

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

ADAMS COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF
ADAMS COUNTY, INDIANA

January 1, 2010 to December 31, 2010



FILED
06/22/2011

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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Marvin L. Baird Thomas J. Nordwick	01-01-10 to 07-17-11 07-18-11 to 12-31-11
Treasurer	Dane E. Wheeler	01-01-10 to 12-31-11
Chairman of the Hospital Board	Robert E. Judge, M.D.	01-01-10 to 12-31-11
President of the Board of County Commissioners	Douglas L. Bauman	01-01-10 to 12-31-11



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE ADAMS COUNTY MEMORIAL HOSPITAL, ADAMS COUNTY, INDIANA

We have audited the accompanying basic financial statements of the business-type activities, and the aggregate discretely presented component unit of the Adams County Memorial Hospital (Hospital) as of and for the year ended December 31, 2010, which collectively comprise the Hospital's basic financial statements as listed in the Table of Contents. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital and its aggregate discretely presented component unit as of December 31, 2010, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Funding Progress, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the 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 required supplementary information. However, we did not audit the information and express no opinion on it.

The Hospital has not presented Management's Discussion and Analysis, that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining financial statements listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Hospital. This information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

June 8, 2011

ADAMS COUNTY MEMORIAL HOSPITAL
STATEMENT OF NET ASSETS
December 31, 2010

<u>Assets</u>	<u>Primary Government</u>	<u>Discrete Component Unit</u>	<u>Total Reporting Entity</u>
Current assets:			
Cash and cash equivalents	\$ 10,908,292	\$ 107,787	\$ 11,016,079
Patient accounts receivable, net of estimated uncollectibles of \$1,672,046	6,644,366	-	6,644,366
Supplies and other current assets	1,365,654	-	1,365,654
Noncurrent cash and investments:			
Internally designated	5,621,830	-	5,621,830
Held by trustee for debt service	6,241,697	-	6,241,697
Capital assets:			
Land and construction in progress	1,060,786	-	1,060,786
Depreciable capital assets, net of accumulated depreciation	46,171,354	-	46,171,354
Other assets	<u>9,972</u>	<u>-</u>	<u>9,972</u>
 Total assets	 <u>\$ 78,023,951</u>	 <u>\$ 107,787</u>	 <u>\$ 78,131,738</u>
 <u>Liabilities and Net Assets</u>			
Current liabilities:			
Current maturities of long-term debt	\$ 2,847,985	\$ -	\$ 2,847,985
Accounts payable and accrued expenses	921,234	-	921,234
Estimated third-party payor settlements	1,008,077	-	1,008,077
Other current liabilities	4,733,061	-	4,733,061
Long-term debt, net of current maturities	37,961,087	-	37,961,087
Other long-term liabilities	<u>1,120,358</u>	<u>-</u>	<u>1,120,358</u>
 Total liabilities	 <u>48,591,802</u>	 <u>-</u>	 <u>48,591,802</u>
Net assets:			
Invested in capital assets, net of related debt	6,423,068	-	6,423,068
Restricted:			
For debt service	6,241,697	-	6,241,697
Expendable for specific operating activities	32,395	-	32,395
Nonexpendable permanent endowments	146,760	-	146,760
Unrestricted	<u>16,588,229</u>	<u>107,787</u>	<u>16,696,016</u>
 Total net assets	 <u>29,432,149</u>	 <u>107,787</u>	 <u>29,539,936</u>
 Total liabilities and net assets	 <u>\$ 78,023,951</u>	 <u>\$ 107,787</u>	 <u>\$ 78,131,738</u>

The accompanying notes are an integral part of the financial statements.

ADAMS COUNTY MEMORIAL HOSPITAL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2010

	<u>Primary Government</u>	<u>Discrete Component Unit</u>	<u>Total Reporting Entity</u>
Operating revenues:			
Net patient service revenue (net of provision for bad debt)	\$ 53,320,035	\$ -	\$ 53,320,035
Other	<u>1,255,896</u>	<u>4,861</u>	<u>1,260,757</u>
Total operating revenues	<u>54,575,931</u>	<u>4,861</u>	<u>54,580,792</u>
Operating expenses:			
Salaries and benefits	32,981,131	-	32,981,131
Medical supplies and drugs	4,456,878	-	4,456,878
Insurance	373,103	-	373,103
Other supplies	5,590,112	-	5,590,112
Depreciation and amortization	3,985,179	-	3,985,179
Other	<u>6,104,212</u>	<u>6,491</u>	<u>6,110,703</u>
Total operating expenses	<u>53,490,615</u>	<u>6,491</u>	<u>53,497,106</u>
Operating income (loss)	<u>1,085,316</u>	<u>(1,630)</u>	<u>1,083,686</u>
Nonoperating revenues (expenses):			
Investment income	224,305	701	225,006
Interest expense	(1,942,760)	-	(1,942,760)
Other	<u>(4,992)</u>	<u>259</u>	<u>(4,733)</u>
Total nonoperating revenues (expenses)	<u>(1,723,447)</u>	<u>960</u>	<u>(1,722,487)</u>
Deficiency of revenues under expenses before capital grants and contributions	(638,131)	(670)	(638,801)
Capital grants and contributions	<u>1,773,289</u>	<u>-</u>	<u>1,773,289</u>
Increase (decrease) in net assets	1,135,158	(670)	1,134,488
Net assets beginning of the year	<u>28,296,991</u>	<u>108,457</u>	<u>28,405,448</u>
Net assets end of the year	<u>\$ 29,432,149</u>	<u>\$ 107,787</u>	<u>\$ 29,539,936</u>

The accompanying notes are an integral part of the financial statements.

ADAMS COUNTY MEMORIAL HOSPITAL
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2010

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 57,454,413
Payments to suppliers and contractors	(17,743,850)
Payments to employees	<u>(33,230,808)</u>
Net cash provided by operating activities	<u>6,479,755</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	1,773,289
Principal paid on long-term debt	(2,659,019)
Interest paid on long-term debt	(1,967,059)
Purchase of capital assets	<u>(923,847)</u>
Net cash used by capital and related financing activities	<u>(3,776,636)</u>
Cash flows from investing activities:	
Interest and dividends on investments	<u>224,305</u>
Net increase in cash and cash equivalents	2,927,424
Cash and cash equivalents at beginning of year	<u>19,844,395</u>
Cash and cash equivalents at end of year	<u>\$ 22,771,819</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 10,908,292
Restricted cash and cash equivalents	<u>11,863,527</u>
Total cash and cash equivalents	<u>\$ 22,771,819</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,085,316
Adjustments to reconcile operating income to net cash flows provided by operating activities:	
Depreciation and amortization	3,985,179
Decrease in current assets:	
Patient accounts receivable	853,974
Supplies and other current assets	413,695
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	(15,138)
Other current liabilities	(427,124)
Estimated third-party payor settlements	500,000
Other liabilities related to operating activities	<u>83,853</u>
Net cash provided by operating activities	<u>\$ 6,479,755</u>

The accompanying notes are an integral part of the financial statements.

ADAMS COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Adams County Memorial Hospital (Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Hospital also operates Woodcrest of Decatur, a Continuing Care Retirement Community (CCRC) consisting of Woodcrest Nursing Home, a 143 bed nursing facility; Evergreen Court, a 34 apartment assisted living community; and Woodcrest Independent Living with 42 villas and 48 apartments. The Hospital also operates the Village of Heritage, a 61 bed nursing home. Adams Health Network is a financial entity created to accumulate and then assign shared costs to each of the six medical facilities. Certain administrative functions are performed for all entities. These common functions are accounted for in the combining financial statements as a home office named Adams Health Network. The Physicians Office Practices are owned and operated by the Hospital. There are various office buildings that are leased to numerous physicians. In addition, the Hospital employs and operates a family medical practice and an orthopedic surgery practice.

The Board of County Commissioners of Adams County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Adams County.

The accompanying financial statements present the activities of the Hospital (primary government) and its significant component units. The component unit discussed below is included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the basic financial statements to emphasize that it is legally separate from the Hospital.

Discretely Presented Component Unit

The Adams County Memorial Hospital Foundation is a significant discretely presented component unit of the Hospital. The primary government appoints a voting majority of the Foundation's board and a financial benefit/burden relationship exists between the Hospital and the Foundation.

A separate audit report is not prepared for the individual component unit.

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Hospital has elected to apply subsequent private-sector guidance.

ADAMS COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less.

Short-term investments are investments with remaining maturities of up to 90 days.

Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as non-operating revenues in the Statement of Revenues, Expenses, and Changes in Net Assets.

2. 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 disclosures 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.

3. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

ADAMS COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

<u>Hospital and Nonnursing Home Entities</u>	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land improvements	\$ 5,000	Straight-line	3 to 40
Buildings	5,000	Straight-line	5 to 40
Fixed equipment	5,000	Straight-line	3 to 29
Major moveable equipment	5,000	Straight-line	3 to 23
Clinics	5,000	Straight-line	5 to 40
 <u>Nursing Home Entities</u>			
Land improvements	500	Straight-line	3 to 40
Buildings	500	Straight-line	5 to 40
Fixed equipment	500	Straight-line	3 to 29
Major moveable equipment	500	Straight-line	3 to 23
Clinics	500	Straight-line	5 to 40

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

4. Net Assets

Net assets of the Hospital are classified in four components.

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, contributors, or enabling legislation external to the hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note II. G.

Restricted nonexpendable net assets equal the principal portion of permanent endowments.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

ADAMS COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Grants and Contributions

From time to time, the Hospital receives grants from Adams County and the State of Indiana as well as contributions from 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. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

E. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, state law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note II. G.

F. Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

G. Operating Revenues and Expenses

The Hospital's Statement of Revenues, Expenses, and Changes in Net Assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

H. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue represents the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement 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.

I. Premium Revenue

The Hospital had agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Hospital receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Hospital. In addition, the HMOs make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

ADAMS COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

J. Charity Care

The Hospital has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Because the agency does not expect payment, estimated charges for charity are not included in revenue.

K. Supplies

Inventories of drugs and other supplies are stated at the lower of cost (first-in, first-out) or market.

L. Compensated Absences

Paid Time-Off (PTO)

All employees earn PTO at rates from 18 days to 33 days per year based upon the number of years of service. PTO accumulates to a maximum of 60 days.

Paid days off are accrued when incurred and reported as a liability.

M. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

The carrying amount reported in the Statement of Net Assets for cash and cash equivalents approximates its fair value.

Short-Term Investments

The carrying amount reported in the Statement of Net Assets is the investment's fair value on the day it becomes a short-term investment.

Investments

Fair values, which are the amounts reported in the Statement of Net Assets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable and Accrued Expenses

The carrying amount reported in the Statement of Net Assets for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the Statement of Net Assets for estimated third-party payor settlements approximates its fair value.

ADAMS COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Long-Term Debt

Fair values of the Hospital's revenue notes are based on current traded value. The fair value of the Hospital's remaining long-term debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

N. Rounding Differences

The financial statements may contain immaterial differences due to rounding of amounts when the statements were compiled. These differences are considered trivial and do not affect the overall presentation of the financial statements.

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-16 allows a Hospital Governing Board to deposit public funds in a financial institution. The Hospital does not have a deposit policy for custodial credit risk. At December 31, 2010, the Hospital had deposit balances in the amount of \$16,530,122.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20. As of December 31, 2010, the Hospital had the following investments:

Investment Type	Primary Government Market Value
U.S. treasuries and securities	\$ 92,924
Commercial paper	3,224,995
Investment pools	<u>2,709,745</u>
Total	<u><u>\$ 6,027,664</u></u>

Statutory Authorization for Investments

Indiana Code 16-22-3-20 authorizes the Hospital to invest in:

Any interest bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.

ADAMS COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Repurchase or resale agreements involving the purchase and guaranteed resale of any interest bearing obligations issued or fully insured or guaranteed by the United States or any United States government agency in which type of agreement the amount of money must be fully collateralized by interest bearing obligations as determined by the current market value computed on the day the agreement is effective.

Mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.

Securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Pooled fund investments for participating hospitals offered, managed, and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Hospital does not have a formal investment policy for custodial credit risk for investments.

The Hospital Foundation has not adopted an investment policy for custodial credit risk for investments.

The following investments held by the Hospital were exposed to custodial credit risks because they are uninsured and unregistered with securities held by the counterparty, or the counterparty's trust department or agent, either in or not in the Hospital's name:

Investment Type	Not in the Hospital's Name
U.S. treasuries and securities	\$ 92,924
Commercial paper	3,224,995
Investment pools	<u>2,709,745</u>
Total	<u>\$ 6,027,664</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital does not have a formal investment policy for interest rate risk for investments.

The Hospital Foundation has not adopted a formal investment policy for interest rate risk.

ADAMS COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Investment Type	Investment Maturities (in Years) Less Than 1
U.S. treasuries and securities	\$ 92,924
Commercial paper	3,224,995
Investment pools	2,709,745
Total	\$ 6,027,664

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Hospital does not have a formal investment policy for credit risk for investments.

The Hospital Foundation has not adopted a policy for credit risk.

Standard and Poor's Rating	Moody's Rating	Investment Pools
AA	Aa	\$ 2,709,745

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Hospital does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

The Hospital Foundation has not adopted a policy for the concentration of credit risk.

Foreign Currency Risk

The Hospital does not have a formal policy in regards to foreign currency risk.

The Hospital Foundation has not adopted a formal policy in regards to foreign currency risk.

B. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts:

ADAMS COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 5,660,134
Receivable from Medicare	1,991,212
Receivable from Medicaid	<u>665,064</u>
Total patient accounts receivable	8,316,410
Less allowance for uncollectible amounts	<u>1,672,044</u>
Patient accounts receivable, net	<u><u>\$ 6,644,366</u></u>

Accounts Payable and Accrued Expenses

Payable to suppliers	<u><u>\$ 921,234</u></u>
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C. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 818,750	\$ -	\$ -	\$ 818,750
Construction in progress	<u>5,000</u>	<u>242,036</u>	<u>5,000</u>	<u>242,036</u>
Total capital assets, not being depreciated	<u>823,750</u>	<u>242,036</u>	<u>5,000</u>	<u>1,060,786</u>
Capital assets, being depreciated:				
Land improvements	1,989,302	59,966	-	2,049,268
Buildings	50,687,915	300,602	-	50,988,517
Fixed equipment	4,467,977	29,912	-	4,497,889
Major moveable equipment	18,976,468	296,330	-	19,272,798
Clinics	<u>4,890,184</u>	<u>-</u>	<u>-</u>	<u>4,890,184</u>
Totals	<u>81,011,846</u>	<u>686,810</u>	<u>-</u>	<u>81,698,656</u>
Less accumulated depreciation for:				
Land improvements	1,141,274	173,184	-	1,314,458
Buildings	14,473,853	1,841,711	-	16,315,564
Fixed equipment	983,465	240,598	-	1,224,063
Major moveable equipment	12,749,692	1,563,062	-	14,312,754
Clinics	<u>2,193,840</u>	<u>166,624</u>	<u>-</u>	<u>2,360,464</u>
Totals	<u>31,542,124</u>	<u>3,985,179</u>	<u>-</u>	<u>35,527,303</u>
Total capital assets, being depreciated, net	<u>49,469,722</u>	<u>(3,298,369)</u>	<u>-</u>	<u>46,171,353</u>
Total primary government capital assets, net	<u><u>\$ 50,293,472</u></u>	<u><u>\$ (3,056,333)</u></u>	<u><u>\$ 5,000</u></u>	<u><u>\$ 47,232,139</u></u>

ADAMS COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Construction Commitments

Construction work in progress is composed of the following:

Project	Expended to December 31, 2010	Committed
Woodcrest ECU renovation	\$ 1,600	\$ 2,098,400
Woodcrest roof project	97,200	402,800
Woodcrest new beds	143,236	-
 Totals	 \$ 242,036	 \$ 2,501,200

E. Leases

1. Operating Leases

The Hospital has entered into various operating leases having initial or remaining noncancelable terms exceeding one year for equipment and buildings. Rental expenditures for these leases were \$516,929. The following is a schedule by years of future minimum rental payments as of year end:

2011	\$ 499,416
2012	499,416
2013	372,769
2014	23,500
2015	14,400
2016-2020	72,000
2021-2025	72,000
2026-2030	72,000
2031-2035	15,600
Total	\$ 1,641,101

2. Capital Leases

The Hospital has entered into various capital leases for equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of year end, are as follows:

ADAMS COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2011	\$	537,574
2012		<u>387,544</u>
Total minimum lease payments		925,118
Less amount representing interest		<u>33,678</u>
Present value of net minimum lease payments		<u><u>\$ 891,440</u></u>

Assets acquired through capital leases still in effect are as follows:

Major moveable equipment	\$	<u><u>3,207,408</u></u>
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F. Long-Term Liabilities

1. Revenue Bonds

The Hospital issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Balance at December 31
2003 Hospital construction bonds	3.85% to 5.35%	<u><u>\$ 36,595,000</u></u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
2011	\$ 925,000	\$ 1,764,809
2012	960,000	1,727,322
2013	1,000,000	1,687,143
2014	1,040,000	1,645,323
2015	1,080,000	1,601,862
2016-2020	6,240,000	7,112,634
2021-2025	7,975,000	5,328,938
2026-2030	10,060,000	3,175,537
2031-2035	<u>7,315,000</u>	<u>573,848</u>
Totals	<u><u>\$ 36,595,000</u></u>	<u><u>\$ 24,617,416</u></u>

ADAMS COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Loans Payable

The Hospital has entered into various loans. Annual debt service requirements to maturity for the loans, including interest of \$375,130, are as follows:

2011	\$	1,512,387
2012		1,193,500
2013		226,568
2014		150,054
2015		60,000
2016-2020		300,000
2021-2025		<u>255,254</u>
 Total	 \$	 <u><u>3,697,763</u></u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Revenue:					
Hospital association	\$ 37,485,000	\$ -	\$ 890,000	\$ 36,595,000	\$ 925,000
Capital leases	1,391,050	-	499,610	891,440	510,020
Loans payable	<u>4,592,041</u>	<u>-</u>	<u>1,269,408</u>	<u>3,322,633</u>	<u>1,412,965</u>
 Total long-term liabilities	 <u>\$ 43,468,091</u>	 <u>\$ -</u>	 <u>\$ 2,659,018</u>	 <u>\$ 40,809,073</u>	 <u>\$ 2,847,985</u>

G. Endowments and Restricted Net Assets

Restricted, expendable net assets are available for the following purposes:

	<u>2010</u>
Hospital:	
Debt service	\$ 6,241,697
Woodcrest Retirement Community:	
Specific operating activities	<u>32,395</u>
 Total expendable, restricted net assets	 <u><u>\$ 6,274,092</u></u>

Unless the contributor provides specific instructions, state statute permits the Hospital Board to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the Hospital Board is required to consider the Hospital's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

ADAMS COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Restricted nonexpendable net assets as of year end represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the Hospital's permanent endowments are expendable to support these programs as established by the contributor:

	<u>2010</u>
Woodcrest Retirement Community	<u>\$ 146,760</u>

H. Net Patient Service Revenue

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

1. Medicare

Hospital inpatient acute care services rendered to traditional Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate with a final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. Hospital inpatient psychiatric services and skilled nursing care are paid based on prospectively determined rates. Outpatient hospital services are paid based on a percent of submitted charges (adjusted at least annually) and fee schedules. Physician services are paid based on a fee schedule. Services to beneficiaries enrolled in Medicare Advantage plans are paid through a variety of methodologies including per diem rates, fee schedules, and percent of submitted charges.

2. Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed based on diagnosis. Outpatient services are reimbursed based on a fee schedule. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 60 percent and 10 percent, respectively, of the Hospital's net patient revenue for the year ended 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

ADAMS COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

I. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$600,000 for 2010.

J. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

Designated Funds – Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Internally designated:

Board designation:

Cash and cash equivalents \$ 5,621,830

III. Other Information

A. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees

The Hospital has chosen to service the risks associated with medical benefits to employees. An excess policy through commercial insurance covers individual claims submitted for medical procedures performed outside of Adams County Memorial Hospital. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of payouts and other economic and social factors.

ADAMS COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Changes in the balance of claim liabilities during the past two years are as follows:

	2010	2009
Unpaid claims, beginning of fiscal year	\$ 586,000	\$ 350,000
Incurred claims and changes in estimates	5,470,262	4,939,315
Claim payments	(6,100,799)	(4,703,315)
Unpaid claims, end of fiscal year	\$ (44,537)	\$ 586,000

B. Contingent Liabilities

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

C. Subsequent Events

Loans of \$2,650,000 and \$2,000,000 will be entered into in 2011 for improvements at the Woodcrest Nursing Home and the Woodcrest Independent Living Units.

D. Revenues Pledged

Revenues Pledged in Connection with Component Unit Debt

The Hospital has pledged, as security for bonds issued by the Indiana Bond Bank, a portion of the Hospital's revenues. The bonds, issued by the Hospital in 2003 in the amount of \$40,000,000, are payable through January 15, 2033. The Hospital has committed to appropriate each year, from the Hospital's revenue, amounts sufficient to cover the principal and interest requirements on the Hospital's debt. The Hospital has pledged, as the sole security for the bonds, the annual appropriations from the Hospital. Annual principal and interest payments are expected to equal less than 5 percent of the revenue of the Hospital.

E. Pension Plan

Plan Description

The Hospital has a defined benefit pension plan administered by Adams County Memorial Hospital as authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

ADAMS COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Buck Consultants
202 West Berry Street, Suite 700
Fort Wayne, IN 46802-2248
Ph. (260) 426-7800

Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Plan members are not required to contribute to the plan. The Hospital is required to contribute at an actuarially determined rate. The current rate is 3.99 percent of annual covered payroll.

Actuarial Information for the Above Plan

		Employees' Retirement Plan
Annual required contribution	\$	1,140,925
Interest on net pension obligation		(81,867)
Adjustment to annual required contribution		166,515
Annual pension cost		1,225,573
Contributions made		1,100,000
Decrease in net pension obligation		125,573
Net pension obligation, beginning of year		(1,169,531)
Net pension obligation, end of year	\$	(1,043,958)
Contribution rates:		
Hospital		3.99%
Plan members		0%
Actuarial valuation date		01-01-10
Actuarial cost method		Frozen entry age
Amortization method		Level dollar, unfunded actuarial accrued liability re-established each year and amortized over 10 years
Amortization period		10 years
Amortization period (from date)		01-01-98
Asset valuation method		Market value

ADAMS COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Assumptions

Investment rate of return	7.0%
Projected future salary increases:	
Total	5.0%
Attributed to inflation	3.0%
Attributed to merit/seniority	2.0%
Cost-of-living adjustments	N/A

N/A = Not available

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
Employees' Retirement Plan	12-31-07	\$ 722,259	108.0%	\$ (953,716)
	12-31-08	699,185	131.0%	(1,169,531)
	12-31-09	1,225,573	89.8%	(1,043,958)

Funded Status and Funding Progress for the Above Plan

The funded status of the plan as of January 1, 2010, the most recent actuarial valuation date is as follows:

	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c)</u>
Employees' Retirement Plan	\$ 12,017,892	\$ 14,457,461	\$ (2,439,569)	83%	\$ 19,113,765	(13%)

The Schedule of Funding Progress, presented as RSI for the above plan following the Notes to the Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ADAMS COUNTY MEMORIAL HOSPITAL
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Employees' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-07	\$ 11,115,371	\$ 11,945,420	\$ (830,049)	93%	\$ 16,064,906	(5%)
01-01-08	12,123,393	12,674,745	(551,352)	96%	16,602,403	(3%)
01-01-09	9,309,101	13,285,387	(3,976,286)	70%	17,522,809	(23%)
01-01-10	12,017,892	14,457,461	(2,439,569)	83%	19,113,765	(13%)

ADAMS COUNTY MEMORIAL HOSPITAL
COMBINING STATEMENT OF NET ASSETS
December 31, 2010

<u>Assets</u>	<u>Hospital</u>	<u>Woodcrest Nursing Home</u>	<u>Woodcrest Retirement Community</u>	<u>Evergreen Assisted Living</u>	<u>Village of Heritage Nursing Home</u>	<u>Adams Health Network</u>	<u>Physicians Office Practices</u>	<u>Elimination</u>	<u>Total Primary Government</u>
Current assets:									
Cash and cash equivalents	\$ 633,408	\$ 4,527,883	\$ 296,636	\$ 240	\$ 5,449,925	\$ -	\$ 200	\$ -	\$ 10,908,292
Patient accounts receivable	6,879,510	476,677	(958)	9,883	444,451	-	506,849	-	8,316,412
Allowance for uncollectible accounts	(1,333,065)	(180,994)	-	-	(107,302)	-	(50,685)	-	(1,672,046)
Supplies and other current assets	1,188,166	18,633	10,132	7,473	10,560	19,614	111,076	-	1,365,654
Noncurrent cash and investments:									
Internally designated	5,621,830	-	-	-	-	-	-	-	5,621,830
Held by trustee for debt service	6,241,697	-	-	-	-	-	-	-	6,241,697
Capital assets:									
Land and construction in progress	201,807	303,432	122,810	132,300	135,000	-	165,437	-	1,060,786
Depreciable capital assets, net of accumulated depreciation	30,878,502	2,567,543	5,770,705	2,318,058	2,082,717	24,109	2,529,720	-	46,171,354
Due from component units	20,620,978	1,833,533	-	48,386	1,495,609	2,198,557	-	(26,197,063)	-
Other assets	-	2,146	7,826	-	-	-	-	-	9,972
Total assets	<u>\$ 70,932,833</u>	<u>\$ 9,548,853</u>	<u>\$ 6,207,151</u>	<u>\$ 2,516,340</u>	<u>\$ 9,510,960</u>	<u>\$ 2,242,280</u>	<u>\$ 3,262,597</u>	<u>\$(26,197,063)</u>	<u>\$ 78,023,951</u>
Liabilities and Net Assets									
Current liabilities:									
Current maturities of long-term debt	\$ 1,551,670	\$ 251,250	\$ 917,500	\$ -	\$ -	\$ -	\$ 127,565	\$ -	\$ 2,847,985
Accounts payable and accrued expenses	683,642	124,868	20,130	6,505	55,242	21,405	9,442	-	921,234
Estimated third-party payor settlements	1,008,077	-	-	-	-	-	-	-	1,008,077
Due to component units	-	2,417,690	4,202,989	4,322,373	7,351,912	2,220,875	5,681,224	(26,197,063)	-
Other current liabilities	4,170,237	426,078	9,616	24,092	101,268	-	1,770	-	4,733,061
Long-term debt, net of current maturities	36,879,192	200,439	736,493	-	-	-	144,963	-	37,961,087
Other long-term liabilities	-	-	1,120,358	-	-	-	-	-	1,120,358
Total liabilities	<u>44,292,818</u>	<u>3,420,325</u>	<u>7,007,086</u>	<u>4,352,970</u>	<u>7,508,422</u>	<u>2,242,280</u>	<u>5,964,964</u>	<u>(26,197,063)</u>	<u>48,591,802</u>
Net assets:									
Invested in capital assets, net of related debt	(7,350,553)	2,419,286	4,239,522	2,450,358	2,217,717	24,109	2,422,629	-	6,423,068
Restricted:									
For debt service	6,241,697	-	-	-	-	-	-	-	6,241,697
Expendable for specific operating activities	-	-	32,395	-	-	-	-	-	32,395
Nonexpendable permanent endowments	-	-	146,760	-	-	-	-	-	146,760
Unrestricted	<u>27,748,871</u>	<u>3,709,242</u>	<u>(5,218,612)</u>	<u>(4,286,988)</u>	<u>(215,179)</u>	<u>(24,109)</u>	<u>(5,124,996)</u>	<u>-</u>	<u>16,588,229</u>
Total net assets	<u>26,640,015</u>	<u>6,128,528</u>	<u>(799,935)</u>	<u>(1,836,630)</u>	<u>2,002,538</u>	<u>-</u>	<u>(2,702,367)</u>	<u>-</u>	<u>29,432,149</u>
Total liabilities and net assets	<u>\$ 70,932,833</u>	<u>\$ 9,548,853</u>	<u>\$ 6,207,151</u>	<u>\$ 2,516,340</u>	<u>\$ 9,510,960</u>	<u>\$ 2,242,280</u>	<u>\$ 3,262,597</u>	<u>\$(26,197,063)</u>	<u>\$ 78,023,951</u>

ADAMS COUNTY MEMORIAL HOSPITAL
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 Year Ended December 31, 2010

	Hospital	Woodcrest Nursing Home	Woodcrest Retirement Community	Evergreen Assisted Living	Village of Heritage Nursing Home	Adams Health Network	Physicians Office Practices	Elimination	Total Primary Government
Operating revenues:									
Net patient service revenue (net of provision for bad debt)	\$ 38,563,984	\$ 7,710,159	\$ 1,039,338	\$ 803,616	\$ 4,402,178	\$ -	\$ 800,760	\$ -	\$ 53,320,035
Other	1,001,197	44,347	7,785	1,046	47,184	2,024,508	154,337	(2,024,508)	1,255,896
Total operating revenues	39,565,181	7,754,506	1,047,123	804,662	4,449,362	2,024,508	955,097	(2,024,508)	54,575,931
Operating expenses:									
Salaries and benefits	22,760,229	4,517,315	27,655	405,874	2,222,451	1,157,948	1,889,659	-	32,981,131
Medical supplies and drugs	4,272,643	110,562	-	5,096	68,577	-	-	-	4,456,878
Insurance	299,575	24,453	9,965	7,390	13,731	17,989	-	-	373,103
Other supplies	3,945,340	506,221	349,505	195,579	405,294	82,374	105,799	-	5,590,112
Depreciation and amortization	3,024,321	177,252	255,884	212,947	95,186	52,965	166,624	-	3,985,179
Other	5,764,483	677,851	336,727	125,010	303,054	637,413	284,182	(2,024,508)	6,104,212
Total operating expenses	40,066,591	6,013,654	979,736	951,896	3,108,293	1,948,689	2,446,264	(2,024,508)	53,490,615
Operating income (loss)	(501,410)	1,740,852	67,387	(147,234)	1,341,069	75,819	(1,491,167)	-	1,085,316
Nonoperating revenues (expenses):									
Investment income	148,368	26,787	4,066	-	45,084	-	-	-	224,305
Interest expense	(1,790,399)	(12,146)	(44,459)	(610)	-	(75,819)	(19,327)	-	(1,942,760)
Other	-	(1,074)	(3,918)	-	-	-	-	-	(4,992)
Total nonoperating revenues (expenses)	(1,642,031)	13,567	(44,311)	(610)	45,084	(75,819)	(19,327)	-	(1,723,447)
Excess (deficiency) of revenues over (under) expenses before capital grants and contributions	(2,143,441)	1,754,419	23,076	(147,844)	1,386,153	-	(1,510,494)	-	(638,131)
Capital grants and contributions	1,773,289	-	-	-	-	-	-	-	1,773,289
Increase (decrease) in net assets	(370,152)	1,754,419	23,076	(147,844)	1,386,153	-	(1,510,494)	-	1,135,158
Net assets beginning of the year	27,010,167	4,374,109	(823,011)	(1,688,786)	616,385	-	(1,191,873)	-	28,296,991
Net assets end of the year	\$ 26,640,015	\$ 6,128,528	\$ (799,935)	\$ (1,836,630)	\$ 2,002,538	\$ -	\$ (2,702,367)	\$ -	\$ 29,432,149

ADAMS COUNTY MEMORIAL HOSPITAL
COMBINING STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2010

	Hospital	Woodcrest Nursing Home	Woodcrest Retirement Community	Evergreen Assisted Living	Village of Heritage Nursing Home	Adams Health Network	Physicians Office Practices	Elimination	Total Primary Government
Cash flows from operating activities:									
Receipts from and on behalf of patients	\$ 40,712,320	\$ 7,835,373	\$ 1,047,756	\$ 801,323	\$ 4,270,777	\$ 2,024,508	\$ 762,356	\$ -	\$ 57,454,413
Payments to suppliers and contractors	(13,572,090)	(1,281,881)	(614,415)	(310,662)	(800,142)	(802,662)	(361,998)	-	(17,743,850)
Payments to employees	(23,194,133)	(4,521,955)	(27,655)	(405,874)	(2,235,182)	(956,350)	(1,889,659)	-	(33,230,808)
Interfund transactions	407,394	(1,483,881)	304,281	26,459	(696,916)	(189,677)	1,632,340	-	-
Net cash provided by operating activities	<u>4,353,491</u>	<u>547,656</u>	<u>709,967</u>	<u>111,246</u>	<u>538,537</u>	<u>75,819</u>	<u>143,039</u>	<u>-</u>	<u>6,479,755</u>
Cash flows from capital and related financing activities:									
Capital grants and contributions	1,773,289	-	-	-	-	-	-	-	1,773,289
Principal paid on long-term debt	(1,505,667)	(201,000)	(734,000)	(95,900)	-	-	(122,452)	-	(2,659,019)
Interest paid on long-term debt	(1,807,828)	(13,315)	(48,726)	(784)	-	(75,819)	(20,587)	-	(1,967,059)
Purchase of capital assets	(229,850)	(443,677)	(211,450)	(14,372)	(24,498)	-	-	-	(923,847)
Net cash used by capital and related financing activities	<u>(1,770,056)</u>	<u>(657,992)</u>	<u>(994,176)</u>	<u>(111,056)</u>	<u>(24,498)</u>	<u>(75,819)</u>	<u>(143,039)</u>	<u>-</u>	<u>(3,776,636)</u>
Cash flows from investing activities:									
Interest and dividends on investments	<u>148,368</u>	<u>26,787</u>	<u>4,066</u>	<u>-</u>	<u>45,084</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>224,305</u>
Net increase (decrease) in cash and cash equivalents	2,731,803	(83,549)	(280,143)	190	559,123	-	-	-	2,927,424
Cash and cash equivalents at beginning of year	<u>9,765,132</u>	<u>4,611,432</u>	<u>576,779</u>	<u>50</u>	<u>4,890,802</u>	<u>-</u>	<u>200</u>	<u>-</u>	<u>19,844,395</u>
Cash and cash equivalents at end of year	<u>\$ 12,496,935</u>	<u>\$ 4,527,883</u>	<u>\$ 296,636</u>	<u>\$ 240</u>	<u>\$ 5,449,925</u>	<u>\$ -</u>	<u>\$ 200</u>	<u>\$ -</u>	<u>\$ 22,771,819</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:									
Cash and cash equivalents in current assets	\$ 633,408	\$ 4,527,883	\$ 296,636	\$ 240	\$ 5,449,925	\$ -	\$ 200	\$ -	\$ 10,908,292
Restricted cash and cash equivalents	<u>11,863,527</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,863,527</u>
Total cash and cash equivalents	<u>\$ 12,496,935</u>	<u>\$ 4,527,883</u>	<u>\$ 296,636</u>	<u>\$ 240</u>	<u>\$ 5,449,925</u>	<u>\$ -</u>	<u>\$ 200</u>	<u>\$ -</u>	<u>\$ 22,771,819</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:									
Operating income (loss)	\$ (501,410)	\$ 1,740,852	\$ 67,387	\$ (147,234)	\$ 1,341,069	\$ 75,819	\$ (1,491,167)	\$ -	\$ 1,085,316
Adjustments to reconcile operating income (loss) to net cash flows provided by operating activities:									
Depreciation and amortization	3,024,321	177,252	255,884	212,947	95,186	52,965	166,624	-	3,985,179
(Increase) decrease in current assets:									
Patient accounts receivable	1,147,139	80,867	633	(3,339)	(178,585)	-	(192,741)	-	853,974
Supplies and other current assets	152,496	15,613	(110)	433	8,220	201,940	35,103	-	413,695
Due from component units	454,404	(148,622)	-	-	-	(479,999)	-	174,217	-
Increase (decrease) in current liabilities:									
Accounts payable and accrued expenses	10,386	21,593	(1,961)	(2,112)	(17,706)	(18,218)	(7,120)	-	(15,138)
Other current liabilities	(433,845)	(4,640)	-	24,092	(12,731)	-	-	-	(427,124)
Estimated third-party payor settlements	500,000	-	-	-	-	-	-	-	500,000
Due to component units	-	(1,335,259)	304,281	26,459	(696,916)	243,312	1,632,340	(174,217)	-
Other liabilities related to operating activities	-	-	83,853	-	-	-	-	-	83,853
Net cash provided by operating activities	<u>\$ 4,353,491</u>	<u>\$ 547,656</u>	<u>\$ 709,967</u>	<u>\$ 111,246</u>	<u>\$ 538,537</u>	<u>\$ 75,819</u>	<u>\$ 143,039</u>	<u>\$ -</u>	<u>\$ 6,479,755</u>

ADAMS COUNTY MEMORIAL HOSPITAL
AUDIT RESULTS AND COMMENTS

CERTIFIED REPORT NOT FILED

The Hospital did not file a certified report of compensation of officers and employees (Form 100-R or its equivalent) with the State Board of Accounts for the year 2010. A similar comment appeared in prior Report B37583.

Indiana Code 5-11-13-1 states in part:

"Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

COMPENSATION AND BENEFITS – TRANSFER OWNERSHIP OF LIFE INSURANCE

In prior years, the Hospital purchased life insurance policies to cover four "key" executives. In 2009, ownership of the cash surrender values of three of these policies was transferred to the covered executives. An employment separation agreement was entered into for the former Treasurer that allowed for his transfer, however, the other two executives received ownership of the cash surrender value but a contract could not be located nor was there any mention in the Board minutes allowing this transfer of ownership. A resolution was signed April 13, 2011, two years after the transfers were made, that approved the transfer of ownership to the key executives. A similar comment appeared in prior Report B37583.

The transfer of ownership of the cash surrender value of the remaining life insurance policy was made in 2010 for the Hospital Executive Director (estimated value of \$201,600), but a contract could not be located nor was there any mention in the Board minutes allowing this transfer of ownership. A resolution was signed April 13, 2011, one year after the transfer was made, that approved the transfer of ownership to the key executive.

All compensation and benefits paid to officers and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 1)

The hospital is responsible for complying with the decisions of the governing board as evidenced in the board minutes and other written memoranda. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 9)

COMPENSATION AND BENEFITS – FORGIVABLE LOANS

Through an agreement with the Hospital, a physician is eligible to receive \$300,000 in forgivable loans. On April 2, 2009, the physician received his first loan draw of \$100,000 that was recorded as a receivable and is due to be forgiven July 31, 2011. The loan advances are forgiven if he remains at the Hospital for two years after each draw is received.

ADAMS COUNTY MEMORIAL HOSPITAL
AUDIT RESULTS AND COMMENTS
(Continued)

A second advance draw of \$5,000 was paid to the physician on October 14, 2010. This amount was expensed in 2010 and not recorded as a receivable. This amount should be reported as a receivable until the forgivable time has been met. When the loans are forgiven a Form 1099-C (cancellation of debt) should be issued to report the forgiven amount of the loan as income.

All compensation and benefits paid to officers and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 1)

COMPENSATION AND BENEFITS – NO SUPPORTING DOCUMENTATION FOR RATE OF PAY

The Hospital Executive Director and another Hospital employee received compensation for the year 2010 which was not supported by current contracts on file in the Hospital administration office.

All compensation and benefits paid to officers and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 1)

COMPENSATION AND BENEFITS – NOT RECORDING PAID TIME-OFF

Paid time-off (PTO) is not being recorded for some employees. The policy states that all employees earn PTO at rates from 18 days to 33 days per year based upon the number of years of service. Paid time-off accumulates to a maximum of 60 days.

All compensation and benefits paid to officers and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 1)

GOVERNING BODY ACTION

A contract for the operation of the business office (\$1,066,800) and amendments to the business office contract (\$118,072) were entered into by the Executive Director. There was no evidence in the Hospital Board minutes that these contracts and amendments were approved by the Hospital Board. A similar comment appeared in prior Report B37583.

The hospital is responsible for complying with the decisions of the governing board as evidenced in the board minutes or other written memoranda. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 9)

ADAMS COUNTY MEMORIAL HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on June 8, 2011, with Marvin L. Baird, Executive Director; Dane E. Wheeler, Treasurer; and Robert E. Judge, M.D., Chairman of the Hospital Board.