

ADAMS COUNTY HOSPITAL

FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007



Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Adams County Hospital, Adams County, prepared by Blue & Co., LLC, for the audit period January 1, 2008 through December 31, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Adams County Hospital is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 9, 2009

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ADAMS COUNTY HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Adams County Hospital
Seaman, Ohio

We have audited the accompanying balance sheets of Adams County Hospital, a component unit of Adams County, Ohio, as of December 31, 2008 and 2007, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Adams County Hospital as of December 31, 2008 and 2007, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees
Adams County Hospital

Management's Discussion and Analysis on pages i through vi is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2009, on our consideration of Adams County Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Blue & Co., LLC

July 27, 2009

Adams County Hospital

A Component Unit of Adams County, State of Ohio
Management's Discussion and Analysis (unaudited)

The discussion and analysis of Adams County Hospital (the Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2008, 2007 and 2006. Please read it in conjunction with the Hospital's financial statements, which begin on page 3.

Financial Highlights

- The Hospital's net assets decreased approximately \$1,406,000 and \$2,716,000 in 2008 and 2007, respectively.
- During 2008, the Hospital's operating revenues increased by 24% to approximately \$23,687,000 while expenses increased 12% to \$24,388,000. The result is a loss from operations of approximately \$701,000 in 2008 compared to an operating loss of \$2,632,000 in 2007.
- The Hospital did not meet certain covenants related to its bonds outstanding at December 31, 2008. The Hospital obtained a waiver of this covenant violation. Management intends to return the Hospital to profitability through evaluation of contribution margins of certain lines of business, rates charged and evaluation of staffing levels consistent with service level needs.

Using This Annual Report

The Hospital's financial statements consist of three statements—a Balance Sheet; a Statement of Operations and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital.

The Balance Sheet and Statement of Operations and Changes in Net Assets

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

These two statements report the Hospital's net assets and related changes. You can think of the Hospital's net assets—the difference between assets and liabilities—as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

Adams County Hospital

A Component Unit of Adams County, State of Ohio
Management's Discussion and Analysis (unaudited)

Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and related financing 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 balance during the reporting period?"

Net Assets

Net assets decreased by \$1,406,000 in 2008, as you can see in Table 1.

Table 1: Assets, Liabilities, and Net Assets (in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets			
Cash and cash equivalents	\$ 5,150	\$ 6,177	\$ 20,443
Capital assets	28,219	29,776	15,994
Patient accounts receivable, net	3,574	2,918	3,486
Other assets	1,325	1,872	1,392
Total assets	<u>\$ 38,268</u>	<u>\$ 40,742</u>	<u>\$ 41,317</u>
Liabilities			
Current liabilities	\$ 3,946	\$ 3,895	\$ 2,473
Long - term obligations	28,069	29,188	28,469
Total liabilities	<u>32,015</u>	<u>33,083</u>	<u>30,942</u>
Net assets			
Invested in capital assets, net of debt	(947)	(518)	4,703
Unrestricted	7,131	8,108	5,544
Restricted	69	69	128
Total net assets	<u>6,253</u>	<u>7,659</u>	<u>10,375</u>
Total liabilities and net assets	<u>\$ 38,268</u>	<u>\$ 40,742</u>	<u>\$ 41,317</u>

As can be seen above, net assets decreased to approximately \$6,253,000 in 2008, down from \$7,659,000 in 2007.

Adams County Hospital

A Component Unit of Adams County, State of Ohio
Management's Discussion and Analysis (unaudited)

A summary of the Hospital's changes in net assets for the years ended December 31, 2008, 2007 and 2006 is presented below (in thousands):

	2008	2007	2006
Operating revenues			
Net patient service revenues	\$ 23,302	\$ 18,536	\$ 20,111
Other	385	585	494
Total revenue	23,687	19,121	20,605
Operating expenses			
Salaries and benefits	11,828	10,750	11,454
Supplies	3,237	2,972	2,852
Purchased services	2,906	2,379	2,602
Other	6,417	5,652	4,416
Total operating expenses	24,388	21,753	21,324
Loss from operations	(701)	(2,632)	(719)
Other changes in net assets	(705)	(84)	1,062
Change in net assets	\$ (1,406)	\$ (2,716)	\$ 343

Sources of Revenue

During 2008 the Hospital derived substantially all of its revenue from patient service and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

Adams County Hospital

A Component Unit of Adams County, State of Ohio
Management's Discussion and Analysis (unaudited)

Payer Mix

The Hospital provides care to patients under payment arrangement with Medicare, Medicaid, and various managed care programs. Services provided under those arrangements are paid at predetermined rates and/or reimbursable costs as defined. Provisions have been made in the financial statements for contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payment.

Operating Gains/Losses

Revenues

The Hospital generated significantly more revenues from patients in 2008. Net patient service revenues increased approximately \$4,766,000 in 2008 primarily due to increased volume during the year. The Hospital occupied its current facility for a full year during 2008 vs. a partial year in two facilities during 2007.

Expenses

Total operating expenses increased approximately \$2,635,000 or 12% in 2008 which was attributable to an increase in depreciation, utilities, costs for supplies and drugs, medical professional fees as well as repairs and maintenance expenses.

Adams County Hospital

A Component Unit of Adams County, State of Ohio
Management's Discussion and Analysis (unaudited)

PROPERTY, PLANT AND EQUIPMENT

During 2008, the Hospital invested \$1.1 million gross of disposals and transfers in a broad range of property, plant and equipment which is included in the table below (in thousands):

	<u>2008</u>	<u>2007</u>
Land improvements	\$ 2,257	\$ 444
Buildings and fixed equipment	25,712	25,432
Major moveable and leased equipment	9,860	9,713
Construction in progress	289	1,779
	<hr/>	<hr/>
Total property, plant and equipment	38,118	37,368
Less accumulated depreciation	9,899	7,592
	<hr/>	<hr/>
Capital assets, net	<u>\$ 28,219</u>	<u>\$ 29,776</u>

Property, plant, and equipment have decreased because the Hospital reduced spending on equipment during 2008. There was a bond issuance in 2005 for \$27,480,000. The proceeds were utilized for the building of a new hospital in Seaman, Ohio which opened in 2007.

Adams County Hospital

A Component Unit of Adams County, State of Ohio
Management's Discussion and Analysis (unaudited)

DEBT

At December 31, 2008, the Hospital had \$26,785,000 in outstanding Hospital Facility Improvement Bonds, the entire amount of which was issued in 2005. All but \$375,000 of this debt is long-term.

Other existing debt as of December 31, 2008 is approximately \$2,381,000, of which approximately \$722,000 is payable in 2009. This debt consists of capital lease obligations.

At December 31, 2008 the Hospital was not in compliance with the provisions of the bond covenants which require days cash on hand to be greater than 50 days and debt service coverage equal to at least 120% of maximum annual debt service. The Hospital has obtained a waiver of these covenants.

ECONOMIC FACTORS AND 2009 BUDGET

The Hospital's Board and management considered many factors when setting the 2009 budget. Of primary importance in setting the budget was the status of the economy, which takes into account market focus and other environmental factors such as the following:

- The new Hospital facility in Seaman, Ohio and its impact on the Hospital's patient volume and demographics, as well as its results of operations
- Debt management and covenants related to bonded debt
- Demographics and impact areas of population growth and the expanding need for services
- Continuously increasing expectations of quality improvements
- Advances in medical equipment technology and the need to replace obsolete equipment
- Privacy legislation - Health Insurance Portability and Accountability Act (HIPAA)
- Increasing emphasis on the integrity of financial information
- Increasing number of uninsured patients
- Increasing cost of medical supplies
- Access to additional capital
- Increasing drug costs

The focus of management is to implement a multi-year plan that will emphasize expanded services to all areas of Adams County, continuous quality improvement, cost control, capital requirements, and financing in support of net assets improvement.

ADAMS COUNTY HOSPITAL

BALANCE SHEETS DECEMBER 31, 2008 AND 2007

ASSETS

	<u>2008</u>	<u>2007</u>
Current assets		
Cash and cash equivalents	\$ 866,358	\$ 1,466,392
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$1,262,131 and \$1,130,667 in 2008 and 2007, respectively	3,573,850	2,917,536
Inventories	239,974	231,320
Estimated third party settlements	98,021	784,643
Prepaid expenses and other current assets	<u>202,893</u>	<u>26,470</u>
Total current assets	4,981,096	5,426,361
Asset whose use is limited		
Board designated for future capital purposes	664,390	268,443
Trustee held funds	<u>3,619,187</u>	<u>4,441,913</u>
	4,283,577	4,710,356
Capital assets, net	28,219,273	29,775,939
Bond issuance costs, net	571,511	595,369
Note receivable	<u>212,258</u>	<u>233,750</u>
Total assets	<u>\$ 38,267,715</u>	<u>\$ 40,741,775</u>

See accompanying notes to financial statements.

ADAMS COUNTY HOSPITAL

BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
Current liabilities		
Accounts payable	\$ 909,531	\$ 890,253
Accrued expenses	1,939,591	1,899,024
Current portion of bonds payable	375,000	355,000
Current portion of capital lease obligations	722,094	751,157
Total current liabilities	<u>3,946,216</u>	<u>3,895,434</u>
Long-term liabilities		
Bonds payable	26,410,000	26,785,000
Capital lease obligations	1,658,758	2,402,604
Total long-term liabilities	<u>28,068,758</u>	<u>29,187,604</u>
Total liabilities	32,014,974	33,083,038
Net assets		
Invested in capital assets, net of related debt	(946,579)	(517,822)
Unrestricted	7,130,542	8,107,527
Restricted by donors	68,778	69,032
Total net assets	<u>6,252,741</u>	<u>7,658,737</u>
Total liabilities and net assets	<u><u>\$ 38,267,715</u></u>	<u><u>\$ 40,741,775</u></u>

See accompanying notes to financial statements.

ADAMS COUNTY HOSPITAL

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Operating revenues		
Net patient service revenue	\$ 23,302,088	\$ 18,536,228
Operating grants and other revenues	385,398	584,978
	23,687,486	19,121,206
Operating expenses		
Salaries and benefits	11,827,560	10,749,847
Medical professional fees	1,145,227	1,151,250
Supplies	3,236,960	2,972,399
Purchased services	2,906,444	2,379,468
Equipment rentals	145,979	160,968
Repairs and maintenance	817,485	740,168
Utilities	623,723	679,776
Depreciation and amortization	2,673,352	1,836,279
Other	1,011,357	1,083,133
	24,388,087	21,753,288
Loss from operations	(700,601)	(2,632,082)
Sales tax levy and other non-operating revenue (loss)	(705,141)	(25,274)
Change in unrestricted net assets	(1,405,742)	(2,657,356)
Change in restricted net assets	(254)	(58,909)
Change in net assets	(1,405,996)	(2,716,265)
Net assets beginning of year	7,658,737	10,375,002
Net assets, end of year	\$ 6,252,741	\$ 7,658,737

See accompanying notes to financial statements.

ADAMS COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Operating activities		
Cash received from patient services	\$ 23,332,396	\$ 18,556,395
Cash paid to vendors for goods and services	(10,052,974)	(8,663,875)
Cash paid to employees for wages and benefits	(11,786,993)	(10,595,841)
Other operating activities	385,398	584,978
Net cash from operating activities	1,877,827	(118,343)
Cash flow from non-capital financing activities		
Non-operating revenues (losses)	(705,395)	(84,183)
Cash flow from capital and related financing activities		
Acquisition of property and equipment	(1,112,195)	(13,708,137)
Loss on disposal of capital assets	8,211	-
Proceed from disposal of capital assets	11,156	417,060
Principal paid on long-term debt & capital leases	(1,127,909)	(766,270)
Net cash from capital and related financing activities	(2,220,737)	(14,057,347)
Cash flow from investing activities		
Payments received under note receivable	21,492	16,250
Net change in cash and cash equivalents	(1,026,813)	(14,243,623)
Cash and cash equivalents		
Beginning of year	6,176,748	20,420,371
End of year	\$ 5,149,935	\$ 6,176,748
Recap of cash and cash equivalents		
Undesignated cash	\$ 797,580	\$ 1,397,360
Designated cash	664,390	268,443
Restricted cash - bond issuance	3,619,187	4,441,913
Other restricted cash	68,778	69,032
Total cash and cash equivalents	\$ 5,149,935	\$ 6,176,748
Reconciliation of loss from operations to net cash from operating activities		
Loss from operations	\$ (700,601)	\$ (2,632,082)
Adjustment to reconcile loss from operations to net cash from operating activities		
Depreciation and amortization	2,673,352	1,836,279
Bad debts	2,307,734	2,789,249
Changes in operating assets and liabilities		
Patient accounts receivable	(2,964,048)	(2,220,676)
Inventories	(8,654)	(5,490)
Prepaid expenses and other current assets	(176,423)	28,784
Estimated third-party settlements	686,622	(548,406)
Accounts payable	19,278	479,993
Accrued expenses	40,567	154,006
Net cash from operating activities	\$ 1,877,827	\$ (118,343)
Supplemental disclosure of non-cash capital and financing activity:		
Equipment acquired under capital leases	\$ -	\$ 2,273,207
Cash paid for interest	\$ 1,913,627	\$ 856,262

See accompanying notes to financial statements.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Adams County Hospital (the Hospital) is a 25-bed facility located in Adams County, Ohio and operated by a Board of Trustees as provided for under Ohio Revised Code Section 339. The board of trustees, appointed by Adams County judges and commissioners, is charged with the management and operation, finances and staff of the Hospital. The Hospital is considered a component unit of Adams County, Ohio, and is included as a component unit in the general-purpose financial statements of Adams County. The Hospital's operations consist of providing healthcare services to residents of Adams County, Ohio, and the surrounding area.

Basis of Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenue and expenses are subject to accrual. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements, including those issues after November 30, 1989.

Other activities that result in gains or losses unrelated to the Hospital's primary mission are considered to be non-operating. Non-operating gains and losses include proceeds from the sales tax levy, unrestricted contributions, interest earnings on investments and gains and losses from sale of assets.

Use of Estimates

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

Cash and Cash Equivalents

The Hospital considers cash and cash equivalents as those funds on deposit which mature in three months or less.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Inventories

Inventories are valued at the lower of cost or market as determined by the first-in, first-out (FIFO) method.

Bond Issuance Costs

Costs incurred in obtaining long-term debt financing are being amortized over the term of the obligations.

Assets Whose Use is Limited

Assets whose use is limited represent cash and cash equivalents set aside by the board of trustees for future capital improvements, over which the Board of Trustees retains control and may at its discretion subsequently, use for other purposes. Assets whose use is limited also included various externally restricted funds as well as trustee-held assets.

Property, Plant and Equipment

Property, plant and equipment are reported on the basis of cost or at fair market value at the date received if acquired by gift. It is the Hospital's policy to capitalize acquired property, plant and equipment with a cost or fair market value of \$5,000. Expenditures for maintenance and repairs, which do not extend the useful lives of the applicable assets, are charged to expenses as incurred. Depreciation is computed using the straight-line method over the expected useful lives of depreciable assets. Equipment under capital leases are amortized using the straight-line method over the lessor of the lease term or the estimated useful life of the equipment. The estimated useful lives are as follows:

Land improvements	5 - 20 years
Building and fixed equipment	5 - 40 years
Major movable equipment	2 - 20 years
Leased equipment	3- 15 years

Compensated absences

The Hospital's employees earn vacation days at varying rates depending on years of service. Employees also earn sick leave benefits based on varying rates depending on years of service.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Lease agreements

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

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. There has been no reduction in insurance coverage from the previous year.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under payment agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Operating Revenues

For purposes of these financial statements, operating revenues are those revenues generated by the Hospital for healthcare services rendered, grants received, or any other activity related to the Hospital's primary purpose as previously noted in Note 1.

Third-Party Payors

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Medicare and Medicaid

The Hospital is a provider of services under the Medicare and Medicaid programs. The Hospital is designated as a critical access facility by the Medicare program. As a result, Medicare inpatient and outpatient services are reimbursed at 101% of the cost of providing those services. Payment for a majority of Medicaid inpatient and outpatient services is based on a prospectively determined amount.

Other Payors

The Hospital has entered into agreements with certain commercial carriers. Reimbursement for services under these agreements includes discounts from established charges and other payment methodologies.

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the years ended December 31, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
Gross patient service revenue	\$ 43,616,786	\$ 35,764,287
less:		
Third party allowances	17,959,240	14,363,342
Charity care	47,724	75,468
Bad debts	2,307,734	2,789,249
Net patient service revenue	<u>\$ 23,302,088</u>	<u>\$ 18,536,228</u>

Charity Care

The Hospital provides care to patients who meet criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues. Charges excluded from revenue under the Hospital's charity care policy for patients unable to pay were \$47,724 and \$75,468 for 2008 and 2007, respectively.

Restricted Resources

It is the Hospital's policy to first apply unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Restricted resources are used only after unrestricted resources have been depleted.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Reclassifications

Certain 2007 accounts have been reclassified to conform to the 2008 presentation.

Accounting for Uncertainty in Income Taxes

The Financial Accounting Standards Board ("FASB") has issued Interpretation No. 48 ("FIN 48"), which clarifies generally acceptable accounting principles for recognition, measurement, presentation and disclosure relating to uncertain tax positions. FIN 48 applies to business enterprises, not-for-profit entities, and pass-through entities, such as S corporations and limited liability companies. As permitted by FIN 48 (as amended), the Association has elected to defer the application of FIN 48 until issuance of its December 31, 2009 financial statements. For financial statements covering periods prior to calendar 2009, the Hospital evaluates uncertain tax positions in accordance with existing generally accepted accounting principles and makes such accruals and disclosures as might be required thereunder.

2. DEPOSITS

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

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

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

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

For the years ending 2008 and 2007, the carrying amount of the Hospital's deposits was \$5,149,935 and \$6,176,748 and the bank balance was \$5,459,497 and \$6,544,955, respectively. Of the bank balances for 2008 and 2007, \$439,612 and \$300,000 was covered by federal depository insurance, respectively and would belong in the risk category "insured or collateralized"; and \$5,019,885 and \$6,244,955, respectively, was covered by collateral held by third-party trustees pursuant to Section 135.181 of the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, and belongs in the risk category "uncollateralized".

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Interest rate risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – The Hospital may invest in United States obligations or any other obligation guaranteed by the United States; bonds, notes or any other obligations or securities issued by any federal government or instrumentality; time certificate of deposit or savings or deposit accounts, including passbook accounts, in any eligible institution mentioned in Section 135.32; bonds and other obligations of the State of Ohio or the political subdivisions of the state provided that such political subdivisions are located wholly or partly within the same county; and certain no load money market mutual funds; certain commercial paper; and certain repurchase agreements.

Concentration of credit risk – The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

3. THIRD-PARTY SETTLEMENTS AND COMPONENTS OF PATIENT ACCOUNTS RECEIVABLE

Estimated third-party settlements for the Medicare and Medicaid programs reflect differences between interim reimbursement and reimbursement as determined by cost reports filed after the end of each year. Such third-party settlements reflect differences owed to or by the Hospital. The years 2003 and thereafter remain unsettled at December 31, 2008 for Medicaid. The years 2007 and 2008 remain unsettled at December 31, 2008 for Medicare.

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

	December 31	
	2008	2007
Medicare	23%	28%
Medicaid	24%	23%
Commercial and other	27%	20%
Self-pay	26%	29%
	<u>100%</u>	<u>100%</u>

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

4. CAPITALIZED INTEREST

The Hospital follows the policy of capitalizing interest as a component of the cost of capital assets constructed for its own use. In 2007, total interest incurred relating to Facility Improvement Bonds was \$1,773,293, of which \$850,595 was charged to interest expense during the year, respectively. In accordance with Financial Accounting Standards Board (FASB) guidelines, interest income earned by the Hospital related to this was netted with the interest expense capitalized.

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008:

	12/31/07	Additions	Transfers/ Disposals	12/31/08
Property, plant and equipment				
Construction in progress	\$ 1,778,611	\$ 288,986	\$ (1,778,609)	\$ 288,988
Depreciable property, plant and equipment				
Land improvements	443,784	39,978	1,773,293	2,257,055
Buildings	20,821,877	313,247	-	21,135,124
Fixed equipment	4,610,449	93,409	(127,148)	4,576,710
Major moveable equipment	4,492,348	376,575	(229,752)	4,639,171
Leased equipment	5,221,139	-	-	5,221,139
Total capital assets	<u>37,368,208</u>	<u>1,112,195</u>	<u>(362,216)</u>	<u>38,118,187</u>
Less accumulated depreciation				
Land improvements	20,517	55,847	-	76,364
Buildings	530,836	868,802	(755)	1,398,883
Fixed equipment	2,763,923	412,676	(282,582)	2,894,017
Major moveable equipment	2,712,138	533,194	(59,512)	3,185,820
Leased equipment	1,564,855	778,975	-	2,343,830
Total accumulated depreciation	<u>7,592,269</u>	<u>2,649,494</u>	<u>(342,849)</u>	<u>9,898,914</u>
Capital assets, net	<u>\$ 29,775,939</u>	<u>\$ (1,537,299)</u>	<u>\$ 19,367</u>	<u>\$ 28,219,273</u>

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Capital asset activity for the year ended December 31, 2007:

	12/31/06	Additions	Disposals	12/31/07
Property, plant and equipment				
Construction in progress	\$ 12,205,672	\$ 13,253,592	\$ (23,680,653)	\$ 1,778,611
Depreciable property, plant and equipment				
Land improvements	298,786	-	144,998	443,784
Buildings	3,818,532	-	17,003,345	20,821,877
Fixed equipment	5,040,165	196,615	(626,331)	4,610,449
Major moveable equipment	4,669,168	257,930	(434,750)	4,492,348
Leased equipment	2,947,932	2,273,207	-	5,221,139
Total capital assets	<u>28,980,255</u>	<u>15,981,344</u>	<u>(7,593,391)</u>	<u>37,368,208</u>
Less accumulated depreciation				
Land improvements	291,999	25,244	(296,726)	20,517
Buildings	3,398,180	369,966	(3,237,310)	530,836
Fixed equipment	4,152,627	859,602	(2,248,306)	2,763,923
Major moveable equipment	3,618,441	487,686	(1,393,989)	2,712,138
Leased equipment	1,525,198	39,657	-	1,564,855
Total accumulated depreciation	<u>12,986,445</u>	<u>1,782,155</u>	<u>(7,176,331)</u>	<u>7,592,269</u>
Capital assets, net	<u>\$ 15,993,810</u>	<u>\$ 14,199,189</u>	<u>\$ 417,060</u>	<u>\$ 29,775,939</u>

6. LONG-TERM DEBT

The following is a summary of the Hospital's long-term debt:

	December 31, 2008	
	Bond payable	Capital lease
Debt outstanding December 31, 2007	27,140,000	3,153,761
Repayments	355,000	772,909
Debt outstanding December 31, 2008	<u>\$ 26,785,000</u>	<u>\$ 2,380,852</u>
Expected to be paid within one year	<u>\$ 375,000</u>	<u>\$ 722,094</u>
	December 31, 2007	
	Bond payable	Capital lease
Debt outstanding December 31, 2006	\$ 27,480,000	\$ 1,306,824
Additions of new debt	-	2,273,207
Repayments	340,000	426,270
Debt outstanding December 31, 2007	<u>\$ 27,140,000</u>	<u>\$ 3,153,761</u>
Expected to be paid within one year	<u>\$ 355,000</u>	<u>\$ 751,157</u>

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Bonds payable

The Hospital is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued in 2005 to construct a new facility in Seaman, Ohio. The bonds are dated July 28, 2005 with an original issue of \$27,480,000. Interest rates range from 5.00% to 6.25%. The outstanding balance at December 31, 2008 was \$26,785,000. There are certain covenants associated with this bond issue that are in effect one year subsequent to the completion of the Hospital project. Future minimum principal and interest payments follow:

	Principal	Interest	Total
2009	\$ 375,000	\$ 1,719,362	\$ 2,094,362
2010	395,000	1,698,738	2,093,738
2011	420,000	1,676,025	2,096,025
2012	445,000	1,650,828	2,095,828
2013	470,000	1,623,013	2,093,013
2014-2018	2,830,000	7,635,688	10,465,688
2019-2023	3,840,000	6,627,638	10,467,638
2024-2028	5,260,000	5,212,350	10,472,350
2029-2033	7,205,000	3,266,575	10,471,575
2034-2036	5,545,000	735,800	6,280,800
	<u>\$ 26,785,000</u>	<u>\$ 31,846,017</u>	<u>\$ 58,631,017</u>

At December 31, 2008 the Hospital was not in compliance with the provisions of the bond covenants which require day's cash on hand to be greater than 50 days and debt service coverage equal to at least 120% of maximum annual debt service. The Hospital has obtained a waiver of these covenants.

Interest expense for 2008 and 2007 was \$1,907,415 and \$850,595, respectively.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Capital lease obligations

The Hospital leases certain equipment under capital lease obligations. Interest rates range from 5.96% to 7.00%. Net minimum future lease payments follows:

	<u>December 31</u> <u>2008</u>
2009	\$ 844,634
2010	829,802
2011	600,047
2012	<u>353,573</u>
Total net future minimum lease payments	2,628,056
Less: amount representing interest	<u>247,204</u>
Total capital lease obligations	2,380,852
Less: current portion	<u>722,094</u>
Long-term capital lease obligations	<u><u>\$ 1,658,758</u></u>

Net book value of lease equipment included within capital assets follows:

	<u>2008</u>	<u>2007</u>
Cost	\$ 5,221,139	\$ 5,221,139
Accumulated depreciation	<u>2,343,830</u>	<u>1,564,855</u>
Net book value	<u><u>\$ 2,877,309</u></u>	<u><u>\$ 3,656,284</u></u>

7. OPERATING LEASES

The Hospital has lease agreements for certain buildings and office equipment under operating leases. Net future minimum lease payments for these leases follow:

2009	\$ 25,308
2010	22,284
2011	14,970
2012	8,773
2013	595
Total	<u><u>\$ 71,930</u></u>

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

Total rental expense for operating leases, including those with terms of one month or less, for the years ended December 31, 2008 and 2007 was \$145,979 and \$160,968, respectively, and is included within other expenses on the statements of operations and changes in net assets.

8. PENSION PLAN

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

OPERS administers three separate pension plans; The Traditional Pension Plan (TP)- a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD)- a defined contribution plan; and the Combined Plan (CO)- a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and death benefits, annual cost of living adjustments, and post-retirement healthcare benefits to qualifying members of both the Traditional and Combined Plan; however healthcare benefits are not statutorily guaranteed.

Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS Board of Trustees.

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

The Ohio Revised Code provides OPERS statutory authority for employer and employee contributions. The required, actuarially-determined contribution rates for the Hospital and for the employee are 14.0% and 10.0% respectively. The Hospital's contributions, representing 100% employer contributions, for the last three years are as follows:

<u>Year</u>	<u>Contribution</u>
2008	\$ 1,304,174
2007	1,195,437
2006	1,251,934

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

9. POSTEMPLOYMENT HEALTHCARE BENEFITS

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

OPERS provides post-retirement health care coverage to age and service retirees and dependents with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The portion of the 2008 employer contribution rate of 14.00% used to fund healthcare was 7%. The total Hospital contribution used to fund health care was approximately \$652,087 and \$388,000 for the years ended December 31, 2008 and 2007, respectively.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

OPEB are advanced-funded on an actuarially-determined basis. The number of active contributing participants at December 31, 2008 was 363,503. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2008 was approximately \$12.8 billion. The actuarially accrued liability and the unfunded actuarially accrued liability, based on the actuarial cost method used, were approximately \$29.8 billion and \$17.0 billion, respectively, as of December 31, 2008.

The actuarial assumptions used to calculate these amounts are as follows:

- **Funding Method-** An entry age normal actuarial cost method of valuations is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.
- **Assets Valuations Method-** All investments are carried at market value. For actuarial valuations purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.
- **Investment Return-** The investment assumption rate for 2008 was 6.5%.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

- **Active Employee Total Payroll-** An annual increase of 4.0% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from .5% to 6.3%.
- **Health Care-** Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.5% to 4.0% for the next 7 years. In subsequent years, (8 and beyond) health care costs were assumed to increase at 4.0% (the projected wage inflation rate).

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

11. MALPRACTICE INSURANCE

As of December 31, 2008 and 2007, the Hospital carried occurrence basis malpractice insurance coverage of \$1,000,000 per claim and \$3,000,000 aggregate, plus excess liability coverage of \$5,000,000.

12. CONCENTRATIONS

Medicare and Medicaid accounted for approximately 64% and 69% of the Hospital's net patient service revenues during 2008 and 2007, respectively.

13. RESTRICTED FUND BALANCES

Temporarily restricted fund balances are available for the issuance of scholarships, purchase of gifts and for the purchase of medical equipment to be used to treat those with tobacco-related illnesses.

14. FOUNDATION AND CONTRIBUTED LAND

The land on which the new Hospital facility is being leased by its current owners to the Adams County Medical Foundation, Inc (the "Foundation"). The Foundation is allowing the Hospital to construct its new facility on the land. The Foundation's lease of the land is for \$1 for the term of the lease. The lease term is indefinite allowing the Foundation time to apply for nonprofit status under Sections 501 (c)(3) under the Internal Revenue Code. Upon approval of nonprofit status the land will be contributed to the Foundation.

ADAMS COUNTY HOSPITAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

The Foundation was formed exclusively for nonprofit charitable, scientific, or educational purposes and was established to provide services exclusively for the benefit of Adams County Hospital and to further the Hospital's goals and services relating to the general health and well-being of the citizens of Adams County, Ohio and surrounding areas.

The Foundation had financial activity of approximately \$9,232 and \$9,000 in 2008 and 2007.

It is anticipated that the Hospital and the Foundation will report under combined financial statements when the Foundation has greater financial activity.

15. MANAGEMENT'S PLANS

The Hospital did not meet certain covenants related to the bonds outstanding at December 31, 2008 (footnote 6). The Hospital's net assets decreased approximately \$1,406,000 and \$2,716,000 in 2008 and 2007, respectively. Further, while the Hospital's operating revenues increased to approximately \$23,687,000, expenses increased to \$24,388,000. The result is a loss from operations of approximately \$701,000 in 2008. The loss from operations in 2007 was approximately \$2,632,000. These factors could be indicative of the entity's inability to continue as a going concern.

The Hospital occupied a newly constructed facility in 2007. This facility was financed through a bond issue of \$27,480,000 which required annual debt service payments of approximately \$2,093,000 beginning in 2008. The covenants include debt service coverage equal to at least 120% of maximum annual debt service and days cash on hand of not less than 50.

Management of the Hospital plans to return the Hospital to profitability through evaluation of contribution margins of certain lines of business, physician recruitment, renegotiation of supplies contracts and vendor agreements, flexing staff levels consistent with inpatient census needs in addition to other cost containment initiatives as well as implementing a strategic price increase for procedures performed.

It is not possible at this time to predict the success of the Hospital's future plans, and there is no assurance that these plans will be realized. The Hospital's continued existence is dependent on its ability to achieve profitable operations and positive cash flows, and to maintain adequate financing.



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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 Hospital
Seaman, Ohio

We have audited the financial statements of Adams County Hospital, as of and for the year ended December 31, 2008, and have issued our report thereon dated July 27, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adams County Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Adams County Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Adam County Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the deficiencies described in the accompanying schedule of findings and responses (items 2008-1 and 2008-2) to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-1 and 2008-2 to be material weaknesses.

**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 (continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Adams County Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 noted certain matters that we reported to management of Adams County Hospital in a separate letter dated July 27, 2009.

Adams County Hospital's responses to the finding identified in our audit are described in the accompanying schedule of audit findings and responses. We did not audit Adams County Hospital's response and, accordingly, we express no opinion on it.

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

Blue & Co., LLC

July 27, 2009

Adams County Hospital
Schedule of Prior Audit Findings and Responses
December 31, 2007

2007 – 1: Controls over non-routine and nonsystematic transactions

Adjustments were necessary to record capital leases and also book the liability under a related imaging equipment agreement, which represent non-routine transactions for the Hospital. We recommended that the Hospital implement policies to ensure unusual and non-routine transactions are accounted for in accordance with prescribed accounting principles at the time they occur.

Management's Response

We continue to consult with the auditors to address non-routine and nonsystematic transactions to ensure that these transactions are addressed during the year and that they are accounted for in accordance with prescribed accounting principles.

**Adams County Hospital
Schedule of Audit Findings and Responses
December 31, 2008**

2008 – 1: Monitoring Bond Covenants

The Hospital does not monitor compliance with covenants related to its bond obligations on an interim or annual basis. The Hospital is required to maintain day's cash on hand in excess of 50 days and maintain debt service coverage equal to at least 120% of maximum annual debt service. We recommend that the Hospital calculate and monitor these requirements monthly to identify any compliance issues and communicate them as required to necessary parties.

Management's Response

We will incorporate the calculation of the required covenants monthly as part of the monthly financial statement close process and communicate the results of the calculations to the required parties as necessary.

2008 – 2: Classification of current and long-term portions of debt and capital leases

Reclassification entries totaling \$404,063 were necessary to adjust the current and long-term portions of long-term debt and capital lease obligations to actual amounts. We recommend that management adjust the current and long-term portions of these obligations periodically to better reflect the financial position of the organization.

Management's Response

We will adjust these balances beginning in 2009 utilizing the related amortization schedule.



Mary Taylor, CPA
Auditor of State

ADAMS COUNTY HOSPITAL

ADAMS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 22, 2009**