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

Financial Report
December 31, 2016

Arnett Carbis Toothman 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, Adams County, prepared by Arnett Carbis Toothman, LLP, for the audit period January 1, 2016 through December 31, 2016. 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

September 18, 2017

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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, 2016, 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 entities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Center and its discretely presented component unit as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that 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 that raises 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. Our opinion is not modified with respect to these matters.

Other Matters

The financial statements of the Center and its discretely presented component unit as of and for the year ended December 31, 2015, were audited by other auditors whose report dated August 16, 2016, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 June 20, 2017, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2016. A similar report for the year ended December 31, 2015, dated August 16, 2016, which has not been included with the 2016 financial report was issued by other auditors. The purpose of those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Arnett Carbis Toothman LLP

Charleston, West Virginia
June 20, 2017

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, 2016 and 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

- The Center's net position increased (decreased) $1,141,434 and ($4,864,961) or 11.01% and (88.46%) in 2016 and 2015, respectively.

- The Center reported operating income in 2016 and 2015 of $1,981,376 and $1,729,072, respectively. The operating income in 2016 and 2015 increased by $252,304 and $2,589,441, or 14.59% and 300.97%.

- Net nonoperating expenses (increased) decreased in 2016 and 2015 by ($1,327,898) and $1,273,910, or (109.63%) and 51.26%, respectively.

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 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.

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 (Deficit)

The Center's net position (deficit) is the difference between its assets, liabilities and deferred inflows and outflows of resources reported in the Balance Sheet. The Center's net position (deficit) decreased by $1,141,434 in 2016 from 2015, and increased by $4,864,961 in 2015 from 2014, as shown in Table 1.

Table 1: Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position (Deficit)

	2016	2015	2014
Assets			
Patient accounts receivable, net	**$ 2,181,431**	$ 1,983,390	$ 2,384,844
Other current assets	**1,287,282**	1,278,481	709,716
Capital assets, net	**17,979,766**	18,857,404	20,228,339
Net pension asset	**18,779**	18,154	-
Other noncurrent assets	**5,786,531**	4,162,040	1,863,578
Total assets	**27,253,789**	26,299,469	25,186,477
Deferred Outflows and Resources	**3,850,068**	1,305,605	-
Total assets and deferred outflows of resources	**$ 31,103,857**	$ 27,605,074	$ 25,186,477
Liabilities			
Other current liabilities	**$ 29,333,876**	$ 29,811,384	$ 30,550,229
Long-term debt	**76,152**	56,875	136,024
Other long-term liabilities	**722,851**	-	-
Net pension liability	**9,992,635**	7,956,237	-
Total liabilities	**40,125,514**	37,824,496	30,686,253
Deferred Inflows and Resources	**201,646**	145,315	-
Net Position (Deficit)			
Net investment in capital assets	**(6,883,109)**	(5,979,491)	(5,103,654)
Restricted expendable	**4,807,556**	3,286,326	1,209,449
Unrestricted	**(7,147,750)**	(7,671,572)	(1,605,571)
Total net position (deficit)	**(9,223,303)**	(10,364,737)	(5,499,776)
Total liabilities, deferred inflows of resources and net position (deficit)	**$ 31,103,857**	$ 27,605,074	$ 25,186,477

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 long-term liabilities increased due a settlement with the United States of America described in Note 13.

During 2015, the Center adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension asset/liability equals the Center's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service

2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Center is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Center's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the Center's is reporting a net pension asset and net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014, from ($5,499,776) to ($12,276,816).

Operating Results and Changes in the Organization's Net Position

In 2016, the Center's net position increased by $1,141,434, or 11.01%, as shown in Table 2. This increase is made up of several components and represents a decrease of $770,645, or (40.30%), compared with the increase in net position in 2015 of $1,912,079.

Table 2: Operating Results and Changes in Net Position (Deficit)

	2016	2015	2014
Operating Revenues:			
Net patient service revenue	**$ 23,117,026**	$ 23,295,614	$ 21,619,900
Other operating revenues	**378,183**	266,400	472,365
Total operating revenue	**23,495,209**	23,562,014	22,092,265
Operating Expenses:			
Salaries and wages and employee benefits	**9,631,154**	9,945,186	10,872,490
Purchased services and professional fees	**4,753,115**	4,937,736	4,418,039
Depreciation and amortization	**1,698,885**	1,992,872	2,264,959
Other operating expenses	**5,430,679**	4,957,148	5,397,146
Total operating expenses	**21,513,833**	21,832,942	22,952,634
Operating income (loss)	**1,981,376**	1,729,072	(860,369)
Nonoperating revenues (expenses)			
Investment return	**2,010**	2,162	2,693
Interest	**(1,900,089)**	(1,813,362)	(1,689,649)
Loss on settlement agreement	**(641,019)**	-	(798,154)
Sale of home health agency	-	600,000	-
Total nonoperating revenues (expenses)	**(2,539,098)**	(1,211,200)	(2,485,110)
Capital appropriations – Adams County	**1,423,571**	1,369,207	1,284,257
Capital grants and gifts	**275,585**	25,000	175,000
Increase (decrease) in net position	**1,141,434**	1,912,079	(1,886,222)
Net position (deficit), beginning of year, as previously reported	**(10,364,737)**	(5,499,776)	(3,613,554)
Cumulative effect of change in accounting principle	**-**	(6,777,040)	-
Net position (deficit), beginning of year, as adjusted	**(10,364,737)**	(12,276,816)	(3,613,554)
Net position (deficit), end of year	**$ (9,223,303)**	$ (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. The Center has generated operating income in 2016 and 2015. 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 2016 increased by $252,304, or 14.59%, as compared to 2015. The primary components of the changes in operating results are:

- A decrease in net patient service revenue of $178,588, or (.77%).
- An increase in other operating revenue of $111,783, or 41.96%.
- A decrease in salaries, wages and employee benefits expense of $314,032, or 3.16%.
- A decrease in all other operating expenses of $5,077, or .04%.

Net patient service revenue decreased from 2015 to 2016 and consists of the flowing:. An increase in overall patient days of 119, or 2.84%, and an increase in outpatient visits of 3,505 or 7.27% contributed to the change in net patient service revenue. Also, as described in Note 5, the Center received favorable final retroactive cost report settlements which impacted overall net patient service revenue by approximately $705,000 and $1,400,000 in 2016 and 2015, respectively. In addition, the Center recorded an estimated third-party payable in 2016 which reduced net patient service revenue by approximately $354,000.

Employee salaries and wages and benefits decreased in 2016 mainly due to the impact of the implementation of GASB 68. The net impact of the implementation of GASB 68 resulted in a decrease in employee benefits of $452,359 in 2016. Total FTEs in 2016 were approximately 182 compared to 177 in 2015.

Expenditures for medical supplies are a major component of the Center's costs. In 2015, medical supplies totaled $2,297,569, or 10.52%, of total operating expenses. In 2016, they totaled $2,360,443, or 10.97%, 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 2016 of $1,981,376 was an increase over the operating income of $1,729,072 recognized in 2015. The change is primarily related to the combination of a decrease in overall operating revenues of $66,805 over the decrease in total operating expenses of ($319,109)

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist of investment income and interest expense. Also included in 2016 is an increase to other liabilities relative to the loss on settlement agreement as described in Note 13. Investment income and interest expense each remained relatively constant in 2016 as compared to 2015.

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 $1,423,571 and $1,369,207 for 2016 and 2015, respectively.

Capital Grants and Gifts

The Center receives both capital and operating grants from various state and federal agencies for specific programs. In 2016 and 2015, the Center received gifts of $250,000 and $25,000, respectively, 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, 2016.

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 2016 and 2015, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2016 and 2015, the Center had $17,979,766 and $18,857,404, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2016 and 2015, the Center purchased new equipment costing $821,247 and $588,976, respectively. 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. The Center entered into two of these agreements in 2016.

Debt

At December 31, 2016 and 2015, the Center had $24,862,875 and $24,836,895 in revenue bonds and capital lease obligations outstanding including all current maturities. The Center entered into two new capital lease agreements in 2016 that totaled $182,002. 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 payors. 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 on 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 Organization'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.

Bill May
Chief Executive Officer

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

BALANCE SHEETS
December 31, 2016 and 2015

	2016		2015	
	Center	**Component**	Center	Component
ASSETS AND DEFERRED OUTFLOWS				
Current assets				
Cash and cash equivalents	**$ 542,229**	**$ 110,618**	$ 679,458	$ 114,179
Patient accounts receivable, net of allowance of $1,825,643, 2016 and $1,984,846, 2015	**2,181,431**	**-**	1,983,390	-
Estimated amounts due from third-party payors	**244,568**	**-**	211,012	-
Supplies	**287,834**	**-**	282,455	-
Prepaid expenses and other assets	**212,651**	**-**	105,556	9,435
Total current assets	**3,468,713**	**110,618**	3,261,871	123,614
Assets limited as to use	**5,786,531**	**220,834**	4,162,040	83,851
Capital assets, net	**17,979,766**	**397,800**	18,857,404	397,800
Net pension asset	**18,779**	**-**	18,154	-
Total assets	**27,253,789**	**729,252**	26,299,469	605,265
Deferred outflows of resources	**3,850,068**	**-**	1,305,605	-
Total assets and deferred outflows of resources	**$ 31,103,857**	**$ 729,252**	$ 27,605,074	$ 605,265
LIABILITIES, DEFERRED INFLOWS AND NET POSITION (DEFICIT)				
Current liabilities				
Outstanding checks in excess of bank balance	**$ 142,445**	**$ -**	$ 252,315	$ -
Current maturities of long-term debt	**24,786,723**	**-**	24,780,020	-
Accounts payable	**1,211,641**	**-**	1,470,202	6,609
Accrued expenses and other	**3,193,067**	**-**	3,308,847	55,024
Total current liabilities	**29,333,876**	**-**	29,811,384	61,633
Long-term debt, less current maturities	**76,152**	**-**	56,875	-
Other long-term liabilities	**722,851**	**-**	-	-
Net pension liability	**9,992,635**	**-**	7,956,237	-
Total liabilities	**40,125,514**	**-**	37,824,496	61,633
Deferred Inflows of resources	**201,646**	**-**	145,315	-
Net Position (Deficit)				
Net investment in capital assets	**(6,883,109)**	**-**	(5,979,491)	-
Restricted – expendable for				
Debt service	**4,729,635**	**-**	3,208,168	-
Specific operating activities	**77,921**	**220,834**	78,158	83,851
Unrestricted	**(7,147,750)**	**508,418**	(7,671,572)	459,781
Total net position (deficit)	**(9,223,303)**	**729,252**	(10,364,737)	543,632
Total liabilities, deferred inflows of resources and net position (deficit)	**$ 31,103,857**	**$ 729,252**	$ 27,605,074	$ 605,265

See Notes to Financial Statements

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (DEFICIT)
Years Ended December 31, 2016 and 2015

	2016		2015	
	Center	Component	Center	Component
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts of $2,823,482, 2016 and $3,006,961, 2015	$ 23,117,026	$ -	$ 23,295,614	$ -
Other	378,183	-	266,400	500
Total operating revenues	23,495,209	-	23,562,014	500
Operating expenses				
Salaries and wages	7,979,521	-	7,825,209	-
Employee benefits	1,651,633	-	2,119,977	-
Medical professional fees	1,432,469	-	1,382,364	-
Supplies	2,360,443	-	2,297,569	-
Minor equipment	55,778	-	17,566	-
Purchased services	3,320,646	-	3,555,372	-
Equipment rentals	105,700	-	87,163	-
Repairs and maintenance	1,374,730	-	1,206,756	-
Utilities	489,935	-	595,401	-
Depreciation and amortization	1,698,885	-	1,992,872	-
Other operating expenses	1,044,093	437,435	752,693	215,463
Total operating expenses	21,513,833	437,435	21,832,942	215,463
Operating income (loss)	1,981,376	(437,435)	1,729,072	(214,963)
Nonoperating revenues (expenses)				
Investment income	2,010	12	2,162	13
Interest expense	(1,900,089)	-	(1,813,362)	-
Loss on settlement agreement	(641,019)			
Sale of home health agency	-	-	600,000	-
Noncapital grants and gifts	-	623,043	-	229,105
Total nonoperating revenues (expenses)	(2,539,098)	623,055	(1,211,200)	229,118
Excess (deficiency) of revenues over expenses before capital appropriations and grants and gifts	(557,722)	185,620	517,872	14,155
Capital appropriations – Adams County	1,423,571	-	1,369,207	-
Capital grants and gifts	275,585	-	25,000	-
Increase in net position	1,141,434	185,620	1,912,079	14,155
Net position (deficit), beginning of year, as previously reported	(10,364,737)	543,632	(5,499,776)	529,477
Cumulative effect of change in Accounting principle	-	-	(6,777,040)	-
Net position (deficit), beginning of year, as adjusted	(10,364,737)	543,632	(12,276,816)	529,477
Net position (deficit), end of year	$ (9,223,303)	$ 729,252	$ (10,364,737)	$ 543,632

See Notes to Financial Statements

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

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	2016	2015
Cash activities		
Receipts from and on behalf of patients	$ 22,885,429	$ 23,670,588
Payments to suppliers and contractors	(9,621,140)	(10,246,986)
Payments to employees	(9,633,198)	(8,761,642)
Other operating payments, net	(750,445)	(416,269)
Net cash provided by operating activities	2,880,646	4,245,691
Noncapital financing activities		
Increase in outstanding checks issued in excess of bank balance	(109,870)	252,315
Net cash provided by (used in) noncapital financing activities	(109,870)	252,315
Capital and related financing activities		
Capital grants and gifts	275,585	25,000
Principal paid on long-term debt and capital leases	(156,022)	(1,600,098)
Interest on long-term debt and capital leases	(1,847,458)	(1,813,362)
Purchase of capital assets	(981,200)	(189,095)
Proceeds from sale of home health agency	-	600,000
Capital appropriations – Adams County	1,423,571	1,369,207
Net cash used in capital and related financing activities	(1,285,524)	(1,608,348)
Investing activities		
Interest and dividends on assets limited as to use	2,010	2,162
Net cash provided by investing activities	2,010	2,162
Increase in cash and cash equivalents	1,487,262	2,891,820
Cash and cash equivalents, beginning of year	4,841,498	1,949,678
Cash and cash equivalents, end of year	$ 6,328,760	$ 4,841,498
Reconciliation of cash and cash equivalents to the balance sheet		
Cash and cash equivalents	$ 542,229	$ 679,458
Cash and cash equivalents in assets limited as to use	5,786,531	4,162,040
Total cash and cash equivalents	$ 6,328,760	$ 4,841,498
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 1,981,376	$ 1,729,072
Depreciation and amortization	1,698,885	1,992,872
Provision for bad debts	2,823,482	3,006,961
Loss on disposal of capital assets	-	1,077
Changes in operating assets and liabilities		
Accounts receivable	(3,021,523)	(2,605,507)
Estimated third-party payor settlements	(33,556)	(27,233)
Other assets	(112,474)	51,826
Net pension asset	(625)	(13,154)
Deferred outflow of resources	(2,544,463)	(311,398)
Accounts payable, accrued expenses and other	(3,185)	96,623
Net pension liability	2,036,398	179,237
Deferred inflow of resources	56,331	145,315
Net cash provided by operating activities	$ 2,880,646	$ 4,245,691
Supplementary cash flow information		
Capital assets acquisitions included in accounts payable	$ 57,926	$ 399,881
Capital assets acquired through capital lease obligations	$ 182,002	$ -

See Notes to Financial Statements

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

Nature of Operations and Reporting Entity: Adams County Regional Medical Center (the 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 (the 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.

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

Although the 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.

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, 2016 and 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 tort; theft of, damage to and destruction of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage 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.

Assets limited as to use: Assets limited as to use consist of assets restricted by donors, assets held by trustees under an indenture agreement, assets internally designated by the board of trustees for capital improvements and assets externally restricted for capital improvements.

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: Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts. The allowance is based upon a review of the outstanding balances aged by financial class. Management uses collection percentages based upon historical collection experience to determine collectibility. Management also reviews troubled, aged accounts to determine collection potential. Patient accounts receivable are written off when deemed uncollectible. Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received. Interest is not charged on patient accounts receivable.

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	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.

Grants and contributions: From time to time, the Center receives grants and contributions from governmental organizations, private individuals, and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Grants that are unrestricted are reported as other operating revenue and those restricted for a specific purpose are reported as nonoperating revenue. Contributions that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Contributions restricted to capital acquisitions are reported after non-operating revenues and expenses.

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 (deficit): Net position (deficit) 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. Unrestricted net position (deficit) 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 payors 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.

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

Hospital care assurance program (HCAP): As a public health provider, the Center renders services to residents of Adams County and others regardless of their ability to pay. HCAP is the Ohio Department of Job and Family Services' mechanism for meeting the federal requirement to provide additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled approximately $1,452,000 in 2016 and $1,135,000 in 2015. These amounts are reported as net patient service revenue in the accompanying statements of revenue, expenses and changes in net positon (deficit).

Upper payment limit: In September 2001, the State of Ohio Supplemental Upper Payment Limit program for Public Hospitals (UPL) was approved by the Centers for Medicare and Medicaid Services (CMS). This program provides access to available federal funding up to 100% of the Medicare upper payment limits for services rendered by Ohio Public Hospitals to Ohio Medicaid consumers. The Center received $1,019,160 in UPL payments in 2016, of which $631,400 relates to 2016 and is reported as net patient service revenue in the accompanying statements of revenue, expenses and changes in net positon (deficit) and $387,760 relates to 2017 and is reported as deferred revenue under estimated third-party payor settlements in the accompanying balance sheets. The Center received $772,470 in UPL payments in 2015 which are reported as net patient service revenue in the accompanying statements of revenue, expenses and changes in net positon

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 patient service revenue. The Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The amount of charity care not recorded as revenue was approximately $515,000 in 2016 and $450,000 in 2015. The cost of caring for charity care patient for the years ended December 31, 2016 and 2015, was approximately $187,000 and $182,000, respectively.

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.

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 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.

Reclassifications: Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

Subsequent Events: The Center has evaluated subsequent events through June 20, 2017, the date on which the financial statements were available to be issued.

Change in accounting principle: During 2015, the Center adopted Government Accounting 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 pension 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, respectively, 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 financial statements for the year ended December 31, 2014 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.

New or recent accounting pronouncements: GASB Statement No. 72, *Fair Value Measurement and Application,* Issued February 2015, relates to fair value measurements, applicable primarily to investments made by state and local governments and defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Under the new guidance, more extensive note disclosures are required to categorize fair values according to their relative reliability and to describe positions held in many alternative investments. The new standard is effective for financial statements for periods beginning after June 15, 2016. The Center is currently evaluating the impact, if any, that adoption will have on its financial statements.

GASB Statement No.75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for GASB Postemployment Benefits Other Than Pensions and is effective for fiscal years beginning after June 15, 2017. Statement 75 requires governments to report a liability on the face of the financial statements for the Other Post-Employment Benefits (OPEB) that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Center is currently evaluating the impact, if any, that adoption will have on its financial statements.

GASB Statement No.82, *Pension Issues,* issued March 2016, relates to improving consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, the practice issues raised by stakeholders during implementation relate to GASB Statement No's 67, 68, and 73. The new guidance addresses the presentation of payroll-related measures in required supplementary information, selection of assumptions and the treatment of deviations from guidance in Actuarial Standards of Practice for financial reporting purposes, and classification of payments made by employers to satisfy plan member contribution requirements. The new standard is effective for financial statements for periods beginning after June 15, 2016. The Center is currently evaluating the impact, if any, that adoption will have on its financial statements.

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. The Center is designated as a Critical Access Hospital (CAH) under the Medicare and Medicaid programs. Contractual adjustments under third-party reimbursement programs represent the difference between the Center's billings at established rates for services and amounts reimbursed bt third-party payors. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** Effective October 1, 2004, the Center received full accreditation from the Center for Medicare and Medicaid Services for the critical access hospital designation. Inpatient services and most outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology at 101 percent of allowable cost. Other outpatient services are paid based on fee schedules, or prospectively paid.

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

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

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

Approximately 74% and 76% 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, 2016 and 2015, 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.

A summary of gross and net patient service revenue for all payors for the years ended December 31, 2016 and 2015 follows:

	2016	2015
Gross patient service revenue	**$ 59,221,962**	$ 54,056,870
Less: Provisions for contractual adjustments under third-party reimbursement agreements	**(32,766,072)**	(27,304,009)
Provision for bad debts	**(2,823,482)**	(3,006,961)
Charity	**(515,382)**	(450,286)
Net patient service revenue	**$ 23,117,026**	$23,295,614

Note 3. Deposits, Assets Limited as to Use 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, 2016 and 2015, $1,147,083 and $1,339,249, respectively, of the Center's bank balances of $1,589,794 and $1,793,414, respectively, were exposed to custodial credit risk as follows:

	2016	2015
Collateral held by pledging financial institution's trust department or agent in other than the Center's name	**$ 1,147,083**	$ 1,339,249

Assets Limited as to Use

The composition of the Center's assets limited as to use at December 31, 2016 and 2015 consisted of the following:

	2016	2015
Restricted by donors	**$ 77,921**	$ 78,158
Internally designated for capital improvements	**136,451**	136,246
Externally designated for capital improvements	**842,524**	739,468
Held by trustee for debt service	**4,729,635**	3,208,168
Total assets limited as to use	**$ 5,786,531**	$ 4,162,040

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, 2016 and 2015, the Center had the following investments and maturities:

			2016		
Type	**Fair Value**	**Less than One Year**	**One to Five Years**	**Six to 10 Years**	**More than 10 Years**
Money market mutual funds	**$ 4,729,635**	**$ 4,729,635**	**$ -**	**$ -**	**$ -**

			2015		
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 vent 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, 2016 and 2015, the Center's carrying values of deposits and investments shown above are included in the balance sheet as follows:

	2016	2015
Carrying Value		
Deposits	**$ 1,599,125**	$ 1,633,330
Investments	**4,729,635**	3,208,168
	$ 6,328,760	$ 4,841,498

Included in the following balance sheet captions:

	2016	2015
Cash and cash equivalents	**$ 542,229**	$ 679,458
Assets limited as to use	**5,786,531**	4,162,040
	$ 6,328,760	$ 4,841,498

Investment income: Investment income for the year ended December 31, 2016 and 2015 consisted of interest and dividend income in the amount of $2,010 and $2,162, respectively.

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, 2016 and 2015 consisted of:

	2016	2015
Medicare	**$ 2,816,580**	$ 2,486,623
Medicaid	**1,675,472**	1,712,342
Other third-party payers	**1,252,000**	1,235,331
Patients	**2,097,896**	1,964,020
Total patient accounts receivable	**7,841,948**	7,398,316
Less allowance for contractual adjustments	**3,834,874**	3,430,080
Less allowance for uncollectible amounts	**1,825,643**	1,984,846
Patient accounts receivable, net	**$ 2,181,431**	$ 1,983,390

Note 5. Estimated Third-Party Payor Settlements

Third-party payor settlements consist of amounts due from/(to) the Medicare programs for settlement of current and prior year cost reports and the state of Ohio's upper payment limit and hospital care assurance programs. These estimated settlements by program are as follows at December 31, 2016 and 2015.

	2016	2015
Medicare	**$ (819,186)**	$ (919,005)
Upper payment limit program	**(387,760)**	-
Hospital care assurance program (HCAP)	**1,451,514**	1,130,017
	$ 244,568	$ 211,012

The 2016 and 2015 net patient service revenue increased approximately $705,000 and $1,400,000, respectively, as a result of settlements at amounts different than originally estimated.

Note 6. Capital Assets

Capital assets activity for the year ended December 31, 2016 and 2015 was:

	2016				
	Beginning Balance	**Additions**	**Disposals**	**Transfers**	**Ending Balance**
Capital Assets					
Land and land Improvements	**$ 549,985**	**$ 34,197**	**$ -**	**$ -**	**$ 584,182**
Buildings	**23,263,724**	**16,468**	**-**	**-**	**23,280,192**
Equipment	**18,790,315**	**745,768**	**(427,822)**	**484,013**	**19,592,274**
Construction in process	**484,013**	**24,814**	**-**	**(484,013)**	**24,814**
	43,088,037	**821,247**	**(427,822)**	**-**	**43,481,462**
Less accumulated depreciation:					
Land improvements	**496,306**	**15,633**	**-**	**-**	**511,939**
Buildings	**7,106,957**	**792,292**	-	-	**7,899,249**
Equipment	**16,627,370**	**890,960**	**(427,822)**	**-**	**17,090,508**
	24,230,633	**1,698,885**	**(427,822)**	**-**	**25,501,696**
Capital assets, net	**$ 18,857,404**	**$ (877,638)**	**$ -**	**$ -**	**$ 17,979,766**

	2015				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital Assets					
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 process	-	484,013	-	-	484,013
	42,544,065	588,976	(45,004)	-	43,088,037

	2015				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
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

The cost of equipment under capital lease included in capital assets as of December 31, 2016 and 2015 were as follows:

	2016	2015
Cost of equipment under capital lease	**$ 925,021**	$ 743,019
Accumulated amortization	**(657,689)**	(473,638)
Net carrying amount	**$ 267,332**	$ 269,381

Note 7. Outstanding Checks in Excess of Bank Balance, Accounts Payable, and Accrued Expenses and Other

Outstanding checks in excess of bank balance, accounts payable, and accrued expenses and other included in current liabilities at December 31, 2016 and 2015 consisted of:

	2016	2015
Payable to suppliers and contractors	**$ 1,354,086**	$ 1,722,517
Payable to employees (including payroll taxes and benefits)	**613,909**	615,953
Payable to bond trustee for interest accrued	**1,859,167**	1,806,536
Loss contingency	**359,793**	798,154
Other	**360,198**	88,204
	$ 4,547,153	$ 5,031,364

Note 8. Medical Malpractice Claims

The Center purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Coverage is $1,000,000 per occurrence and $3,000,000 in the annual aggregate. In addition, the Center has umbrella coverage of $5,000,000 per occurrence and $5,000,000 in the annual aggregate. 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 9. Long-Term Obligations

The following is a summary of long-term obligation activity for the Center for the year ended December 31, 2016 and 2015:

	2016				
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Current Portion**
Revenue bonds payable	**$ 24,680,000**	**$ -**	**$ -**	**$ 24,680,000**	**$ 24,680,000**
Capital lease obligations	**156,895**	**182,002**	**(156,022)**	**182,875**	**106,723**
Long-term debt	**$ 24,836,895**	**$ 182,002**	**$ (156,022)**	**$ 24,862,875**	**$ 24,786,723**

	2015				
	Beginning Balance	Additions	Reductions	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

A summary of long-term debt at December 31, 2016 and 2015 follows:

	2016	2015
Revenue bonds payable, terms below	**$ 24,680,000**	$ 24,680,000
Capital lease obligations with interest rates ranging from 3.60% to 9.10% and monthly payments ranging from $751 to $4,375, secured by equipment.	**182,875**	156,895
	24,862,875	24,836,895
Less current maturities	**24,786,723**	24,780,020
Long-term debt, less current maturities	**$ 76,152**	$ 56,875

Minimum payments on these obligations to maturity as of December 31, 2016, follows:

	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2017	$ 24,680,000	$ 1,484,575	$ 106,723	$ 6,780
2018	-	-	45,500	2,635
2019	-	-	29,901	941
2020	-	-	751	-
	$ 24,680,000	$ 1,484,575	$ 182,875	$ 10,356

Revenue Bonds Payable

The revenue bonds payable consist of Hospital Facilities Revenue Improvement Bonds, Series 2015 (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 in assets limited to use 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 Center was in violation of certain restrictive covenants at December 31, 2016 and 2015. Consequently, the bond indenture is callable at the bondholder's option and is therefore classified as a current liability in the accompanying balance sheets as of December 31, 2016 and 2015.

Since January 2014, the Center has been operating under forbearance agreements with the trustee, during which time the Center has not remitted any principal payments on the Bonds. The forbearance agreement expired on December 31, 2015. Although the forbearance agreement expired, the Trustee continues to work with the Center relating to its liquidity issues, with the knowledge and consent of the majority bondholders. Unpaid interest relative to the revenue bonds amounted to $1,859,167 and $1,806,358 as of December 31, 2016 and 2015, respectively, and is reported within accrued expenses and other on the accompanying balance sheets.

Note payable

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.

Note 10. Operating Leases

Noncancellable operating leases for office equipment expire in various years through 2018. Future minimum lease payments at December 31, 2016, were:

2017	$ 30,353
2018	31,973
2019	30,343
2020	30,343
2021	22,246
Thereafter	1,768
	$ 147,026

Rental expense was $105,700 and $87,163 for 2016 and 2015, respectively.

Note 11. Pension Plans

Plan Description: 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 OPERS. OPERS three pension plans as described below and are discussed in greater detail in the following sections:

1. The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan.

2. The Member-Directed (MD) Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.

3. The Combined Plan – a cost-sharing, multi-employer defined benefit pension plan. Under the Combined Plan, 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 Organization does not have any employees included in the public safety or law enforcement divisions.

Benefits in the Traditional Plan for state and local members are calculated on the basis of age, final average salary and service credit. State and local members in transition groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for state and local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For group C the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. Final average salary represents the average of the 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 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, 2016 and 2015, 255 and 254 employees participated in the OPERS defined benefit pension plans. 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 contractually required contribution rates for the employee and the Center are as follows for the years ended December 31, 2016 and 2015:

	OPERS
Employee	10%
Center	14%

For the years ended December 31, 2016 and 2015, contributions to the pension plans from the Center were as follows:

OPERS	2016	2015
Traditional	$ 890,496	$ 863,124
Combined	14,254	16,852
	$ 904,750	$ 879,976

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

As of December 31, 2016 and 2015, the Center reported a net pension liability and net pension asset for the OPERS defined benefit plans as follows:

Net Pension Liability (Asset)	2016	2015
Traditional	$ 9,992,635	$ 7,956,237
Combined	$ (18,779)	$ (18,154)

The net pension liability and net pension asset as of December 31, 2016 are measured as of December 31, 2015 and the total pension liability used to calculate the net pension liability (asset) were determined by an actuarial valuation as of that date. The net pension liability and net pension asset as of December 31, 2015 are 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, 2016, the Center's proportion was .057690% for the Traditional Plan and .038590% for the Combined Plan. At December 31, 2015, the Center's proportion was .065966% for the Traditional Plan and .047150% for the Combined Plan.

For the years ended December 31, 2016 and 2015, the Center recognized pension expense related to the defined benefit pension plans of $452,391 and $880,730, respectively. At December 31, 2016, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016					
	Traditional Plan		Combined Plan		Total Defined Benefit Plan	
	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	$ -	$ 193,077	$ -	$ 8,569	$ -	$ 201,646
Net difference between projected and actual earnings on pension plan investments	2,937,210	-	8,108	-	2,945,318	-
Center's contributions subsequent to the measurement date	890,496	-	14,254	-	904,750	-
	$ 3,827,706	$ 193,077	$ 22,362	$ 8,569	$ 3,850,068	$ 201,646

	2015					
	Traditional Plan		Combined Plan		Total Defined Benefit Plan	
	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

$904,750 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2016 related to pension plans will be recognized in pension expense as follows:

	Traditional Plan	**Combined Plan**	**Total Defined Benefit Plans**
2017	$ 642,396	$ 1,000	$ 643,396
2018	689,362	1,000	690,362
2019	747,684	1,000	748,684
2020	664,691	774	665,465
2021	-	(1,083)	(1,083)
Thereafter	-	(3,153)	(3,153)
	$ 2,744,133	$ (462)	$ 2,743,671

Actuarial Assumptions: The total pension liability in the December 31, 2015 and 2014, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

OPERS	**Traditional Plan**	**Combined Plan**
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	Pre 1/7/2013 Retirees 3.00% simple Post 1/7/2013 Retirees 3.00% simple through 2018, then 2.80% simple	Pre 1/7/2013 Retirees 3.00% simple Post 1/7/2013 Retirees 3.00% through 2018, then 2.80% 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. The table below displays the Board-approved asset allocation policy for 2015 and 2014 and the long-term expected real rates of return.

	2015	
	OPERS Defined Benefit Plans	
Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Domestic equities	**20.70%**	**5.84%**
International equities	**18.30%**	**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%	

	2014	
	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% as of December 31, 2015 and 2014 (measurement dates). 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 Organization'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 (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 as of December 31, 2015 and 2014:

2015	1% Decrease 7.0%	Current Discount Rate 8.0%	1% Increase 9.0%
Traditional Plan Net Pension Liability	$ 15,920,709	$ 9,992,635	$ 4,992,493
Combined Plan Net Pension Liability (Asset)	$ (386)	$ (18,779)	$ (33,573)

2014	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 Plans Fiduciary Net Position: Detailed information about the pension plans' fiduciary net position is available in the separately issued OPERS financial report.

Payable to the Pension Plans: At December 31, 2016 and 2015, the Center had a payable of approximately $88,000 and $81,000 for an outstanding amount of required employer contributions to the for the years ended December 31, 2016 and 2015, respectively.

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 years ended December 31, 2016 and 2015 for contributions to Member-Directed Plan was approximately $31,000 and $36,000, respectively.

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 years ended December 31, 2016 and 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. As recommended by OPERS' actuary, the portion of the employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The Center's employer contributions to OPERS to fund OPEB for 2016 and 2015 approximated 2%, or approximately $151,000 and $146,000, respectively.

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. Settlement Agreement, Loss Contingency and Subsequent Event

During the year ended December 31, 2015, 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 recorded a liability of $798,154 as of December 31, 2015 relative to settling these issues, and was awaiting response from the Government to this offer. The liability is reflected as a loss contingency within accrued expenses and other in the accompanying balance sheets.

On March 13, 2017, the Center settled with the United States of America relative to one arrangement that was included in the voluntary disclosure noted above. As per the settlement agreement, the Center will be released from civil and administrative sanctions relative to this arrangement once the obligation is paid in full. The total settlement amount was $1,079,380 and the Center agreed to make monthly principal and interest payments starting in May 2017 through April 2020. The Center also agreed to make a down payment of $150,000 in March 2017. The interest rate on the obligation is a fixed rate of 2.375%. As of December 31, 2016, a liability of $356,529 is reported as an other liability within accrued expenses and other and a liability of $722,851 is reported in other long-term liabilities in the accompanying balance sheets relative to the settlement agreement obligation. As of December 31, 2016, the Center also reported a liability of $359,793 relative to the remaining arrangements from the voluntary disclosure noted above. The liability is reflected as a loss contingency within accrued expenses and other in the accompanying balance sheets.

Note 14. Other 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.

Note 15. 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.

Cash, Assets Limited as to Use and Investment Return: At December 31, 2016 and 2015, the Foundation had $331,452 and $198,030, respectively, in donor restricted and unrestricted cash and cash equivalents, all of which was held in checking, savings, or money market funds and generated interest income of $12 and $13, respectively.

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.

Grants and Gifts: During the year ended December 31, 2016, the Foundation transferred a grant of $250,000 to the Center for the purchase of capital equipment.

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

Traditional Defined Benefit Pension Plan	2016	2015
Center's proportion of the net pension liability	**.0576900%**	0.065966%
Center's proportionate share of the net pension liability	**$ 9,992,635**	$ 7,956,237
Center's covered-employee payroll	**$ 7,192,700**	$ 8,087,659
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	**138.93%**	98.38%
Plan fiduciary net position as a percentage of the total pension liability	**81.08%**	86.45%

Combined Defined Benefit Pension Plan	2016	2015
Center's proportion of the net pension asset	**.038590%**	0.047150%
Center's proportionate share of the net pension asset	**$ 18,779**	$ 18,154
Center's covered-employee payroll	**$ 140,433**	$ 165,960
Center's proportionate share of the net pension asset as a percentage of its covered-employee payroll	**13.37%**	10.94%
Plan fiduciary net position as a percentage of the total pension asset	**116.9%**	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).

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

Traditional Defined Benefit Pension Plan	2016	2015
Statutorily required contribution	**$ 890,496**	$ 863,124
Contributions in relation to the statutorily required contributions	**(890,496)**	(863,124)
Contributions deficiency (excess)	**$ -**	$ -
Center's covered-employee payroll	**$ 7,420,800**	$ 7,192,697
Contributions as a percentage of covered-employee payroll	**12.00%**	12.00%

Combined Defined Benefit Pension Plan	2016	2015
Statutorily required contribution	**$ 14,254**	$ 16,852
Contributions in relation to the statutorily required contributions	**(14,254)**	(16,852)
Contributions deficiency (excess)	**$ -**	$ -
Center's covered-employee payroll	**$ 118,783**	$ 140,433
Contributions as a percentage of covered-employee payroll	**12.00%**	12.00%

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

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Adams County Regional Medical Center
Seaman, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Adams County Regional Medical Center ("Center") and its discretely presented component unit, Adams County Medical Foundation, Inc. (collectively, the "Organization) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated June 20, 2017, which contained an emphasis of matter paragraph regarding substantial doubt about the Center's ability to continue as a going concern. The financial statements of Adams County Medical Foundation, Inc., a discretely presented component unit, which are included in the Organization's financial statements, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

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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 20, 2017.

Purpose of this Report

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

Arnett Carbis Toothman LLP

Charleston, West Virginia
June 20, 2017

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RESPONSES
Year Ended December 31, 2016

2015-001: Adjusting Entries

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 Arnett Carbis Toothman LLP and recorded by management.

Recommendation

Management should educate themselves regarding appropriate accounting treatment for various transactions and continue to review these areas throughout the year.

Current Status

Management has reviewed the accounting treatment for the various transactions noted above and has made the appropriate adjustments throughout the year.

2015-02 Adams County Medical Foundation (Foundation) Transactions

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 prior auditors and recorded by management. Also, the Foundation's management does not have appropriate procedures in place to monitor compliance with grant requirements.

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.

Current Status

Management has reported the activities of the Foundation throughout the year. Management also instituted procedures to monitor compliance with grant requirements.

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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
SEPTEMBER 28, 2017

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