Regional Medical Center, were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Center and its discretely presented component unit as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

The accompanying financial statements have been prepared assuming the Center will continue as a going concern. As discussed in Note 12 to the financial statements, the Center has a deficiency of net position and continues to be in violation of bond covenants. Management's plans in regard to these matters are also described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 13 to the financial statements, the Center has various outstanding loss contingencies that could have a material impact on the financial statements.

As discussed in Note 1 to the financial statements, in 2015 the Center adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2016 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

BKD, LLP

Cincinnati, Ohio
August 16, 2016

Adams County Regional Medical Center
An Enterprise Fund of Adams County, Ohio
Management's Discussion and Analysis
Year Ended December 31, 2015

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 year ended December 31, 2015. 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 2015 by $593,358, or 689.15%.
- The Center's net position increased $1,912,079, or 34.77% in 2015.
- The Center reported operating income in 2015 of $1,729,072 and an operating loss in 2014 of $860,369. The operating income in 2015 increased by $2,589,441, or 300.97%, over the operating loss reported in 2014.
- Net nonoperating expenses decreased by $1,273,910, or 51.26%, in 2015 compared to 2014.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

The Center's Net Position

The Center's net position is the difference between its assets, liabilities and deferred inflows and outflows of resources reported in the Balance Sheet. The Center's net position decreased by $4,864,961 in 2015 over 2014, as shown in Table 1.

Adams County Regional Medical Center
An Enterprise Fund of Adams County, Ohio
Management's Discussion and Analysis
Year Ended December 31, 2015

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

	2015	2014
Assets		
Patient accounts receivable, net	$ 1,983,390	$ 2,384,844
Other current assets	2,602,153	2,843,940
Capital assets, net	18,857,404	20,228,339
Net pension asset	18,154	-
Other noncurrent assets	4,162,040	1,863,578
Total assets	27,623,141	27,320,701
Deferred Outflows of Resources	1,305,605	-
Total assets and deferred outflows of resources	$ 28,928,746	$ 27,320,701
Liabilities		
Long-term debt	$ 56,875	$ 136,024
Net pension liability	7,956,237	-
Other current liabilities	31,135,056	33,482,607
Total liabilities	39,148,168	33,618,631
Deferred Inflows of Resources	145,315	-
Net Position		
Net investment in capital assets	(5,979,491)	(5,103,654)
Restricted expendable	3,304,480	1,209,449
Unrestricted	(7,689,726)	(1,605,571)
Total net position	(10,364,737)	(5,499,776)
Total liabilities, deferred inflows of resources and net position	$ 28,928,746	$ 28,118,855

The most significant change in the Center's financial position during 2015 was the cumulative effect of change in accounting principle of $6,777,040 due to the adoption of new governmental accounting standards for reporting for pensions, which is discussed in *Note 1* to the financial statements. 2014 financial information in this Management's Discussion and Analysis has not been restated for the adoption of GASB 68 and GASB 71. Net capital assets decreased related to depreciation on existing equipment. Other noncurrent assets increased due to positive cash flow, which allowed the Center to replenish the reserve funds held by the bond trustee used to satisfy interest payments on the outstanding debt obligations. Other current liabilities decreased primarily due to decreases in accounts payable, also a result of the increase in available cash flow.

Operating Results and Changes in the Center's Net Position

In 2015, the Center's net position increased by $1,912,079, or 34.77%, as shown in Table 2. This increase is made up of several components and represents an increase of $3,798,301, or 201.37%, compared with the decrease in net position in 2014 of $1,886,222.

Table 2: Operating Results and Changes in Net Position

	2015	2014
Operating Revenues		
Net patient service revenue	$ 23,295,614	$ 21,619,900
Other operating revenues	266,400	472,365
Total operating revenues	23,562,014	22,092,265
Operating Expenses		
Salaries, wages and employee benefits	9,945,186	10,872,490
Purchased services and professional fees	4,937,736	4,418,039
Depreciation and amortization	1,992,872	2,264,959
Other operating expenses	4,957,148	5,397,146
Total operating expenses	21,832,942	22,952,634
Operating Income (Loss)	1,729,072	(860,369)
Nonoperating Revenues (Expenses)		
Investment return	2,162	2,693
Interest	(1,813,362)	(1,689,649)
Loss contingency	-	(798,154)
Sale of home health agency	600,000	-
Total nonoperating revenues (expenses)	(1,211,200)	(2,485,110)
Capital Appropriations - Adams County	1,369,207	1,284,257
Capital Grants and Gifts	25,000	175,000
Increase (Decrease) in Net Position	1,912,079	(1,886,222)
Net Position, Beginning of Year, As Previously Reported	(5,499,776)	(3,613,554)
Cumulative Effect of Change in Accounting Principle	(6,777,040)	-
Net Position, Beginning of Year, As Adjusted	(12,276,816)	(3,613,554)
Net Position, End of Year	$ (10,364,737)	$ (5,499,776)

Operating Income and Loss

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

The operating results for 2015 increased by $2,589,441, or 300.97%, as compared to 2014. The primary components of the changes in operating results are:

- An increase in net patient service revenue of $1,675,714, or 7.75%
- A decrease in other operating revenue of $205,965, or 43.60%.
- A decrease in salaries, wages and employee benefits expense of $927,304, or 8.53%.
- A decrease in all other operating expenses of $192,388, or 1.59%.

Net patient service revenue increased from 2014 to 2015. An increase in overall patient days of 756, or 22.00%, was reinforced by an improvement in bad debt collections associated with self-pay patients. Also, as described in *Note 13*, the Center received favorable final retroactive cost report settlements which impacted overall net patient service revenue by approximately $1,300,000.

Employee salaries and wages and benefits decreased in 2015 in connection with the Center's efforts to control operating costs as a result of ongoing financial pressures. Total FTEs in 2015 were approximately 177 compared to 193 in 2014.

Expenditures for medical supplies are a major component of the Center's costs. In 2014, medical supplies totaled $2,355,769 or 10.26% of total operating expenses. In 2015, they totaled $2,297,569, or 10.52%, of total operating expenses. Some of the major factors contributing to the stable medical supply and drug costs include management's efforts to control costs through negotiation of new supplier contracts at more favorable rates, and management's efforts to control and limit costs as much as possible.

The operating income for 2015 of $1,729,072 was an increase over the operating loss of $860,369 recognized in 2014. The improvement is primarily related to the combination of an increase in overall operating revenues of $1,469,749 and a decrease in net operating expenses of $1,119,692. A substantial factor impacting the decrease in net operating expenses is the reduction of overall salaries, wages and employee benefit costs.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist of investment income, interest expense, a loss contingency and the sale of the Center's home health agency. Investment income and interest expense each remained relatively constant in 2015 as compared to 2014. The combined impact of the changes in the loss contingency and sale of the home health agency caused an improvement in nonoperating revenues and expense of $1,398,154 in 2015 compared to 2014.

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, 2016 through March 31, 2020. Amounts appropriated were $1,369,207 and $1,284,257 for 2015 and 2014, respectively.

Capital Grants and Gifts

The Center receives both capital and operating grants from various state and federal agencies for specific programs. In 2015, the Center received gifts of $25,000 from Adams County Medical Foundation, Inc. Substantially all of these gifts have been expended and are reflected in unrestricted net position as of December 31, 2015.

The Center's Cash Flows

Changes in the Center's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2015 and 2014, discussed earlier**.**

Capital Asset and Debt Administration

Capital Assets

At the end of 2015, the Center had $18,857,404 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2015, the Center purchased new equipment costing $588,976. The Center has recently found it more economical to lease certain equipment principally due to incentives provided by equipment vendors. This allows the Center to obtain more favorable maintenance contracts on such equipment and preserve current cash flows. However, no such arrangements were entered into during 2015.

Debt

At December 31, 2015, the Center had $24,836,895 in revenue bonds, notes payable and capital lease obligations outstanding including all current maturities and any unamortized discounts. The Center issued no new debt in 2015. The Center's formal debt issuances, revenue bonds, are subject to limitations imposed by state law.

Other Economic Factors

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

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

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

Contacting the Center's Financial Management

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

Roland Gee
Chief Executive Officer

Adams County Regional Medical Center
An Enterprise Fund of Adams County, Ohio
Balance Sheet
December 31, 2015

Assets and Deferred Outflows of Resources

	Center	Component
Current Assets		
Cash and cash equivalents	$ 679,458	$ 114,179
Patient accounts receivable, net of allowance of $1,984,846	1,983,390	-
Estimated amounts due from third-party payers	1,534,684	-
Supplies	282,455	-
Prepaid expenses and other	105,556	9,435
Total current assets	4,585,543	123,614
Noncurrent Cash and Investments		
Held by trustee for debt service	3,208,168	-
Restricted by donors - cash	78,158	83,851
Internally designated for capital improvements - cash	875,714	-
	4,162,040	83,851
Capital Assets, Net	18,857,404	397,800
Net Pension Asset	18,154	-
Total assets	27,623,141	605,265
Deferred Outflows of Resources	1,305,605	-
Total assets and deferred outflows of resources	$ 28,928,746	$ 605,265

Liabilities, Deferred Inflows of Resources and Net Position

	Center	Component
Current Liabilities		
Outstanding checks in excess of bank balance	$ 252,315	$ -
Current maturities of long-term debt	24,780,020	-
Accounts payable	1,470,202	6,609
Accrued expenses and other	3,308,847	55,024
Estimated amounts due to third-party payers	1,323,672	-
Total current liabilities	31,135,056	61,633
Long-term Debt	56,875	-
Net Pension Liability	7,956,237	-
Total liabilities	39,148,168	61,633
Deferred Inflows of Resources	145,315	-
Net Position		
Net investment in capital assets	(5,979,491)	-
Restricted - expendable for		
Debt service	3,208,168	-
Specific operating activities	78,158	83,851
Pensions	18,154	
Unrestricted	(7,689,726)	459,781
Total net position	(10,364,737)	543,632
Total liabilities, deferred inflows of resources and net position	$ 28,928,746	$ 605,265

Adams County Regional Medical Center
An Enterprise Fund of Adams County, Ohio
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2015

	Center	Component
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of $3,006,961	$ 23,295,614	$ -
Other	266,400	500
Total operating revenues	23,562,014	500
Operating Expenses		
Salaries and wages	7,825,209	-
Employee benefits	2,119,977	-
Medical professional fees	1,382,364	-
Supplies	2,297,569	-
Minor equipment	17,566	-
Purchased services	3,555,372	144,274
Equipment rentals	87,163	-
Repairs and maintenance	1,206,756	-
Utilities	595,401	-
Depreciation and amortization	1,992,872	-
Other operating expenses	752,693	71,189
Total operating expenses	21,832,942	215,463
Operating Income (Loss)	1,729,072	(214,963)
Nonoperating Revenues (Expenses)		
Investment income	2,162	13
Interest expense	(1,813,362)	-
Sale of home health agency	600,000	-
Noncapital grants and gifts	-	229,105
Total nonoperating revenues (expenses)	(1,211,200)	229,118
Excess of Revenues Over Expenses Before Capital Appropriations and Grants and Gifts	517,872	14,155
Capital Appropriations - Adams County	1,369,207	-
Capital Grants and Gifts	25,000	-
Increase in Net Position	1,912,079	14,155
Net Position, Beginning of Year, As Previously Reported	(5,499,776)	529,477
Cumulative Effect of Change in Accounting Principle	(6,777,040)	-
Net Position, Beginning of Year, As Adjusted	(12,276,816)	529,477
Net Position, End of Year	$ (10,364,737)	$ 543,632

Adams County Regional Medical Center
An Enterprise Fund of Adams County, Ohio
Statement of Cash Flows
Year Ended December 31, 2015

Operating Activities	
Receipts from and on behalf of patients	$ 23,670,588
Payments to suppliers and contractors	(10,246,986)
Payments to employees	(8,761,642)
Other operating payments, net	(416,269)
Net cash provided by operating activities	4,245,691
Noncapital Financing Activities	
Increase in outstanding checks issued in excess of bank balance	252,315
Net cash provided by noncapital financing activities	252,315
Capital and Related Financing Activities	
Capital grants and gifts	25,000
Principal paid on long-term debt and capital leases	(1,600,098)
Interest on long-term debt and capital leases	(1,813,362)
Purchase of capital assets	(189,095)
Proceeds from sale of home health agency	600,000
Capital appropriations - Adams County	1,369,207
Net cash used in capital and related financing activities	(1,608,348)
Investing Activities	
Interest and dividends on investments	2,162
Net cash provided by investing activities	2,162
Increase in Cash and Cash Equivalents	2,891,820
Cash and Cash Equivalents, Beginning of Year	1,949,678
Cash and Cash Equivalents, End of Year	$ 4,841,498
Reconciliation of Cash and Cash Equivalents to the Balance Sheet	
Cash and cash equivalents	$ 679,458
Cash and cash equivalents in noncurrent cash and investments	4,162,040
Total cash and cash equivalents	$ 4,841,498

Adams County Regional Medical Center
An Enterprise Fund of Adams County, Ohio
Statement of Cash Flows (continued)
Year Ended December 31, 2015

		2015
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$	1,729,072
Depreciation and amortization		1,992,872
Provision for bad debts		3,006,961
Loss on disposal of capital assets		1,077
Changes in operating assets and liabilities		
Accounts receivable		(2,605,507)
Estimated amounts due from and to Medicare and Medicaid		(27,233)
Accounts payable and accrued expenses		96,623
Other assets		51,826
Net cash provided by operating activities	$	4,245,691
Supplementary Cash Flow Information		
Capital assets acquisitions included in accounts payable	$	399,881

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. The Center is considered an enterprise fund of the County and is included in the general purpose financial statements of the County.

Basis of Accounting and Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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, 2015, 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 and Investment Income

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

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

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

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.

Cost-Sharing Multiple-Employer Defined Benefit Pension Plans

The Center participates in two cost-sharing multiple-employer defined benefit pension plans administered by the Ohio Public Employees Retirement System, the Traditional Pension Plan and the Combined Plan, (the Plans). For purposes of measuring the net pension liability and net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

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

Net Patient Service Revenue

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

Charity Care

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

Income Taxes

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

Foundation

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

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

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

Electronic Health Records Incentive Program

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

Change in Accounting Principle

During 2015, the Center adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27,* as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*. These statements establish new accounting and financial requirements for pensions provided by the Center to its employees. The Center provides pension benefits to its employees under two cost-sharing, multiple-employer defined benefit pension plans and a defined contribution plan, all of which are within the scope of these statements. These statements require the Center to recognize a net pension liability or net pension asset, pension expense, and pension related deferred inflows and outflows of resources based on the Center's proportionate share of collective amounts for all participating employers in the defined benefit plans. The Center's proportionate share of the net pension liability and net pension asset, pension expense, and pension related deferred inflows and outflows of resources have been recognized in the accompanying financial statements.

Adoption of these statements resulted in a reduction to the beginning net position as of January 1, 2015 of approximately $6,777,000 to recognize the cumulative effect of applying these statements to beginning net position. The decrease is attributed to recognition of a net pension liability of approximately $7,777,000 and net pension asset of approximately $5,000 at January 1, 2015 and deferred outflows of resources related to the Center's contributions made subsequent to the measurement date of December 31, 2013 through December 31, 2014 of approximately $995,000. The prior year financial statements were not restated as a result of this change in accounting principle due to sufficient information not being available to calculate the prior year effect.

Note 2: Net Patient Service Revenue

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

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

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

Approximately 70% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs (including managed care) for the year ended December 31, 2015. 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, 2015, $1,339,249 of the Center's bank balances of $1,793,414 were exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Center's name	$ 1,339,249

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, 2015, the Center had the following investments and maturities:

Type	Fair Value	Less than One Year	One to Five Years	Six to 10 Years	More than 10 Years
Money market mutual funds	$ 3,208,168	$ 3,208,168	$ -	$ -	$ -

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

At December 31, 2015, the carrying values of deposits and investments shown above are included in the balance sheet as follows:

Carrying value	
Deposits	$ 1,633,330
Investments	3,208,168
	$ 4,841,498

Included in the following balance sheet captions:	
Cash and cash equivalents	$ 679,458
Held by trustee for debt service	3,208,168
Externally restricted by donor - cash	78,158
Internally designated - cash	875,714
	$ 4,841,498

Investment Income

Investment income for the year ended December 31, 2015 consisted of interest and dividend income in the amount of $2,162.

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, 2015 consisted of:

Medicare	$ 2,486,623
Medicaid	1,712,342
Other third-party payers	1,235,331
Patients	1,964,020
Total patient accounts receivable	7,398,316
Less allowance for contractual adjustments	3,430,080
Less allowance for uncollectible amounts	1,984,846
Patient accounts receivable, net	$ 1,983,390

Note 5: Capital Assets

Capital assets activity for the year ended December 31, 2015 was:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land and land improvements	$ 549,985	$ -	$ -	$ -	$ 549,985
Buildings	23,258,484	5,240	-	-	23,263,724
Equipment	18,735,596	99,723	(45,004)	-	18,790,315
Construction in progress	-	484,013	-	-	484,013
	42,544,065	588,976	(45,004)	-	43,088,037
Less accumulated depreciation					
Land improvements	449,702	46,604	-	-	496,306
Buildings	6,312,593	794,364	-	-	7,106,957
Equipment	15,553,431	1,117,866	(43,927)	-	16,627,370
	22,315,726	1,958,834	(43,927)	-	24,230,633
Capital assets, net	$ 20,228,339	$ (1,369,858)	$ (1,077)	$ -	$ 18,857,404

Note 6: Accounts Payable, Accrued Expenses and Outstanding Checks in Excess of Bank Balance

Accounts payable, accrued expenses and outstanding checks in excess of bank balance included in current liabilities at December 31, 2015 consisted of:

Payable to suppliers and contractors	$ 1,722,517
Payable to employees (including payroll taxes and benefits)	615,953
Payable to bond trustee for interest accrued	1,806,536
Other	886,358
	$ 5,031,364

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 activity for the Center for the year ended December 31, 2015:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable	$ 24,680,000	$ -	$ -	$ 24,680,000	$ 24,680,000
Note payable	1,105,000	-	1,105,000	-	-
Capital lease obligations	651,993	-	495,098	156,895	100,020
	26,436,993	-	1,600,098	24,836,895	24,780,020
Unamortized discount	34,038	-	34,038	-	-
Long-term debt less unamortized discount	$ 26,402,955	$ -	$ 1,566,060	$ 24,836,895	$ 24,780,020

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 sheet. The indenture agreements also require the Center to comply with certain restrictive covenants including minimum insurance coverage, maintaining a historical debt-service coverage ratio of at least 100% of maximum annual debt service, restrictions on incurrence of additional debt and days cash on hand of not less than 25 days.

The Center was in violation of certain restrictive covenants at December 31, 2015. Consequently, the bond indenture is callable at the bondholder's option and is therefore classified as a current liability in the accompanying balance sheet as of December 31, 2015.

Excluding the acceleration clause due to covenant violation, the debt service requirements as of December 31, 2015, are as seen in the following table. Since January 2014, the Center has been operating under a forbearance agreement with the trustee, during which time the Center has not remitted any principal payments on the Bonds. These amounts due in arrears have been included in 2016 in addition to the scheduled installment per the indenture agreement.

Years Ending December 31	Total to be Paid	Principal	Interest
2016	3,124,263	1,595,000	1,529,263
2017	2,093,950	600,000	1,493,950
2018	2,091,450	635,000	1,456,450
2019	2,091,763	675,000	1,416,763
2020	2,094,575	720,000	1,374,575
2021 - 2025	10,472,475	4,355,000	6,117,475
2026 - 2030	10,466,450	5,960,000	4,506,450
2031 - 2036	12,567,100	10,140,000	2,427,100
	$ 45,002,026	$ 24,680,000	$ 20,322,026

Note Payable and Capital Lease Obligations

During 2010, the Center entered into a settlement agreement for $4,710,000. The note is payable over five years, with monthly payments at varying amounts from $50,000 to $100,000 including interest. The note is secured by the Center's computerized tomography scanner. Discount is based on imputed interest rate of 5.4%. The note was paid in full during 2015.

The Center is obligated under leases for equipment that are accounted for as capital leases that bear interest or imputed interest ranging from 3.06% to 6.10%. Assets under capital leases at December 31, 2015, totaled $743,019, net of accumulated depreciation of $473,638. The following is a schedule by year of future minimum notes payable and capital lease payments as of December 31, 2015:

	Capital Lease Obligations
2016	$ 118,326
2017	52,500
2018	4,375
	175,201
Less amount representing interest	18,306
Present value of future minimum lease payments	156,895
Less current maturities	100,020
Noncurrent portion	$ 56,875

Note 9: Charity Care

Charges excluded from revenue under the Center's charity care policy, measured at cost, were approximately $366,000 in 2015. The Center received approximately $1,135,000 in 2015 from a State of Ohio uncompensated care fund to subsidize charity services provided under this charity care policy.

Note 10: Operating Leases

Noncancellable operating leases for office equipment expire in various years through 2018. Future minimum lease payments at December 31, 2015, were:

2016	$ 25,200
2017	19,838
2018	9,299
	$ 54,337

Rental expense was $87,163 for 2015.

Note 11: Pension Plans

Plan Descriptions

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

1. The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit plan pension plan.
2. The Member-Directed (MD) Plan – a defined contribution pension plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan – a cost-sharing, multi-employer defined benefit pension plan. Under the Combined Plan, 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 issues a stand-alone financial report, these reports may be obtained by contacting the organization as follows:

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

Benefits Provided

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

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

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

A cost-of-living adjustment (COLA) is provided each year and is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

All employees are required to become contributing members of OPERS when they begin employment at the Center unless they are exempted or excluded as defined by the ORC. For actuarial purposes, employees who have earned sufficient service credit (60 contributing months) are entitled to a future benefit from OPERS. As of December 31, 2015, 254 employees participated in the OPERS defined benefit pension plans and 5 employees participated in the defined contribution pension plan. The Center's proportionate share of inactive members is included in the net pension liability and net pension asset as discussed in the following notes.

Contributions

The ORC provides OPERS statutory authority over employee and employer contributions. The required statutorily determined contribution rates, respectively of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The statutorily required contribution rates for the employee and the Center are as follows for the year ended December 31, 2015:

	OPERS
Employee	10%
Center	14%

For the year ended December 31, 2015, contributions to the defined benefit pension plans from the Center were as follows:

	OPERS
Traditional Plan	$ 863,124
Combined Plan	16,852
Total	$ 879,976

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of December 31, 2015, the Center reported a net pension liability and net pension asset for the OPERS defined benefit plans as follows:

	Net Pension Liability (Asset)
Traditional Plan	$ 7,956,237
Combined Plan	$ (18,154)

The net pension liability and net pension asset were measured as of December 31, 2014 and the total pension liability used to calculate the net pension liability (asset) were determined by an actuarial valuation as of that date. The Center's proportion of the net pension liability and net pension asset were based on the Center's share of contributions to the respective defined benefit pension plans relative to the contributions of all participating employers during the measurement period. At December 31, 2015, the Center's proportion was 0.065966% for the Traditional Plan and 0.047150% for the Combined Plan.

For the year ended December 31, 2015, the Center recognized pension expense related to the defined benefit pension plans of $880,730, which is comprised of expense for the Traditional Plan in the amount of $868,666 and the Combined Plan in the amount of $12,064. At December 31, 2015, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Traditional Plan		Combined Plan		Total Defined Benefit Plans	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 139,775	$ -	$ 5,540	$ -	$ 145,315
Net difference between projected and actual earnings on pension plan investments	424,521	-	1,108	-	425,629	-
Center's contributions subsequent to the measurement date	863,124	-	16,852	-	879,976	-
	$ 1,287,645	$ 139,775	$ 17,960	$ 5,540	$ 1,305,605	$ 145,315

$879,976 reported as deferred outflows of resources resulting from the Center's defined benefit pension plan contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2015 related to pension plans will be recognized in pension expense as follows:

	Traditional Plan	Combined Plan	Total Defined Benefit Plans
2016	$ 41,637	$ (382)	$ 41,255
2017	41,637	(382)	41,255
2018	95,341	(382)	94,959
2019	106,131	(382)	105,749
2020	-	(659)	(659)
Thereafter	-	(2,245)	(2,245)
	$ 284,746	$ (4,432)	$ 280,314

Actuarial Assumptions

The total pension liability in the December 31, 2014, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

OPERS	Traditional Plan	Combined Plan
Valuation date	December 31, 2014	December 31, 2014
Experience study	Period ended December 31, 2010	Period ended December 31, 2010
Inflation	3.75%	3.75%
Salary increases	4.25% - 10.05% including inflation at 3.75%	4.25% - 8.05% including inflation at 3.75%
Investment rate of return	8.00%	8.00%
Cost-of-living adjustments	3.00% simple	3.00% simple

Mortality rates for OPERS are the RP-2000 mortality table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used.

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

	OPERS Defined Benefit Plans	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	19.90%	5.84%
International equities	19.10%	7.40%
Fixed income	23.00%	2.31%
Real estate	10.00%	4.25%
Alternative investments	10.00%	9.25%
Other investments	18.00%	4.59%
	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total pension asset.

Sensitivity of the Center's Proportionate Share of the Net Pension Liability /Asset to Changes in the Discount Rate

The Center's proportionate share of the net pension liability and net pension asset has been calculated using a discount rate of 8%. The following presents the Center's proportionate share of the net pension liability and net pension asset calculated using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Traditional Plan Net Pension Liability	$ 14,637,196	$ 7,956,237	$ 2,329,259
Combined Plan Net Pension Liability (Asset)	2,358	(18,154)	(34,420)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report.

Payable to the Pension Plan

At December 31, 2015, the Center had a payable of approximately $81,000 for an outstanding amount of required employer contributions to the pension plans for the year ended December 31, 2015.

Defined Contribution Plan

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

Pension expense recorded for the year ended December 31, 2015 for contributions to the Member-Directed Plan was approximately $36,000.

Other Postemployment Benefits

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

Each year the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For the calendar year ended December 31, 2015, OPERS allocated 2.0% of the employer contribution rate to fund the health care program for members in the Traditional Pension Plan and Combined Plan. The allocated 2.0% is the statutorily required contribution rates for OPERS, payment amounts vary depending on the number of covered dependents and the coverage selected. The Center’s employer contributions to OPERS to fund OPEB for 2015 approximated 2.0%, or approximately $152,000.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing on January 1, 2014. OPERS expects to be able to consistently allocate 4.0% of the employer contributions toward the health care fund after the end of the transition period.

Note 12: Going Concern

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

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

Note 13: Contingencies

Litigation

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

Cost Report Settlements

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

Loss Contingency

The Center has voluntarily disclosed several arrangements between physicians and the Center that may not have complied with the Stark Law and/or the Anti-Kickback Statute. The Center has offered $798,154 to resolve the issues, and is awaiting response from the Government to this offer. The Center has fully cooperated with the Government throughout the investigation to resolve this matter. The liability is reflected as a loss contingency within accrued expenses in the accompanying balance sheet.

Note 14: Adams County Medical Foundation, Inc.

Financial Statements

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

Investments and Investment Return

At December 31, 2015, the Foundation had $198,030 in restricted and unrestricted cash and cash equivalents, all of which was held in checking, savings, or money market funds and generated interest income of $13.

Net Assets

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

Note 15: Future Change in Accounting Principle

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, as they relate to governments that provide postemployment benefits other than pensions administered as trusts or similar arrangements that meet certain criteria. GASB 75 requires governments providing postemployment benefits to recognize their long-term obligation for postemployment benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of postemployment benefits. GASB 75 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions in GASB 75 are effective for fiscal years beginning after June 15, 2017; therefore, the Center's fiscal year 2018. The impact of applying this Statement has not been determined.

Required Supplementary Information

Adams County Regional Medical Center
An Enterprise Fund of Adams County, Ohio
Schedules of the Center's Proportionate Share of the Net Pension Liability (Asset)
Ohio Public Employees Retirement System (OPERS)

Traditional Defined Benefit Pension Plan	2015
Center's proportion of the net pension liability	0.07%
Center's proportionate share of the net pension liability	$ 7,956,237
Center's covered-employee payroll	$ 8,087,659
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	98.38%
Plan fiduciary net position as a percentage of the total pension liability	86.45%

Combined Defined Benefit Pension Plan	2015
Center's proportion of the net pension asset	0.05%
Center's proportionate share of the net pension asset	$ 18,154
Center's covered-employee payroll	$ 165,960
Center's proportionate share of the net pension asset as a percentage of its covered-employee payroll	10.94%
Plan fiduciary net position as a percentage of the total pension asset	114.83%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the Center will present information for those years for which information has been determined under the provisions of GASB 68. Information in these schedules has been determined as of the measurement date (December 31 of the prior fiscal year) of the collective net pension liability (asset).

Adams County Regional Medical Center
An Enterprise Fund of Adams County, Ohio
Schedule of the Center's Contributions
Ohio Public Employees Retirement System (OPERS)

Traditional Defined Benefit Pension Plan	2015
Statutorily required contribution	$ 863,124
Contributions in relation to the statutorily required contributions	(863,124)
Contribution deficiency (excess)	$ -
Center's covered-employee payroll	7,192,697
Contributions as a percentage of covered-employee payroll	12.00%

Combined Defined Benefit Pension Plan	2015
Statutorily required contribution	16,852
Contributions in relation to the statutorily required contributions	(16,852)
Contribution deficiency (excess)	$ -
Center's covered-employee payroll	140,433
Contributions as a percentage of covered-employee payroll	12.00%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the Center will present information for those years for which information has been determined under the provisions of GASB 68. Information in these schedules has been determined as of the Center's most recent fiscal year-end.

Changes of Benefit Terms

Amounts reported in 2015 for OPERS reflect the following plan changes:

- The minimum age and number of years of service required to receive an unreduced benefit were each increased by two years for members in the state and local divisions. The minimum retirement age required for law enforcement members did not change, however, the minimum retirement age was increased by two years.
- Final average salary (FAS) increased to the highest five years (up from three years).
- The benefit multiplier used for the first 30 years (2.2% of FAS) was increased to the first 35 years of service.
- Age and service reduction factors changed to represent actuarially determined rates for each year a member retires before attaining full retirement.
- The Cost of Living Adjustment (COLA) was changed for new retirees from a simple 3% applied to the benefit value at date of retirement, to a rate based on the change in the Consumer Price Index, not to exceed 3%.

Amounts reported in 2015 for OPERS reflect the following plan changes:

- No COLAs were granted for the fiscal year ended June 30, 2014 and reduced to 2% for future periods. COLA deferred until the fifth anniversary of retirement for members retiring after July 1, 2013.
- New members require five years of qualifying service credit to be eligible for survivor benefits and 10 years of service of qualifying service to be eligible for disability benefits.

Changes of Benefit Terms

There were no changes of assumptions for OPERS for the fiscal years presented.

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

Board of Trustees
Adams County Regional Medical Center
Seaman, Ohio

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Adams County Regional Medical Center (the "Center") and its discretely presented component unit, Adams County Medical Foundation, Inc., (collectively the "Organization"), as of an for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated August 16, 2016, which contained emphasis of matter paragraphs regarding substantial doubt about the Center's ability to continue as a going concern, loss contingencies and change in accounting principle. The financial statements of Adams County Medical Foundation, Inc., a discretely presented component unit, which are included in the Organization's financial statements, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization’s financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2015-001 and 2015-002 to be material weaknesses.

Compliance and Other Matters

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

Management's Response to Findings

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

We also noted certain matters that we reported to the Organization’s management in a separate letter dated August 16, 2016.

Purpose of this Report

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

BKD, LLP

Cincinnati, Ohio
August 16, 2016

Adams County Regional Medical Center
An Enterprise Fund of Adams County, Ohio
Schedule of Findings and Responses
Year Ended December 31, 2015

Reference Number	Finding
2015-001	Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting. Condition: The 2015 audit of the financial statements resulted in several adjusting entries including, but not limited to, material adjustments to net patient service revenue and third party settlements. These entries were proposed by BKD and recorded by management. 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 would not be detected. Cause: Audit procedures identified multiple transactions that are not being properly recorded by management. In addition, a lack of proper review procedures by the Center's management did not detect these errors. Recommendation: Management should educate themselves regarding appropriate accounting treatment for various transactions and 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, especially those related to internal controls.

Adams County Regional Medical Center
An Enterprise Fund of Adams County, Ohio
Schedule of Findings and Responses
Year Ended December 31, 2015

Reference Number	Finding
2015-002	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 (Foundation) was significant to the financial statements of the Center and should be presented discretely as a component unit. Management has not yet developed proper controls and procedures for the preparation and fair presentation of the Foundation's financial statements. While management revised its approach to accounting for the Foundation during 2015, the 2015 audit of the financial statements resulted in several adjusting entries. These entries were proposed by BKD and recorded by management. Also, the Foundation's management does not have appropriate procedures in place to monitor compliance with grant requirements.

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 would not be detected.

Cause: The growth of the Foundation and the discovery of unrecorded assets at the Foundation in 2011, primarily as a result of audit procedures performed resulted in management's determination that the Foundation is significant to the Center. The Foundation activity and operations continues to increase.

Recommendation: Management should prepare and report the activities of the Foundation periodically throughout the year in accordance with accounting principles generally accepted in the United States of America.

Views of responsible officials and planned corrective actions: The Center's management and board agree and will report the activities of the Foundation in future periods in accordance with accounting principles generally accepted in the United States of America.

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
NOVEMBER 10, 2016

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