

**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, 2011 to December 31, 2011



**FILED**  
11/13/2012



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Hospital Officials .....	2
Independent Auditor's Report .....	3-4
Basic Financial Statements:	
Statement of Net Assets .....	5
Statement of Revenues, Expenses, and Changes in Net Assets .....	6
Statement of Cash Flows – Restricted and Unrestricted Funds .....	7
Notes to Financial Statements .....	8-24
Required Supplementary Information:	
Schedule of Funding Progress .....	25
Combining Financial Statements:	
Combining Statement of Net Assets .....	26
Combining Statement of Revenues, Expenses, and Changes in Net Assets .....	27
Combining Statement of Cash Flows – Restricted and Unrestricted Funds .....	28
Audit Results and Comments:	
Certified Report Not Filed .....	29
Compensation and Benefits – Forgivable Loans .....	29
Compensation and Benefits – No Supporting Documentation for Rate of Pay .....	30
Governing Body Action .....	30
Exit Conference .....	31

HOSPITAL OFFICIALS

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



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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, 2011, 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 financial reporting. Accordingly, we express no such opinion. 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, 2011, 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.

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

INDEPENDENT AUDITOR'S REPORT  
(Continued)

Management has omitted the Management Discussion and Analysis that Government Accounting Standards Board require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's financial statements. The combining financial statements, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated in all material respects in relation to the financial statements as a whole.

STATE BOARD OF ACCOUNTS

September 19, 2012

ADAMS COUNTY MEMORIAL HOSPITAL  
STATEMENT OF NET ASSETS  
December 31, 2011

<u>Assets</u>	<u>Primary Government</u>	<u>Discrete Component Unit</u>	<u>Total Reporting Entity</u>
Current assets:			
Cash and cash equivalents	\$ 11,440,185	\$ 121,666	\$ 11,561,851
Patient accounts receivable, net of estimated uncollectibles of \$2,461,566	9,354,698	-	9,354,698
Supplies and other current assets	850,967	-	850,967
Noncurrent cash and investments:			
Internally designated	4,110,537	-	4,110,537
Held by trustee for debt service	6,232,641	-	6,232,641
Capital assets:			
Land and construction in progress	2,478,069	-	2,478,069
Depreciable capital assets, net of accumulated depreciation	45,977,758	-	45,977,758
Other assets	<u>43,916</u>	<u>-</u>	<u>43,916</u>
 Total assets	 <u>\$ 80,488,771</u>	 <u>\$ 121,666</u>	 <u>\$ 80,610,437</u>
 <u>Liabilities and Net Assets</u>			
Current liabilities:			
Current maturities of long-term debt	\$ 2,610,923	\$ -	\$ 2,610,923
Accounts payable and accrued expenses	1,038,246	9,083	1,047,329
Estimated third-party payor settlements	426,971	-	426,971
Other current liabilities	4,572,688	-	4,572,688
Long-term debt, net of current maturities	38,217,809	-	38,217,809
Other long-term liabilities	<u>1,119,576</u>	<u>-</u>	<u>1,119,576</u>
 Total liabilities	 <u>47,986,213</u>	 <u>9,083</u>	 <u>47,995,296</u>
Net assets:			
Invested in capital assets, net of related debt	7,627,095	-	7,627,095
Restricted:			
For debt service	6,232,641	-	6,232,641
Expendable for specific operating activities	32,577	-	32,577
Nonexpendable permanent endowments	146,760	-	146,760
Unrestricted	<u>18,463,485</u>	<u>112,583</u>	<u>18,576,068</u>
 Total net assets	 <u>32,502,558</u>	 <u>112,583</u>	 <u>32,615,141</u>
 Total liabilities and net assets	 <u>\$ 80,488,771</u>	 <u>\$ 121,666</u>	 <u>\$ 80,610,437</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, 2011

	<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)	\$ 56,381,528	\$ -	\$ 56,381,528
Other	<u>1,413,680</u>	<u>4,317</u>	<u>1,417,997</u>
Total operating revenues	<u>57,795,208</u>	<u>4,317</u>	<u>57,799,525</u>
Operating expenses:			
Salaries and benefits	33,259,666	-	33,259,666
Medical supplies and drugs	4,018,566	-	4,018,566
Insurance	126,401	-	126,401
Other supplies	6,255,283	-	6,255,283
Depreciation and amortization	3,302,461	-	3,302,461
Other	<u>6,983,160</u>	<u>14,161</u>	<u>6,997,321</u>
Total operating expenses	<u>53,945,537</u>	<u>14,161</u>	<u>53,959,698</u>
Operating income (loss)	<u>3,849,671</u>	<u>(9,844)</u>	<u>3,839,827</u>
Nonoperating revenues (expenses):			
Investment income	192,432	379	192,811
Interest expense	(1,878,410)	-	(1,878,410)
Other	<u>(10,135)</u>	<u>-</u>	<u>(10,135)</u>
Total nonoperating revenues (expenses)	<u>(1,696,113)</u>	<u>379</u>	<u>(1,695,734)</u>
Excess (deficiency) of revenues over (under) expenses before capital grants and contributions	2,153,558	(9,465)	2,144,093
Capital grants and contributions	<u>916,851</u>	<u>14,261</u>	<u>931,112</u>
Increase in net assets	3,070,409	4,796	3,075,205
Net assets beginning of the year	<u>29,432,149</u>	<u>107,787</u>	<u>29,539,936</u>
Net assets end of the year	<u>\$ 32,502,558</u>	<u>\$ 112,583</u>	<u>\$ 32,615,141</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, 2011

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 57,087,852
Payments to suppliers and contractors	(19,413,876)
Payments to employees	<u>(33,322,881)</u>
Net cash provided by operating activities	<u>4,351,095</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	916,851
Proceeds from loan	4,650,000
Loan issue costs	(44,079)
Principal paid on long-term debt	(4,630,340)
Interest paid on long-term debt	(1,898,267)
Purchase of capital assets	<u>(4,526,148)</u>
Net cash used by capital and related financing activities	<u>(5,531,983)</u>
Cash flows from investing activities:	
Interest and dividends on investments	<u>192,432</u>
Net decrease in cash and cash equivalents	(988,456)
Cash and cash equivalents at beginning of year	<u>22,771,819</u>
Cash and cash equivalents at end of year	<u>\$ 21,783,363</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 11,440,185
Restricted cash and cash equivalents	<u>10,343,178</u>
Total cash and cash equivalents	<u>\$ 21,783,363</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 3,849,671
Adjustments to reconcile operating income to net cash flows provided by operating activities:	
Depreciation and amortization	3,302,461
(Increase) Decrease in current assets:	
Patient accounts receivable	(2,710,332)
Supplies and other current assets	514,687
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	117,012
Other current liabilities	(140,516)
Estimated third-party payor settlements	(581,106)
Other liabilities related to operating activities	<u>(782)</u>
Net cash provided by operating activities	<u>\$ 4,351,095</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 as departments of the Hospital.

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 ninety 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.

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:

ADAMS COUNTY MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
<u>Hospital and Non-nursing Home Entities</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.

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

ADAMS COUNTY MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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. Non-exchange 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. 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.

J. Supplies

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

ADAMS COUNTY MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

K. 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.

L. 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.

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.

M. 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.

ADAMS COUNTY MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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, 2011, the Hospital had deposit balances in the amount of \$15,550,722.

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, 2011, the Hospital had the following investments:

Investment Type	Primary Government Market Value
Commercial paper	\$ 3,458,863
Investment pools	<u>2,709,745</u>
Total	<u>\$ 6,168,608</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.

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.

ADAMS COUNTY MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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
Commercial paper	\$ 3,458,863
Investment pools	<u>2,709,745</u>
Total	<u>\$ 6,168,608</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.

Investment Type	Investment Maturities (in Years) Less Than 1
Commercial paper	\$ 3,458,863
Investment pools	<u>2,709,745</u>
Total	<u>\$ 6,168,608</u>

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.

ADAMS COUNTY MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

<u>Standard and Poor's Rating</u>	<u>Moody's Rating</u>	<u>Investment Pools</u>
A	A	<u>\$ 2,709,745</u>

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:

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 6,102,460
Receivable from Medicare	4,281,720
Receivable from Medicaid	<u>1,432,084</u>
 Total patient accounts receivable	 11,816,264
 Less allowance for uncollectible amounts	 <u>2,461,566</u>
 Patient accounts receivable, net	 <u>\$ 9,354,698</u>

Accounts Payable and Accrued Expenses

Payable to suppliers	<u>\$ 1,038,246</u>
----------------------	---------------------

ADAMS COUNTY MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Capital Assets

Capital asset activity for the year ended December 31, 2011, 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>242,036</u>	<u>1,891,219</u>	<u>473,936</u>	<u>1,659,319</u>
Total capital assets, not being depreciated	<u>1,060,786</u>	<u>1,891,219</u>	<u>473,936</u>	<u>2,478,069</u>
Capital assets, being depreciated:				
Land improvements	2,049,268	255,003	-	2,304,271
Buildings	50,988,517	2,492,737	-	53,481,254
Fixed equipment	4,497,889	11,488	-	4,509,377
Major moveable equipment	19,272,798	348,971	-	19,621,769
Clinics	<u>4,890,184</u>	<u>667</u>	<u>-</u>	<u>4,890,851</u>
Totals	<u>81,698,656</u>	<u>3,108,866</u>	<u>-</u>	<u>84,807,522</u>
Less accumulated depreciation for:				
Land improvements	1,314,458	185,634	-	1,500,092
Buildings	16,315,564	1,741,762	-	18,057,326
Fixed equipment	1,224,063	241,909	-	1,465,972
Major moveable equipment	14,312,754	966,989	-	15,279,743
Clinics	<u>2,360,464</u>	<u>166,167</u>	<u>-</u>	<u>2,526,631</u>
Totals	<u>35,527,303</u>	<u>3,302,461</u>	<u>-</u>	<u>38,829,764</u>
Total capital assets, being depreciated, net	<u>46,171,353</u>	<u>(193,595)</u>	<u>-</u>	<u>45,977,758</u>
Total primary government capital assets, net	<u>\$ 47,232,139</u>	<u>\$ 1,697,624</u>	<u>\$ 473,936</u>	<u>\$48,455,827</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Expended to December 31, 2011</u>	<u>Committed</u>
Woodcrest ECU renovation	<u>\$ 1,659,319</u>	<u>\$ 440,681</u>

ADAMS COUNTY MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 \$499,416. The following is a schedule by years of future minimum rental payments as of year end:

2012	\$	499,416
2013		372,769
2014		23,500
2015		14,400
2016		14,400
2017-2021		72,000
2022-2026		72,000
2027-2031		72,000
2032-2036		<u>1,200</u>
 Total		 <u><u>\$ 1,141,685</u></u>

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:

2012	\$	387,544
Less amount representing interest		<u>6,124</u>
Present value of net minimum lease payments		<u><u>\$ 381,420</u></u>

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

Major moveable equipment	\$	<u><u>3,083,549</u></u>
--------------------------	----	-------------------------

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	4.10% to 5.35%	<u><u>\$ 35,670,000</u></u>

ADAMS COUNTY MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
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	1,125,000	1,551,035
2017-2021	6,565,000	6,776,769
2022-2026	8,350,000	4,939,859
2027-2031	10,555,000	2,664,352
2032-2036	<u>4,995,000</u>	<u>258,944</u>
Totals	<u>\$ 35,670,000</u>	<u>\$ 22,852,609</u>

2. Loans Payable

The Hospital has entered into various loans. Annual debt service requirements to maturity for the loans, including interest of \$844,605, are as follows:

2012	\$ 1,413,474
2013	684,156
2014	364,903
2015	281,906
2016	281,906
2017-2021	1,409,530
2022-2026	<u>1,186,042</u>
Total	<u>\$ 5,621,917</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

Primary Government	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
Revenue:					
Hospital association	\$ 36,595,000	\$ -	\$ 925,000	\$ 35,670,000	\$ 960,000
Capital leases	891,440	-	510,020	381,420	381,420
Loans payable	<u>3,322,633</u>	<u>4,650,000</u>	<u>3,195,321</u>	<u>4,777,312</u>	<u>1,269,503</u>
Total long-term liabilities	<u>\$ 40,809,073</u>	<u>\$ 4,650,000</u>	<u>\$ 4,630,341</u>	<u>\$ 40,828,732</u>	<u>\$ 2,610,923</u>

ADAMS COUNTY MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

G. Endowments and Restricted Net Assets

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

	2011
Hospital:	
Debt service	\$ 6,232,641
Woodcrest Retirement Community:	
Specific operating activities	32,577
Total expendable, restricted net assets	\$ 6,265,218

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.

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:

	2011
Woodcrest Retirement Community	\$ 146,760

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.

ADAMS COUNTY MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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 62 percent and 11 percent, respectively, of the Hospital's net patient revenue for the year ended 2011. 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.

I. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$600,000 for 2011.

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      \$ 4,110,537

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.

ADAMS COUNTY MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

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

	2011	2010
Unpaid claims, beginning of fiscal year	\$ (44,537)	\$ 586,000
Incurred claims and changes in estimates	5,693,687	5,470,262
Claim payments	(5,649,150)	(6,100,799)
 Unpaid claims, end of fiscal year	 \$ -	 \$ (44,537)

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

During 2012, the Hospital entered into various agreements to lease nursing facilities. As of July 1, 2012, the Hospital has entered into agreements to lease 14 facilities. In addition, the Hospital is in the process of refunding its Lease Rental Revenue Bonds, Series 2003 and has obtained a line of credit of up to \$1.825 million to provide startup capital for two leased nursing facilities.

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.

ADAMS COUNTY MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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:

Cuni, Rust & Strenk  
4540 Cooper Road, Suite 304  
Cincinnati, OH 45242-5617  
Ph. (513) 891-0270

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 2.46 percent of annual covered payroll.

Actuarial Information for the Above Plan

	Employees' Retirement Plan 2011
	2011
Annual required contribution	\$ 489,373
Interest on net pension obligation	(90,903)
Adjustment to annual required contribution	184,894
Annual pension cost	583,364
Contributions made	1,420,000
Decrease in net pension obligation	(836,636)
Net pension obligation, beginning of year	(1,298,619)
Net pension obligation, end of year	\$ (2,135,255)

ADAMS COUNTY MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Employees' Retirement Plan 2011
Contribution rates:	
Hospital	2.46%
Plan members	0%
Actuarial valuation date	01-01-12
Actuarial cost method	Unit Credit
Amortization method	Level dollar, unfunded actuarial accrued liability re-established each year and amortized over 10 years
Remaining Amortization Period	10 years
Asset valuation method	Five year smoothed actuarial value

Actuarial Assumptions

Investment Rate of Return	7.0%
Projected Salary Increases	2.5% for 2012 and 4% thereafter
Include inflation at	0.0%
Cost-of-Living Adjustments	None

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement Plan	12-31-09	\$ 1,225,573	89.8%	\$ (1,043,958)
	12-31-10	1,015,429	125.1%	(1,298,619)
	12-31-11	583,364	243.4%	(2,135,255)

Funded Status and Funding Progress for the Above Plan

The funded status of the plan as of January 1, 2012, the most recent actuarial valuation date is as follows:

	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Excess of Assets Over AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Excess AAL as a Percentage of Covered Payroll ((b-a)/c)
Employees' Retirement Plan	\$ 15,298,445	\$ 11,820,144	\$ 3,478,301	129%	\$ 16,413,570	21%

ADAMS COUNTY MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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)	Excess/ (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%)
01-01-11	14,289,473	14,118,411	171,062	101%	18,588,986	1%
01-01-12	15,298,445	11,820,144	3,478,301	129%	16,413,570	21%

ADAMS COUNTY MEMORIAL HOSPITAL  
COMBINING STATEMENT OF NET ASSETS  
December 31, 2011

<u>Assets</u>	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
<b>Current assets:</b>									
Cash and cash equivalents	\$ 1,052,346	\$ 4,780,966	\$ 366,119	\$ 240	\$ 5,240,214	\$ -	\$ 300	\$ -	\$ 11,440,185
Patient accounts receivable	10,475,859	540,768	(2,163)	(11,890)	401,370	-	412,320	-	11,816,264
Allowance for uncollectible accounts	(2,078,906)	(145,110)	-	-	(196,318)	-	(41,232)	-	(2,461,566)
Supplies and other current assets	847,967	(5)	-	3,005	-	-	-	-	850,967
<b>Noncurrent cash and investments:</b>									
Internally designated	4,110,537	-	-	-	-	-	-	-	4,110,537
Held by trustee for debt service	6,232,641	-	-	-	-	-	-	-	6,232,641
<b>Capital assets:</b>									
Land and construction in progress	201,807	1,720,715	122,810	132,300	135,000	-	165,437	-	2,478,069
Depreciable capital assets, net of accumulated depreciation	31,118,428	2,854,294	5,506,731	2,106,502	2,008,060	19,524	2,364,219	-	45,977,758
Due from component units	18,614,452	2,507,943	-	54,551	1,495,609	2,706,108	-	(25,378,663)	-
Other assets	20,064	14,726	9,126	-	-	-	-	-	43,916
<b>Total assets</b>	<b><u>\$ 70,595,195</u></b>	<b><u>\$ 12,274,297</u></b>	<b><u>\$ 6,002,623</u></b>	<b><u>\$ 2,284,708</u></b>	<b><u>\$ 9,083,935</u></b>	<b><u>\$ 2,725,632</u></b>	<b><u>\$ 2,901,044</u></b>	<b><u>\$ (25,378,663)</u></b>	<b><u>\$ 80,488,771</u></b>
<b>Liabilities and Net Assets</b>									
<b>Current liabilities:</b>									
Current maturities of long-term debt	\$ 1,545,851	\$ 250,250	\$ 752,825	\$ -	\$ -	\$ -	\$ 61,997	\$ -	\$ 2,610,923
Accounts payable and accrued expenses	752,839	142,334	17,425	12,869	78,450	27,344	6,985	-	1,038,246
Estimated third-party payor settlements	426,971	-	-	-	-	-	-	-	426,971
Due to component units	458,004	1,589,085	4,405,661	4,194,323	5,260,393	2,698,288	6,772,909	(25,378,663)	-
Other current liabilities	3,988,615	423,544	5,948	46,601	107,309	-	671	-	4,572,688
Long-term debt, net of current maturities	36,684,200	929,696	522,356	-	-	-	81,557	-	38,217,809
Other long-term liabilities	-	-	1,119,576	-	-	-	-	-	1,119,576
<b>Total liabilities</b>	<b><u>43,856,480</u></b>	<b><u>3,334,909</u></b>	<b><u>6,823,791</u></b>	<b><u>4,253,793</u></b>	<b><u>5,446,152</u></b>	<b><u>2,725,632</u></b>	<b><u>6,924,119</u></b>	<b><u>(25,378,663)</u></b>	<b><u>47,986,213</u></b>
<b>Net assets:</b>									
Invested in capital assets, net of related debt	(6,909,816)	3,395,063	4,354,360	2,238,802	2,143,060	19,524	2,386,102	-	7,627,095
<b>Restricted:</b>									
For debt service	6,232,641	-	-	-	-	-	-	-	6,232,641
Expendable for specific operating activities	-	-	32,577	-	-	-	-	-	32,577
Nonexpendable permanent endowments	-	-	146,760	-	-	-	-	-	146,760
Unrestricted	<u>27,415,890</u>	<u>5,544,325</u>	<u>(5,354,865)</u>	<u>(4,207,887)</u>	<u>1,494,723</u>	<u>(19,524)</u>	<u>(6,409,177)</u>	<u>-</u>	<u>18,463,485</u>
<b>Total net assets</b>	<b><u>26,738,715</u></b>	<b><u>8,939,388</u></b>	<b><u>(821,168)</u></b>	<b><u>(1,969,085)</u></b>	<b><u>3,637,783</u></b>	<b><u>-</u></b>	<b><u>(4,023,075)</u></b>	<b><u>-</u></b>	<b><u>32,502,558</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 70,595,195</u></b>	<b><u>\$ 12,274,297</u></b>	<b><u>\$ 6,002,623</u></b>	<b><u>\$ 2,284,708</u></b>	<b><u>\$ 9,083,935</u></b>	<b><u>\$ 2,725,632</u></b>	<b><u>\$ 2,901,044</u></b>	<b><u>\$ (25,378,663)</u></b>	<b><u>\$ 80,488,771</u></b>

ADAMS COUNTY MEMORIAL HOSPITAL  
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 Year Ended December 31, 2011

	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)	\$ 39,360,963	\$ 9,254,184	\$ 1,198,107	\$ 914,830	\$ 4,998,230	\$ -	\$ 655,214	\$ -	\$ 56,381,528
Other	1,146,273	44,407	16,601	459	59,129	2,002,976	146,811	(2,002,976)	1,413,680
Total operating revenues	40,507,236	9,298,591	1,214,708	915,289	5,057,359	2,002,976	802,025	(2,002,976)	57,795,208
Operating expenses:									
Salaries and benefits	22,887,702	4,638,532	6,646	589,208	2,461,813	1,249,231	1,426,534	-	33,259,666
Medical supplies and drugs	3,825,672	131,555	-	7,007	54,332	-	-	-	4,018,566
Insurance	76,786	10,338	8,744	6,277	6,598	17,658	-	-	126,401
Other supplies	4,525,840	469,785	523,650	134,254	471,317	71,348	59,089	-	6,255,283
Depreciation and amortization	2,313,232	220,907	272,674	211,556	84,755	33,170	166,167	-	3,302,461
Other	6,083,843	1,001,057	400,791	99,442	365,259	577,766	457,978	(2,002,976)	6,983,160
Total operating expenses	39,713,075	6,472,174	1,212,505	1,047,744	3,444,074	1,949,173	2,109,768	(2,002,976)	53,945,537
Operating income (loss)	794,161	2,826,417	2,203	(132,455)	1,613,285	53,803	(1,307,743)	-	3,849,671
Nonoperating revenues (expenses):									
Investment income	152,189	15,732	2,551	-	21,960	-	-	-	192,432
Interest expense	(1,753,151)	(28,412)	(30,079)	-	-	(53,803)	(12,965)	-	(1,878,410)
Other	(2,650)	(2,877)	(4,608)	-	-	-	-	-	(10,135)
Total nonoperating revenues (expenses)	(1,603,612)	(15,557)	(32,136)	-	21,960	(53,803)	(12,965)	-	(1,696,113)
Excess (deficiency) of revenues over (under) expenses before capital grants and contributions									
	(809,451)	2,810,860	(29,933)	(132,455)	1,635,245	-	(1,320,708)	-	2,153,558
Capital grants and contributions	908,151	-	8,700	-	-	-	-	-	916,851
Increase (decrease) in net assets	98,700	2,810,860	(21,233)	(132,455)	1,635,245	-	(1,320,708)	-	3,070,409
Net assets beginning of the year	26,640,015	6,128,528	(799,935)	(1,836,630)	2,002,538	-	(2,702,367)	-	29,432,149
Net assets end of the year	\$ 26,738,715	\$ 8,939,388	\$ (821,168)	\$ (1,969,085)	\$ 3,637,783	\$ -	\$ (4,023,075)	\$ -	\$ 32,502,558

ADAMS COUNTY MEMORIAL HOSPITAL  
COMBINING STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS  
Year Ended December 31, 2011

	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	\$ 37,656,728	\$ 9,198,616	\$ 1,215,913	\$ 937,062	\$ 5,189,456	\$ 2,002,976	\$ 887,101	\$ -	\$ 57,087,852
Payments to suppliers and contractors	(14,655,076)	(1,576,631)	(926,540)	(213,639)	(863,738)	(669,804)	(508,448)	-	(19,413,876)
Payments to employees	(23,054,026)	(4,641,464)	(6,646)	(589,208)	(2,455,772)	(1,249,231)	(1,326,534)	-	(33,322,881)
Interfund transactions	2,464,530	(1,503,015)	202,672	(134,215)	(2,091,519)	(30,138)	1,091,685	-	-
Net cash provided by operating activities	<u>2,412,156</u>	<u>1,477,506</u>	<u>485,399</u>	<u>-</u>	<u>(221,573)</u>	<u>53,803</u>	<u>143,804</u>	<u>-</u>	<u>4,351,095</u>
Cash flows from capital and related financing activities:									
Capital grants and contributions	908,151	-	8,700	-	-	-	-	-	916,851
Proceeds from loan	1,365,555	2,929,257	355,188	-	-	-	-	-	4,650,000
Loan issue costs	(22,714)	(15,457)	(5,908)	-	-	-	-	-	(44,079)
Principal paid on long-term debt	(1,566,366)	(2,201,000)	(734,000)	-	-	-	(128,974)	-	(4,630,340)
Interest paid on long-term debt	(1,768,639)	(28,014)	(33,747)	-	-	(53,803)	(14,064)	-	(1,898,267)
Purchase of capital assets	(2,581,743)	(1,924,941)	(8,700)	-	(10,098)	-	(666)	-	(4,526,148)
Net cash used by capital and related financing activities	<u>(3,665,756)</u>	<u>(1,240,155)</u>	<u>(418,467)</u>	<u>-</u>	<u>(10,098)</u>	<u>(53,803)</u>	<u>(143,704)</u>	<u>-</u>	<u>(5,531,983)</u>
Cash flows from investing activities:									
Interest and dividends on investments	<u>152,189</u>	<u>15,732</u>	<u>2,551</u>	<u>-</u>	<u>21,960</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>192,432</u>
Net increase (decrease) in cash and cash equivalents	(1,101,411)	253,083	69,483	-	(209,711)	-	100	-	(988,456)
Cash and cash equivalents at beginning 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>
Cash and cash equivalents at end of year	<u>\$ 11,395,524</u>	<u>\$ 4,780,966</u>	<u>\$ 366,119</u>	<u>\$ 240</u>	<u>\$ 5,240,214</u>	<u>\$ -</u>	<u>\$ 300</u>	<u>\$ -</u>	<u>\$ 21,783,363</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:									
Cash and cash equivalents in current assets	\$ 1,052,346	\$ 4,780,966	\$ 366,119	\$ 240	\$ 5,240,214	\$ -	\$ 300	\$ -	\$ 11,440,185
Restricted cash and cash equivalents	<u>10,343,178</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,343,178</u>
Total cash and cash equivalents	<u>\$ 11,395,524</u>	<u>\$ 4,780,966</u>	<u>\$ 366,119</u>	<u>\$ 240</u>	<u>\$ 5,240,214</u>	<u>\$ -</u>	<u>\$ 300</u>	<u>\$ -</u>	<u>\$ 21,783,363</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:									
Operating income (loss)	\$ 794,161	\$ 2,826,417	\$ 2,203	\$ (132,455)	\$ 1,613,285	\$ 53,803	\$ (1,307,743)	\$ -	\$ 3,849,671
Adjustments to reconcile operating income (loss) to net cash flows provided (used) by operating activities:									
Depreciation and amortization	2,313,232	220,907	272,674	211,556	84,755	33,170	166,167	-	3,302,461
(Increase) decrease in current assets:									
Patient accounts receivable	(2,850,508)	(99,975)	1,205	21,773	132,097	-	85,076	-	(2,710,332)
Supplies and other current assets	340,199	18,638	10,132	4,468	10,560	19,614	111,076	-	514,687
Due from component units	2,035,111	(674,410)	-	(6,165)	-	(507,551)	1,091,685	(1,938,670)	-
Increase (decrease) in current liabilities:									
Accounts payable and accrued expenses	69,197	17,466	(2,705)	6,364	23,208	5,939	(2,457)	-	117,012
Other current liabilities	(166,134)	(2,932)	-	22,509	6,041	-	-	-	(140,516)
Estimated third-party payor settlements	(581,106)	-	-	-	-	-	-	-	(581,106)
Due to component units	458,004	(828,605)	202,672	(128,050)	(2,091,519)	448,828	-	1,938,670	-
Other liabilities related to operating activities	-	-	(782)	-	-	-	-	-	(782)
Net cash provided (used) by operating activities	<u>\$ 2,412,156</u>	<u>\$ 1,477,506</u>	<u>\$ 485,399</u>	<u>\$ -</u>	<u>\$ (221,573)</u>	<u>\$ 53,803</u>	<u>\$ 143,804</u>	<u>\$ -</u>	<u>\$ 4,351,095</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 2011. A similar comment appeared in prior Report B38815.

Indiana Code 5-11-13-1(a) 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 business 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 – 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 was forgiven July 31, 2011. The loan advances are forgiven if the physician remains at the Hospital for two years after each draw is received.

A second advance draw of \$5,000 was paid to the physician on October 14, 2010. A third advance draw of \$16,500 was paid to the physician on September 14, 2011. These amounts were expensed in 2010 and 2011, respectively, and not recorded as a receivable. These amounts 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. A similar comment appeared in prior Report B38815.

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)

ADAMS COUNTY MEMORIAL HOSPITAL  
AUDIT RESULTS AND COMMENTS  
(Continued)

***COMPENSATION AND BENEFITS – NO SUPPORTING DOCUMENTATION FOR RATE OF PAY***

The former Hospital Executive Director and two other Hospital employees received compensation for the year 2011 which was not supported by current contracts on file in the Hospital administration office. A similar comment appeared in prior Report B38815.

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 (\$1,153,845) and an amendment to the business office contract (\$68,950) were entered into by the former 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 B38815.

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 September 19, 2012, with Thomas J. Nordwick, Executive Director; Dane E. Wheeler, Treasurer; and Robert E. Judge, M.D., Chairman of the Hospital Board.