

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Independent Auditor's Reports and Financial Statements
December 31, 2017 and 2016





Dave Yost • Auditor of State

Board of Trustees
Paulding County Hospital
1035 West Wayne Street
Paulding, Ohio 45879

We have reviewed the *Independent Auditor's Report* of the Paulding County Hospital, Paulding County, prepared by BKD, LLP, for the audit period January 1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 12, 2018

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Paulding County Hospital
A Component Unit of Paulding County, Ohio
December 31, 2017 and 2016

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Independent Auditor's Report

Board of Trustees
Paulding County Hospital
Paulding, Ohio

Report on the Financial Statements

We have audited the accompanying balance sheets of Paulding County Hospital (Hospital), a component unit of Paulding County, Ohio, as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paulding County Hospital as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the statement of cash flows included in the 2016 financial statements has been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2018, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Fort Wayne, Indiana
March 5, 2018

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Management's Discussion and Analysis
Years Ended December 31, 2017 and 2016

Introduction

The management's discussion and analysis of the financial performance of Paulding County Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2017, 2016 and 2015. It should be read in conjunction with the accompanying financial statements of the Hospital. Management is responsible for the completeness and fairness of the financial statements and the related note disclosures along with the discussion and analysis.

Financial Highlights

The Hospital's current assets decreased by \$512,197 or 7.71 percent from the prior year compared to a \$750,194 or 12.72 percent increase last year. This change was primarily driven by a decrease in cash and cash equivalents as a result of using cash for certain capital assets purchases and transferring cash to assets limited as to use, as well as changes in estimated amounts due from third-party payers.

The Hospital's total liabilities increased \$3,711,124 or 28.17 percent from the prior year compared to a \$2,909,802 or 28.35 percent increase last year. This change in the current year was due primarily to an increase in the net pension liability of \$3,740,937. In the prior year, the increase was due primarily to an increase in the net pension liability of \$2,699,065.

The Hospital's net position decreased \$483,053 or 4.62 percent from the previous year compared to an increase of \$426,411 or 4.28 percent last year.

The following table provides a breakdown of the Hospital's net position by category for the years ended December 31, 2017, 2016 and 2015:

Net Position	Year Ended December 31		
	2017	2016	2015
Net investment in capital assets	\$ 7,063,697	\$ 6,154,239	\$ 6,729,027
Restricted - net pension asset	57,910	68,112	51,839
Unrestricted	2,846,142	4,228,451	3,243,525

In the year ended December 31, 2017, the Hospital's revenue and other support were less than total expenses, creating a decrease in net position of \$483,053. The increase for 2016 was \$426,411.

Using This Annual Report

This annual financial report includes the report of independent auditors, this management's discussion and analysis, the financial statements and notes to the financial statements. The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements and related notes provide information about the activities of the Hospital, including resources held but restricted. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about any Hospital’s finances is, “Is the Hospital as a whole better or worse off as a result of the year’s activities?” The balance sheet and the statement of revenue, expenses and changes in net position report information about the Hospital as a whole and on its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and deferred outflows of resources and all liabilities and deferred inflows of resources—using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year’s revenue and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Cash Flows

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

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Management's Discussion and Analysis
Years Ended December 31, 2017 and 2016

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

	Year Ended December 31			2017/2016 Change	
	2017	2016	2015	Amount	Percent
Assets					
Current assets	\$ 6,133,672	\$ 6,645,869	\$ 5,895,675	\$ (512,197)	-7.71%
Assets limited as to use	8,193,123	7,199,769	6,474,065	993,354	13.80%
Capital assets	7,063,697	6,154,239	6,729,027	909,458	14.78%
Net pension asset	57,910	68,112	51,839	(10,202)	-14.98%
Total assets	<u>21,448,402</u>	<u>20,067,989</u>	<u>19,150,606</u>	<u>1,380,413</u>	6.88%
Deferred Outflows of Resources	<u>5,516,201</u>	<u>4,076,698</u>	<u>1,286,258</u>	<u>1,439,503</u>	35.31%
Total assets and deferred outflows of resources	<u>\$ 26,964,603</u>	<u>\$ 24,144,687</u>	<u>\$ 20,436,864</u>	<u>\$ 2,819,916</u>	11.68%
Liabilities					
Current liabilities	\$ 2,469,607	\$ 2,520,835	\$ 2,320,361	\$ (51,228)	-2.03%
Noncurrent liabilities	340,631	319,216	308,953	21,415	6.71%
Net pension liability	14,073,242	10,332,305	7,633,240	3,740,937	36.21%
Total liabilities	<u>16,883,480</u>	<u>13,172,356</u>	<u>10,262,554</u>	<u>3,711,124</u>	28.17%
Deferred Inflows of Resources	<u>113,374</u>	<u>521,529</u>	<u>149,919</u>	<u>(408,155)</u>	-78.26%
Net Position					
Net investment in capital assets	7,063,697	6,154,239	6,729,027	909,458	14.78%
Restricted - net pension asset	57,910	68,112	51,839	(10,202)	-14.98%
Unrestricted	2,846,142	4,228,451	3,243,525	(1,382,309)	-32.69%
Total net position	<u>9,967,749</u>	<u>10,450,802</u>	<u>10,024,391</u>	<u>(483,053)</u>	-4.62%
Total liabilities, deferred inflows of resources and net position	<u>\$ 26,964,603</u>	<u>\$ 24,144,687</u>	<u>\$ 20,436,864</u>	<u>\$ 2,819,916</u>	11.68%

Assets and Deferred Outflows of Resources

As of December 31, 2017, the Hospital's total assets and deferred outflows of resources amounted to approximately \$27.0 million. Assets whose use is limited represented the Hospital's largest asset totaling approximately \$8.2 million, or 30 percent, of total assets and deferred outflows of resources. The Hospital's next largest asset, capital assets, net of depreciation, totaled approximately \$7.1 million, or 26 percent, of total assets and deferred outflows of resources.

Total assets and deferred outflows of resources increased by approximately \$2,800,000 from the prior year. This increase was driven by:

- An increase of approximately \$993,000 in assets limited as to use primarily due to movement of cash to assets limited as to use as a result of positive operating cash flow.
- An increase of approximately \$909,000 in capital assets as a result of the purchase of certain capital assets.

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Management's Discussion and Analysis
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- An increase of approximately \$1,440,000 in deferred outflows of resources as a result of changes in pension items under GASB 68.

As of December 31, 2016, the Hospital's total assets and deferred outflows of resources amounted to approximately \$24.1 million. Assets whose use is limited represented the Hospital's largest asset totaling approximately \$7.2 million, or 30 percent, of total assets and deferred outflows of resources. The Hospital's next largest asset, capital assets, net of depreciation, totaled approximately \$6.2 million, or 25 percent, of total assets and deferred outflows of resources.

Total assets and deferred outflows of resources increased by approximately \$3,700,000 from the prior year. This increase was driven by:

- An increase of approximately \$1,476,000 in current assets and assets limited as to use primarily due to positive operating cash flow.
- An increase of approximately \$406,000 in patient accounts receivable. In 2016, patient accounts receivable was higher due to an increase in the number of patients and types of services.
- An increase in deferred outflows of resources as a result of changes in pension items under GASB 68.

Liabilities and Deferred Inflows of Resources

At December 31, 2017, the Hospital's liabilities and deferred inflows of resources were approximately \$17.0 million. Current liabilities, primarily consisting of accounts payable and accrued expenses, totaled approximately \$2.5 million or 14.5 percent of total liabilities and deferred inflows of resources. The net pension liability totaled approximately \$14.1 million or 82.8 percent of total liabilities and deferred outflows of resources.

Total liabilities and deferred inflows of resources increased approximately \$3.3 million from the prior year primarily due to a decrease of approximately \$577,000 in estimated amounts due to third-party payers and an increase of approximately \$3.7 million in the net pension liability.

At December 31, 2016, the Hospital's liabilities and deferred inflows of resources were approximately \$13.7 million. Current liabilities, primarily consisting of accounts payable, accrued expenses and estimated amounts due to third-party payers totaled approximately \$2.5 million or 18.4 percent of total liabilities and deferred inflows of resources. The net pension liability totaled approximately \$10.3 million or 75.5 percent of total liabilities and deferred outflows of resources.

Total liabilities and deferred inflows of resources increased approximately \$3.3 million from the prior year primarily due to an increase of approximately \$413,000 in estimated amounts due to third-party payers and an increase of approximately \$2.7 million in net pension liability.

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Net Position

Net position at December 31, 2017, totaled approximately \$10.0 million, or 37 percent of total assets and deferred outflows of resources. Net position – net investment in capital assets totaled approximately \$7.1 million, or 71 percent, of total net position. Unrestricted net position totaled approximately \$2.9 million, or 29 percent, of total net position.

Total net position decreased \$483,053, or 4.62 percent.

Net position at December 31, 2016, totaled approximately \$10.5 million, or 38.23 percent of total assets and deferred outflows of resources. Net position – net investment in capital assets totaled approximately \$6.2 million, or 59 percent, of total net position. Unrestricted net position totaled approximately \$4.2 million, or 43 percent, of total net position.

Total net position increased \$426,411, or 4.25 percent.

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Management's Discussion and Analysis
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Table 2: Operating Results and Changes in Net Position

The following is a comparative analysis of the major components of the statements of revenue, expenses and changes in net position of the Hospital for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31			2017/2016 Change	
	2017	2016	2015	Amount	Percent
Operating Revenue					
Net patient service revenue	\$ 21,762,462	\$ 20,704,332	\$ 18,670,054	\$ 1,058,130	5.11%
Other	700,145	802,529	1,567,251	(102,384)	-12.76%
Total operating revenues	<u>22,462,607</u>	<u>21,506,861</u>	<u>20,237,305</u>	<u>955,746</u>	4.44%
Operating Expenses					
Salaries and wages	9,463,678	8,782,974	8,476,815	680,704	7.75%
Employee benefits and payroll taxes	4,280,467	2,877,458	2,424,800	1,403,009	48.76%
Professional services and consultant fees	2,048,789	1,973,563	1,931,610	75,226	3.81%
Medical supplies and other	4,948,590	5,408,205	4,744,874	(459,615)	-8.50%
Purchased services	1,215,692	1,160,664	1,126,747	55,028	4.74%
Depreciation and amortization	1,018,360	947,945	1,135,467	70,415	7.43%
Total operating expenses	<u>22,975,576</u>	<u>21,150,809</u>	<u>19,840,313</u>	<u>1,824,767</u>	8.63%
Operating Income (Loss)	<u>(512,969)</u>	<u>356,052</u>	<u>396,992</u>	<u>(869,021)</u>	-244.07%
Nonoperating Revenue					
Investment income	45,492	27,486	25,413	18,006	65.51%
Contributions	54,361	3,145	15,615	51,216	1628.49%
Other income (expenses)	(69,937)	39,728	69,993	(109,665)	-276.04%
Total other income	<u>29,916</u>	<u>70,359</u>	<u>111,021</u>	<u>(40,443)</u>	-57.48%
Increase (Decrease) in Net Position	<u>(483,053)</u>	<u>426,411</u>	<u>508,013</u>	<u>(909,464)</u>	-213.28%
Net Position, Beginning of Year, as Previously Reported	10,450,802	10,024,391	15,969,398	426,411	4.25%
Cummulative Effect of Change in Accounting Principle	<u>-</u>	<u>-</u>	<u>(6,453,020)</u>	<u>-</u>	100.00%
Net Position, Beginning of Year, as Restated	<u>10,450,802</u>	<u>10,024,391</u>	<u>9,516,378</u>	<u>426,411</u>	4.25%
Net Position, End of Year	<u>\$ 9,967,749</u>	<u>\$ 10,450,802</u>	<u>\$ 10,024,391</u>	<u>\$ (483,053)</u>	-4.62%

Paulding County Hospital

A Component Unit of Paulding County, Ohio

Management's Discussion and Analysis

Years Ended December 31, 2017 and 2016

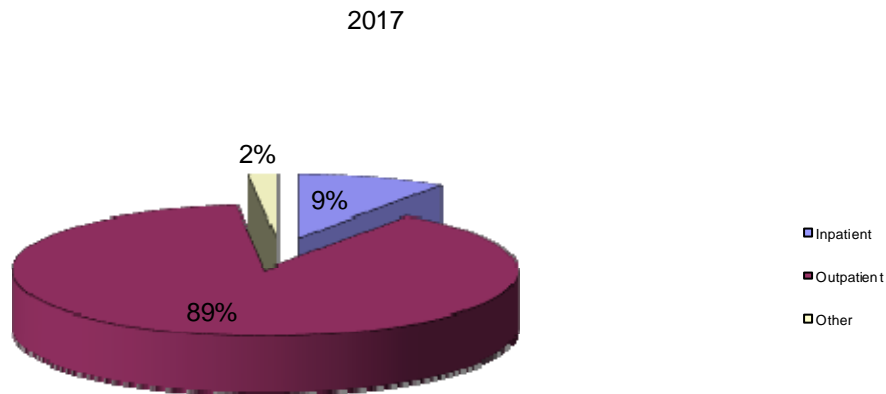
Operating Revenue

Operating revenue includes all transactions that result in the sales and/or receipts from goods and services, such as inpatient services, outpatient services, physician offices and the cafeteria.

Operating revenue changes were a result of the following factors:

- Gross patient revenue decreased by 2.63 percent, while net patient service revenue increased by 5.11 percent. To calculate net patient service revenue, gross patient revenue is reduced by revenue deductions. These deductions are the amounts that are not paid to the Hospital under contractual arrangements primarily with Medicare, Medicaid, Anthem and other commercial carriers. These revenue deductions have varied over the past three years and were 42.94 percent in 2017, 47.86 percent in 2016 and 50.11 percent in 2015. The change in revenue deductions is due in part to third-party settlement estimates, state reimbursements for indigent care and changes in bad debt allowances.
- Other operating revenue decreased 12.76 percent for 2017, which was due to variations in items included in other operating revenue. In 2016 and 2015, other operating revenue decreased 48.79 percent and 96.47 percent, respectively.

The following is a graphic illustration of gross operating revenue by source:



Paulding County Hospital

A Component Unit of Paulding County, Ohio

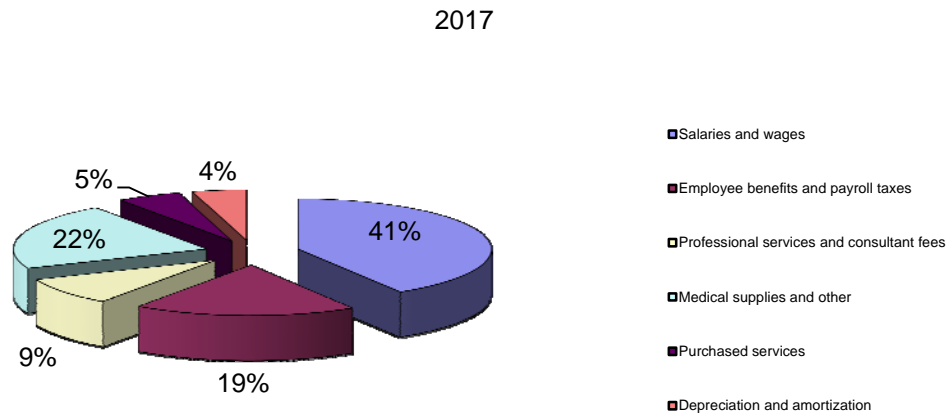
Management's Discussion and Analysis

Years Ended December 31, 2017 and 2016

Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Hospital. The operating expense changes were the result of the following factors:

- Salary costs increased 7.75 percent, due primarily to continued management of staffing levels in the current year. Salary costs increased 3.61 percent for 2016 and decreased 8.40 percent in 2015.
- Benefit costs increased 48.76 percent, due primarily to increased pension expense. Benefit costs increased 18.67 percent in 2016 and increased 7.43 percent in 2015.
- Professional services and consultant fees increased 3.81 percent due primarily to inflationary increases associated with various professional services and consultant fees. Professional services and consultant fees increased 2.17 percent in 2016 and 16.35 percent in 2015 primarily due to emergency room physician fees.
- Medical supplies and drugs decreased 8.50 percent, due primarily to patient volume fluctuations and monitoring of inventory and supply levels. In 2016, medical supplies and drugs increased 13.98 percent and in 2015 decreased 2.01 percent.
- Purchased services increased 4.74 percent, primarily due to inflationary increases. Purchased services increased 3.01 percent and 9.21 percent in 2016 and 2015, respectively.
- The following is a graphic illustration of operating expenses by type:



Paulding County Hospital
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Nonoperating Revenue and Expenses

Nonoperating revenue and expenses are all sources and uses that are primarily nonexchange in nature. They consist of investment income, other income/expenses and contributions.

There was a decrease in nonoperating revenue from the prior year. This was due primarily to a loss on the sale of a capital asset in the current year, which is included in other income (expenses).

The Hospital's Cash Flows

Another way to assess the financial health of a hospital is to look at the statement of cash flows.

Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also helps assess:

- An entity's ability to generate future net cash flows
- Its ability to meet its obligations as they come due
- Its needs for external financing

	Year Ended December 31			2017/2016
	2017	2016 (Restated)	2015 (Restated)	Increase (Decrease)
Cash Provided by (Used in)				
Operating activities	\$ 2,459,967	\$ 1,417,900	\$ 1,711,416	\$ 1,042,067
Noncapital financing activities	(15,576)	42,873	85,608	(58,449)
Capital and related financing activities	(1,893,517)	(450,449)	(741,906)	(1,443,068)
Investing activities	(898,690)	(519,432)	(339,541)	(379,258)
Net Increase (Decrease) in Cash and Cash Equivalents	(347,816)	490,892	715,577	(838,708)
Cash and Cash Equivalents, Beginning of Year	3,796,127	3,305,235	2,589,658	490,892
Cash and Cash Equivalents, End of Year	\$ 3,448,311	\$ 3,796,127	\$ 3,305,235	\$ (347,816)

The Hospital's liquidity changed during the year. The following discussion amplifies the overview of cash flows presented above:

Cash provided by operating activities increased \$1,042,067 over the prior year. Cash from operating activities decreased \$293,516 in 2016 and increased \$838,521 in 2015.

Capital and related financing activities used cash of \$1,893,517, which was an increase of \$1,443,068 over the prior year. This increase was a result of the Hospital's continued investment in capital assets, primarily the new Antwerp building. Net capital purchases for 2016 and 2015 were \$450,449 and \$741,906, respectively.

Investing activities used cash of \$898,690 in 2017, primarily as a result of the Hospital moving cash and cash equivalents to assets limited as to use. Investing activities used cash of \$519,432 in 2016 and \$339,541 in 2015.

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Management's Discussion and Analysis
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Capital Assets

At December 31, 2017, the Hospital had \$27,737,522 invested in capital assets. Capital assets for 2016 and 2015 were \$25,919,364 and \$26,770,257, respectively. Depreciation and amortization expense totaled \$1,018,360 for the current year compared to \$947,945 in 2016 and \$1,135,467 in 2015. Details of these assets for the past three years are shown below:

	Year Ended December 31			2017/2016
	2017	2016	2015	Increase (Decrease)
Land	\$ 102,740	\$ 30,609	\$ 30,609	\$ 72,131
Land improvements	233,994	349,009	233,994	(115,015)
Buildings and improvements	15,153,282	14,712,248	14,712,248	441,034
Equipment	11,368,158	10,827,498	11,793,406	540,660
Construction in progress	879,348	-	-	879,348
Total	<u>27,737,522</u>	<u>25,919,364</u>	<u>26,770,257</u>	1,818,158
Accumulated depreciation	<u>(20,673,825)</u>	<u>(19,765,125)</u>	<u>(20,041,230)</u>	<u>(908,700)</u>
Net carrying amount	<u>\$ 7,063,697</u>	<u>\$ 6,154,239</u>	<u>\$ 6,729,027</u>	<u>\$ 909,458</u>

Other Economic Factors

The Paulding County Hospital will continue to explore revenue enhancements, cost reductions and productivity improvements in an effort to remain an asset in the community. Its economic position is also closely tied to that of the local medical staff as it continually works with physicians in the community to ensure that the medical needs of the public are being met.

The Supplemental Upper Payment Limit and Health Care Assurance programs have continued to provide relief for our Medicaid shortfalls. As in the past, our Administrative Team will continue to monitor suggested changes with the Ohio Hospital Association and the Department of Job and Family Services.

Contacting the Hospital's Financial Management

This financial report is intended to provide our county and bondholders with a general overview of the Hospital's finances and to show the Hospital's accountability for the funds over which it has stewardship. If you have questions about this report or need additional information, we welcome you to contact the chief financial officer.

Robert L. Goshia, II
Chief Financial Officer

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Balance Sheets
December 31, 2017 and 2016

	2017	2016
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 1,701,639	\$ 2,051,618
Patient accounts receivable, net of allowance; \$1,404,366 for 2017 and \$1,823,430 for 2016	2,835,346	2,741,499
Notes receivable	175,451	222,460
Inventory	715,612	735,068
Estimated amounts due from third-party payers	226,400	-
Prepaid expenses and other	479,224	895,224
Total current assets	6,133,672	6,645,869
Assets Limited as to Use	8,193,123	7,199,769
Capital Assets, Net	7,063,697	6,154,239
Net Pension Asset	57,910	68,112
Total assets	21,448,402	20,067,989
Deferred Outflows of Resources - Pensions	5,516,201	4,076,698
Total assets and deferred outflows of resources	\$ 26,964,603	\$ 24,144,687
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts payable	\$ 1,214,066	\$ 790,008
Accrued expenses and other	1,255,541	1,153,708
Estimated amounts due to third-party payers	-	577,119
Total current liabilities	2,469,607	2,520,835
Noncurrent Liabilities	340,631	319,216
Net Pension Liability	14,073,242	10,332,305
Total liabilities	16,883,480	13,172,356
Deferred Inflows of Resources - Pensions	113,374	521,529
Net Position		
Net investment in capital assets	7,063,697	6,154,239
Restricted - net pension asset	57,910	68,112
Unrestricted	2,846,142	4,228,451
Total net position	9,967,749	10,450,802
Total liabilities, deferred inflows of resources and net position	\$ 26,964,603	\$ 24,144,687

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts; 2017 - \$523,747 and 2016 - \$732,653	\$ 21,762,462	\$ 20,704,332
Other	700,145	802,529
Total operating revenue	<u>22,462,607</u>	<u>21,506,861</u>
Operating Expenses		
Salaries and wages	9,463,678	8,782,974
Employee benefits and payroll taxes	4,280,467	2,877,458
Medical supplies and other	4,948,590	5,408,205
Professional services and consultant fees	2,048,789	1,973,563
Purchased services	1,215,692	1,160,664
Depreciation	1,018,360	947,945
Total operating expenses	<u>22,975,576</u>	<u>21,150,809</u>
Operating Income (Loss)	<u>(512,969)</u>	<u>356,052</u>
Nonoperating Revenue		
Investment income	45,492	27,486
Contributions	54,361	3,145
Other income (expenses)	(69,937)	39,728
Total nonoperating revenue	<u>29,916</u>	<u>70,359</u>
Increase (Decrease) in Net Position	(483,053)	426,411
Net Position, Beginning of Year	<u>10,450,802</u>	<u>10,024,391</u>
Net Position, End of Year	<u>\$ 9,967,749</u>	<u>\$ 10,450,802</u>

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016 - Restated
Operating Activities		
Receipts from and on behalf of patients	\$ 21,300,552	\$ 20,679,139
Payments to suppliers and contractors	(7,823,314)	(8,773,313)
Payments to employees	(11,717,416)	(11,290,455)
Other receipts, net	700,145	802,529
Net cash provided by operating activities	2,459,967	1,417,900
Noncapital Financing Activities		
Noncapital grants, gifts and other	(15,576)	42,873
Capital and Related Financing Activities		
Purchase of capital assets	(1,893,517)	(450,449)
Net cash used in capital and related financing activities	(1,893,517)	(450,449)
Investing Activities		
Investment income	45,492	27,486
Purchases of assets limited as to use	(991,191)	(623,838)
Advances to physicians (notes receivable), net of forgiveness	47,009	76,920
Net cash used in investing activities	(898,690)	(519,432)
Increase (Decrease) in Cash and Cash Equivalents	(347,816)	490,892
Cash and Cash Equivalents, Beginning of Year	3,796,127	3,305,235
Cash and Cash Equivalents, End of Year	\$ 3,448,311	\$ 3,796,127
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 1,701,639	\$ 2,051,618
Internally-designated cash included in noncurrent cash	1,746,672	1,744,509
Total cash and cash equivalents	\$ 3,448,311	\$ 3,796,127
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (512,969)	\$ 356,052
Depreciation	1,018,360	947,945
Provision for uncollectible accounts	523,747	732,653
Changes in operating assets and liabilities		
Patient accounts receivable	(617,594)	(1,139,114)
Inventory	19,456	(19,976)
Prepaid expenses and other	416,000	(11,651)
Accounts payable	389,757	(230,881)
Accrued compensated expenses and other	2,026,729	369,977
Estimated amounts due to and due from third-party payers	(803,519)	412,895
Net cash provided by operating activities	\$ 2,459,967	\$ 1,417,900
Noncash Investing, Capital and Financing Activities		
Capital asset acquisitions included in accounts payable	\$ 34,301	\$ -

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2017 and 2016

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

Nature of Operations and Reporting Entity

Paulding County Hospital (Hospital) is a 25-bed critical access hospital located in Paulding, Ohio. The Hospital operates under the authority of Section 339, Ohio Revised Code, to provide inpatient, outpatient and emergency care services for the residents of Paulding County, Ohio. A Board of Trustees appointed by the County Commissioners, the probate judge and the Judge of the Court of Common Pleas of Paulding County governs the Hospital. The Hospital is considered a component unit of Paulding County, Ohio (County).

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash and Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash and cash equivalents.

Assets Limited as to Use and Investment Income

Assets limited as to use consist of cash equivalents and certificates of deposit plus accrued interest and include assets set aside by the Hospital's Board of Trustees for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Certificates of deposit are stated at cost, plus accrued interest, which approximates market value.

Paulding County Hospital
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Investment income on Board-designated funds (funded depreciation) is recorded as nonoperating income.

Patient Accounts Receivable

Accounts receivable from patients, insurance companies and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payers based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payers.

Inventory

Inventories, consisting primarily of medical supplies and drugs, are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

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

Land improvements	5-25 years
Buildings and building improvements	5-50 years
Fixed equipment	3-20 years
Major moveable equipment	3-20 years

Notes Receivable

Notes receivable represent loans to physicians under various cash flow support and loan arrangements. These loans are to be repaid in varying monthly installments, including varying interest rates ranging from the minimum applicable federal rate to prime plus 1 percent, and are unsecured. A majority of the physician notes receivable are forgiven over time under the terms specified in the physician loan agreement.

Deferred Outflows of Resources

The Hospital reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its balance sheets.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
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Compensated Absences

Paid time off is charged to operations when earned. The unused and earned benefits are recorded as a current or long-term liability in the financial statements depending on when amounts are expected to be paid. Employees accumulate vacation days at varying rates depending on years of service. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the Hospital may convert accumulated sick leave to termination payments equal to one-half of the accumulated balance calculated at the employee's base pay rate as of the retirement date. Employees hired after June 8, 2001, are only eligible to receive termination payments on one-half of the accumulated sick leave balance up to a maximum of 240 hours.

Cost-Sharing Multiple-Employer Defined Benefit Pension Plans

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

Deferred Inflows of Resources

The Hospital reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its balance sheets.

Net Position

Net position of the Hospital is classified in three components. The net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted net position represents the net pension asset of the Hospital. Unrestricted net position represents the remaining assets less remaining liabilities that do not meet the definition of the net investment in capital assets or restricted net position.

Net Patient Service Revenue

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

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2017 and 2016

Charity Care

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

Income Taxes

As an instrumentality of a political subdivision of the state of Ohio, the Hospital is generally exempt from federal and state income taxes under the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred, but not yet reported.

Future Change in Accounting Principle

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

Reclassifications

Certain reclassifications have been made to the 2016 audited financial statements to conform to the 2017 financial statement presentation. These reclassifications had no effect on the change in net position.

Paulding County Hospital
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Notes to Financial Statements
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Note 2: Restatement of Prior Year's Financial Statements

The Hospital's 2016 statement of cash flows has been restated to include certain internally-designated demand deposit accounts in cash and cash equivalents. The impact of this restatement was to decrease purchases of assets limited as to use and net cash used in investing activities, and to increase the increase in cash and cash equivalents by \$101,866. In addition, the balance of cash and cash equivalents as of January 1, 2016, on the statement of cash flows was increased to reflect these demand deposits of \$1,642,643, and the cash equivalents balance as of December 31, 2016, increased by \$1,744,509 as a result of the above changes. This restatement did not have an impact on the total net position or change in net position of the Hospital.

Note 3: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare - Effective January 1, 2001, the Hospital received full accreditation from the Center for Medicare and Medicaid services for the critical access hospital designation. As a critical access hospital, the Hospital receives reasonable, cost-based reimbursement for both inpatient and outpatient services provided to Medicare beneficiaries.

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

Approximately 40 percent of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2017 and 2016. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations 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.

Note 4: Deposits, Investments and Investment Income

Chapter 135 of the Ohio Uniform Depositor Act authorizes local governmental units to make deposits in any national bank located in the state, subject to inspection by the superintendent of financial institutions, as eligible to become a public depository. Section 135.14 of the Ohio Revised Code allows the local government to invest in United States Treasury bills, notes, bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States of America and bonds and other obligations of the state of Ohio. Investments in no-load money market mutual funds, repurchase agreements, commercial paper and bankers' acceptances are permitted subject to certain limitations that include completion of additional training, approved by the auditor of state, by the treasurer or governing board investing in these instruments.

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The Hospital has designated seven banks for the deposit of its funds. Investment of interim funds is limited to bonds, notes, debentures or any other obligations or securities issued by any federal government agency or instrumentality, no-load money market mutual funds and the Ohio subdivision's fund (STAR Ohio).

Statutes require the classification of funds held by the Hospital into three categories:

Active Funds - Active funds are required to be kept in a “cash” or “near cash” status for immediate use by the system. Such funds must be maintained either in depository accounts or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Inactive Funds - Inactive funds are not required for use within the current five-year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit, maturing not later than the end of the current period of designated depositories or as savings or deposit accounts, including, but not limited to, passbook accounts.

Interim Funds - Interim funds are funds which are not needed for immediate use but will be needed before the end of the current period of designation of deposit. Ohio law permits interim funds to be invested or deposited in the following securities:

1. Bonds, notes or other obligations guaranteed by the United States or those for which the faith of the United States is pledged for the payment of principal and interest
2. Bonds, notes, debentures or other obligations or securities issued by any federal governmental agency
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions
4. Interim deposits in the eligible institutions applying for interim funds to be evidenced by time certificates of deposit, maturing not more than one year from date of deposit, or by savings or deposit accounts, including but not limited to passbook accounts
5. Bonds and other obligations of the state of Ohio
6. The Ohio State Treasurer's investment pool (STAR Ohio)
7. Commercial paper and bankers' acceptances which meet the requirements established by Ohio Revised Code SEC 135.142
8. Under limited circumstances, corporate debt interest in either of the two highest rating classifications by at least two nationally recognized rating agencies

Protection of the Hospital's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer, by the financial institution or by single collateral pool established by the financial institution to secure the repayment of all public funds deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Hospital and must be purchased with the expectation that it will be held to maturity.

Paulding County Hospital
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Notes to Financial Statements
December 31, 2017 and 2016

The Hospital's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a specific deposit policy for custodial credit risk. At December 31, 2017, the Hospital had no bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Hospital believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. However, since all of the Hospital's bank deposits are collateralized, the Hospital believes it has maintained an acceptable risk level at these institutions.

Summary of Carrying Values

The Hospital's deposits are comprised of the following:

	<u>2017</u>	<u>2016</u>
Carrying value		
Cash and cash equivalents	\$ 1,701,639	\$ 2,051,618
Assets whose use is limited		
Money market funds and certificates of deposit	8,053,825	7,080,030
Accrued interest	139,298	119,739
	<u>\$ 9,894,762</u>	<u>\$ 9,251,387</u>
Deposits		
Amount of deposits reflected on the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit)	\$ 10,174,273	\$ 9,287,727
Amount of deposits covered by federal depository insurance	<u>(3,146,398)</u>	<u>(2,882,492)</u>
Uninsured but collateralized	<u>\$ 7,027,875</u>	<u>\$ 6,405,235</u>

Investment Income

Investment income for the year ended December 31 consisted of:

	<u>2017</u>	<u>2016</u>
Interest income	<u>\$ 45,492</u>	<u>\$ 27,486</u>

Paulding County Hospital
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Assets Limited as to Use

The composition of assets limited as to use, which are comprised of money market funds, certificates of deposit and accrued interest receivable at December 31 are described below:

	<u>2017</u>	<u>2016</u>
Designated by the Board for capital improvements		
Deposits in financial institutions	\$ 8,053,825	\$ 7,080,030
Accrued interest receivable	139,298	119,739
	<u>\$ 8,193,123</u>	<u>\$ 7,199,769</u>

Note 5: Patient Accounts Receivable

Patient accounts receivable at December 31 consisted of:

	<u>2017</u>	<u>2016</u>
Patient accounts receivable	\$ 6,861,313	\$ 7,420,713
Less		
Allowance for uncollectible amounts	1,404,366	1,823,430
Allowance for contractual adjustments	2,621,601	2,855,784
	<u>\$ 2,835,346</u>	<u>\$ 2,741,499</u>

The Hospital grants credit without collateral to patients, most of whom are local residents and are insured under third-party payer agreements. The composition of receivables from patients and third-party payers consisted of:

	<u>2017</u>	<u>2016</u>
Medicare	43%	39%
Medical Mutual of Ohio	17%	11%
Medicaid	11%	12%
Other third-party payers	19%	14%
Patient pay	10%	24%
	<u>100%</u>	<u>100%</u>

Paulding County Hospital
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Notes to Financial Statements
December 31, 2017 and 2016

Note 6: Capital Assets

Capital assets activity for the years ended December 31 were:

	2017			
	Beginning Balance	Additions/ Transfers	Disposals	Ending Balance
Land	\$ 30,609	\$ 72,131	\$ -	\$ 102,740
Land improvements	349,009	(115,015)	-	233,994
Building and building improvements	14,712,248	441,034	-	15,153,282
Fixed equipment	1,366,957	-	-	1,366,957
Major moveable equipment	9,460,541	738,321	(197,661)	10,001,201
Construction in progress	-	879,348	-	879,348
	<u>25,919,364</u>	<u>2,015,819</u>	<u>(197,661)</u>	<u>27,737,522</u>
Less accumulated depreciation				
Land improvements	210,720	8,193	-	218,913
Building and building improvements	10,281,852	427,920	-	10,709,772
Fixed equipment	1,366,957	-	-	1,366,957
Major moveable equipment	7,905,596	582,247	(109,660)	8,378,183
	<u>19,765,125</u>	<u>1,018,360</u>	<u>(109,660)</u>	<u>20,673,825</u>
Capital assets, net	<u>\$ 6,154,239</u>	<u>\$ 997,459</u>	<u>\$ (88,001)</u>	<u>\$ 7,063,697</u>

	2016			
	Beginning Balance	Additions/ Transfers	Disposals	Ending Balance
Land	\$ 30,609	\$ -	\$ -	\$ 30,609
Land improvements	233,994	115,015	-	349,009
Building and building improvements	14,712,248	-	-	14,712,248
Fixed equipment	1,366,957	-	-	1,366,957
Major moveable equipment	10,426,449	258,142	(1,224,050)	9,460,541
	<u>26,770,257</u>	<u>373,157</u>	<u>(1,224,050)</u>	<u>25,919,364</u>
Less accumulated depreciation				
Land improvements	202,388	8,332	-	210,720
Building and building improvements	9,876,919	404,933	-	10,281,852
Fixed equipment	1,366,957	-	-	1,366,957
Major moveable equipment	8,594,966	534,680	(1,224,050)	7,905,596
	<u>20,041,230</u>	<u>947,945</u>	<u>(1,224,050)</u>	<u>19,765,125</u>
Capital assets, net	<u>\$ 6,729,027</u>	<u>\$ (574,788)</u>	<u>\$ -</u>	<u>\$ 6,154,239</u>

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Notes to Financial Statements
December 31, 2017 and 2016

Note 7: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Other long-term obligations					
Accrued compensated absences	\$ 569,216	\$ 517,681	\$ (446,266)	\$ 640,631	\$ 300,000
Net pension liability	<u>10,332,305</u>	<u>3,740,937</u>	<u>-</u>	<u>14,073,242</u>	<u>-</u>
Total other long-term obligations	<u>\$ 10,901,521</u>	<u>\$ 4,258,618</u>	<u>\$ (446,266)</u>	<u>\$ 14,713,873</u>	<u>\$ 300,000</u>
	2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Other long-term obligations					
Accrued compensated absences	\$ 558,953	\$ 341,635	\$ (331,372)	\$ 569,216	\$ 250,000
Net pension liability	<u>7,633,240</u>	<u>2,699,065</u>	<u>-</u>	<u>10,332,305</u>	<u>-</u>
Total other long-term obligations	<u>\$ 8,192,193</u>	<u>\$ 3,040,700</u>	<u>\$ (331,372)</u>	<u>\$ 10,901,521</u>	<u>\$ 250,000</u>

Note 8: Medical Malpractice Claims

Based on the nature of its operations, the Hospital is at times subject to pending or threatened legal actions, which arise in the normal course of its activities.

The Hospital was insured against medical malpractice claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered, regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding \$1,000,000 or aggregate claims exceeding \$3,000,000 for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional \$5,000,000 of coverage.

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Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on the occurrences during the policy term, but reported subsequent to the policy term, will be uninsured.

While there is pending litigation against the Hospital, management is not aware of any such medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. The cost of the insurance policy represents the Hospital's cost for such claims for the year and it has been charged to operations as a current expense.

The Hospital is exposed to various risks of loss related to property and general losses and employee injuries (workers' compensation). The Hospital has purchased commercial insurance for claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years. See Note 10 for discussion of self-insured health programs.

Note 9: Accrued Liabilities and Other

Accrued expenses included in current liabilities at December 31 consisted of:

	<u>2017</u>	<u>2016</u>
Payroll and related items	\$ 782,472	\$ 819,204
Compensated absences	300,000	250,000
Workers' compensation premiums	-	422
Health insurance claims	<u>173,069</u>	<u>84,082</u>
	<u>\$ 1,255,541</u>	<u>\$ 1,153,708</u>

Note 10: Self-insurance

The Hospital is partially self-insured under a plan covering all employees for employee health insurance. The plan is covered by a stop-loss policy that covers claims over \$45,000 per employee or total claims in excess of \$1,132,295. The plan policy year ends on December 31. Claims, charged to operations when incurred, were approximately \$826,000 for the year ended December 31, 2017.

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A reconciliation of accrued health insurance at December 31, 2017, consists of the following:

Balance at January 1, 2016	\$	121,124
Health insurance expense		1,206,096
Payments made		1,243,138
Balance at December 31, 2016		84,082
Health insurance expense		825,933
Payments made		736,946
Balance at December 31, 2017	\$	173,069

Note 11: Contingencies

Investigation

The Hospital is the subject of an investigation regarding specific third-party payer program billing issues. Management believes the Hospital's medical records fully support the codes used and billings submitted and intends to vigorously defend the Hospital should any assertions to the contrary be made. No provision has been made in the financial statements for any adverse outcome that might ultimately result from this matter, as the amount of any such loss is not reasonably estimable. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Litigation

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

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Note 12: Multiple-employer Plans

Defined Benefit Pension Plans

Plan Description

The Hospital contributes to the Ohio Public Employees Retirement System (OPERS) a cost-sharing multiple-employer defined benefit pension plan covering substantially all employees. All employees are required to join the Ohio Public Employees Retirement System (OPERS). OPERS administers two defined benefit pension plans as described below. Both of the options are discussed in greater detail in the following sections:

1. The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan.
2. The Combined Plan – a cost-sharing, multi-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan, a defined contribution pension plan discussed in greater detail under “Defined Contribution Plan” in this footnote.

OPERS issues a stand-alone financial report, these reports may be obtained by contacting the organization as follows:

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

Benefits Provided

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

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

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

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

Only active employees of the Hospital participate and are covered by the plan. At December 31, 2017 and 2016, approximately 200 employees participated and were covered by the OPERS Pension Plans.

Contributions

The ORC provides OPERS statutory authority over employee and employer contributions. The required contractually determined contribution rates, respectively of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The contractually required contribution rates for employees and the Hospital are as follows for the year ended December 31, 2017:

	OPERS
Employees	10%
Hospital	14%

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Hospital contributions for the years ended December 31, 2017 and 2016, were as follows:

	OPERS	
	2017	2016
Traditional Plan	\$ 1,028,975	\$ 961,636
Combined Plan	56,533	48,602
Total	\$ 1,085,508	\$ 1,010,238

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

The net pension asset and liability were measured as of December 31, 2016 and 2015, and the total pension liability used to calculate the net pension asset or liability were determined by actuarial valuations as of those dates. The Hospital reported an asset and a liability for OPERS of \$57,910 and \$14,073,242, respectively, as of December 31, 2017, and \$68,112 and \$10,332,305, for 2016, respectively, for its proportionate share of the total pension asset and liability. The Hospital's proportion of the net pension asset and liability was based on the Hospital's contributions to the Plans relative to the contributions of all participating employers to the Plans for the respective measurement periods. At December 31, 2016, the Hospital's proportion was 0.061974 percent for OPERS Traditional Pension Plan and 0.104049 percent for OPERS Combined Plan. At December 31, 2015, the Hospital's proportion was 0.059651 percent for OPERS Traditional Pension Plan and 0.139970 percent for OPERS Combined Plan. The Hospital's changes in proportion between the two years were .002323 percent and (.035921) percent for the OPERS Traditional Pension Plan and OPERS Combined Plan, respectively.

For the years ended December 31, 2017 and 2016, the Hospital recognized pension expense of \$2,992,376 and \$1,353,988, respectively. At December 31, 2017 and 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017					
	Traditional Plan		Combined Plan		Total Defined Benefit Plans	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 19,075	\$ 83,757	\$ -	\$ 29,617	\$ 19,075	\$ 113,374
Net difference between projected and actual earnings on pension plan investments	2,095,830	-	14,129	-	2,109,959	-
Change in assumption	2,232,188	-	14,114	-	2,246,302	-
Change in the Hospital's proportion	41,400	-	13,957	-	55,357	-
Hospital's contributions subsequent to the measurement date	1,028,975	-	56,533	-	1,085,508	-
	\$ 5,417,468	\$ 83,757	\$ 98,733	\$ 29,617	\$ 5,516,201	\$ 113,374

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	2016					
	Traditional Plan		Combined Plan		Total Defined Benefit Plans	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 199,640	\$ -	\$ 31,080	\$ -	\$ 230,720
Net difference between projected and actual earnings on pension plan investments	3,037,052	-	29,408	-	3,066,460	-
Change in the Hospital's proportion	-	289,423	-	1,386	-	290,809
Hospital's contributions subsequent to the measurement date	961,636	-	48,602	-	1,010,238	-
	<u>\$ 3,998,688</u>	<u>\$ 489,063</u>	<u>\$ 78,010</u>	<u>\$ 32,466</u>	<u>\$ 4,076,698</u>	<u>\$ 521,529</u>

At December 31, 2017, the Hospital reported \$1,028,975 and \$56,533 for the traditional and combined plans, respectively, as deferred outflows of resources related to pensions resulting from Hospital contributions subsequent to the measurement date that will be recognized as a decrease (increase) to the net pension liability (asset) in the year ending December 31, 2018.

At December 31, 2016, the Hospital reported \$961,636 and \$48,602 for the traditional and combined plans, respectively, as deferred outflows of resources related to pensions resulting from Hospital contributions subsequent to the measurement date that will be recognized as a decrease (increase) to the net pension liability (asset) in the year ending December 31, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2016, related to pensions will be recognized in pension expense as follows:

	<u>Traditional</u>	<u>Combined</u>	<u>Total</u>
2018	\$ 1,719,600	\$ 4,449	\$ 1,724,049
2019	1,893,451	4,449	1,897,900
2020	753,120	3,838	756,958
2021	(61,435)	(1,169)	(62,604)
2022	-	(640)	(640)
Thereafter	-	1,656	1,656
	<u>\$ 4,304,736</u>	<u>\$ 12,583</u>	<u>\$ 4,317,319</u>

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Actuarial Assumptions

The total pension liability in the December 31, 2016, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

OPERS	Traditional Plan	Combined Plan
Valuation date	December 31, 2016	December 31, 2016
Experience study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial cost method	Individual entry age	Individual entry age
Wage inflation	3.25%	3.25%
Salary increases	3.25% - 10.75% including inflation at 3.25%	3.25% - 8.25% including inflation at 3.25%
Investment rate of return	7.50%	7.50%
Cost-of-living adjustments	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.15% simple	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.15% simple

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

OPERS	Traditional Plan	Combined Plan
Valuation date	December 31, 2015	December 31, 2015
Experience study	5-year period ended December 31, 2010	5-year period ended December 31, 2010
Actuarial cost method	Individual entry age	Individual entry age
Wage inflation	3.75%	3.75%
Salary increases	4.25% - 10.05% including inflation at 3.75%	4.25% - 8.05% including inflation at 3.75%
Investment rate of return	8.00%	8.00%
Cost-of-living adjustments	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.8% simple	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.8% simple

Mortality rates for OPERS are the RP-2014 mortality table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used.

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

Asset Class	OPERS	
	Allocation	Long-Term Expected Rate of Return
Domestic equities	20.7%	6.34%
International equities	18.3%	7.95%
Fixed income	23.0%	2.75%
Real estate	10.0%	4.75%
Private equity	10.0%	8.97%
Other investments	18.0%	4.92%
	100.0%	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 7.5 and 8 percent for the years ended December 31, 2017 and 2016, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Paulding County Hospital
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Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate

The Hospital's proportionate share of the net pension liability (asset) as of December 31, 2017, has been calculated using a discount rate of 7.5 percent. The following presents the Hospital's proportionate share of the net pension liability (asset) calculated using a discount rate 1 percent higher and 1 percent lower than the current rate:

	1% Decrease 6.5%	2017 Discount Rate 7.5%	1% Increase 8.5%
Hospital's proportionate share of the net pension liability - Traditional	\$ 21,500,020	\$ 14,073,242	\$ 7,884,332
Hospital's proportionate share of the net pension liability (asset) - Combined	(4,162)	(57,910)	(106,130)

Pension Plans Fiduciary Net Position

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

Defined Contribution Plan

OPERS also offers a defined contribution plan, the Member-Directed (MD) Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings. The MD Plan does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

Pension expense recorded for the years ended December 31, 2017 and 2016, for employer contributions to the Member-Directed Plan was approximately \$92,000 and \$75,000, respectively.

Other Postemployment Benefits

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

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Each year the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For the calendar years ended December 31, 2017 and 2016, OPERS allocated 1.0 percent and 2.0 percent, respectively, of the employer contribution rate to fund the health care program for members in the Traditional Pension Plan and Combined Plan. The allocated 1.0 percent and 2.0 percent is the statutorily required contribution rates for OPERS, payment amounts vary depending on the number of covered dependents and the coverage selected. Hospital employer contributions to OPERS to fund OPEB for the years ended December 31, 2017 and 2016, approximated 1.0 and 2.0 percent, or approximately \$91,000 and \$168,000, respectively.

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

Deferred Compensation Plan

All full-time employees of the Hospital may participate in a deferred compensation plan created by the state of Ohio under the provisions of the Internal Revenue Code (IRC) Section 457, *Deferred Compensation Plans with Respect to Service for State and Local Governments*. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency.

Compensated assets deferred under a plan, all property, rights and all income attributable to those amounts, property or rights are held in trust at the state level for the benefit of the participants.

Required Supplementary Information

Paulding County Hospital
A Component Unit of Paulding County, Ohio

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

Traditional	2017	2016
Hospital's proportion of the net pension liability	0.061974%	0.059651%
Hospital's proportionate share of the net pension liability	\$ 14,073,242	\$ 10,332,305
Hospital's covered-employee payroll	8,013,632	8,013,632
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	175.62%	128.93%
Plan fiduciary net position as a percentage of the total pension liability	77.25%	81.08%
Combined	2017	2016
Hospital's proportion of the net pension asset	0.104049%	0.139970%
Hospital's proportionate share of the net pension asset	\$ (57,910)	\$ (68,112)
Hospital's covered-employee payroll	405,014	405,014
Hospital's proportionate share of the net pension asset as a percentage of its covered-employee payroll	-14.30%	-16.82%
Plan fiduciary net position as a percentage of the total pension asset	116.55%	116.90%

Schedule of Hospital Contributions
Ohio Public Employees Retirement System (OPERS)

Traditional	2017	2016
Statutorily required contribution	\$ 1,028,975	\$ 961,636
Contributions in relation to the statutorily required contributions	<u>(1,028,975)</u>	<u>(961,636)</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Hospital's covered-employee payroll	\$ 7,915,192	\$ 8,013,633
Contributions as a percentage of covered-employee payroll	13.00%	12.00%
Combined	2017	2016
Statutorily required contribution	\$ 56,533	\$ 48,602
Contributions in relation to the statutorily required contributions	<u>(56,533)</u>	<u>(48,602)</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Hospital's covered-employee payroll	\$ 434,869	\$ 405,017
Contributions as a percentage of covered-employee payroll	13.00%	12.00%

The amounts presented in the Schedule of Hospital's Proportionate Share of the Net Pension (Asset) Liability are presented as of the measurement date for the respective reporting periods. The amounts presented in the Schedule of Hospital Contributions are presented as of the end of the respective reporting periods.

Paulding County Hospital

A Component Unit of Paulding County, Ohio

These are 10-year schedules; however, the information is not required to be presented retroactively. Years will be added to these schedules in future years until 10 years of information is available.

Changes of Assumptions

In 2016, the OPERS' Board of Trustees' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments for the 2016 valuation report. These changes of assumptions for OPERS are reflected in the amounts presented for the current fiscal year.

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

Independent Auditor's Report

Board of Trustees
Paulding County Hospital
Paulding, Ohio

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Paulding County Hospital (Hospital), a component unit of Paulding County, Ohio, which comprise the balance sheets as of December 31, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 5, 2018, which contained an emphasis of matter paragraph regarding the correction of a misstatement.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control as item 2017-001 that we consider to be a material weakness.

Compliance and Other Matters

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

Paulding County Hospital's Response to Findings

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

Purpose of This Report

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

BKD, LLP

Fort Wayne, Indiana
March 5, 2018

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Schedule of Findings and Responses
December 31, 2017

Reference Number	Finding
2017-001	<p><i>Criteria or Specific Requirement</i> – Governmental Accounting Standards Board Statement Number 9 requires a statement of cash flows to explain the change during the period in cash and cash equivalents, regardless of whether there are restrictions on their use. The Hospital did not include internally-designated cash balances in the total cash and cash equivalents in its 2016 statement of cash flows.</p> <p><i>Condition</i> – The Hospital reflected internally-designated cash and the activity in these cash balances in investing activities on the statements of cash flows.</p> <p><i>Context</i> – The Hospital’s management considered the internally-designated cash balances to be unavailable for use in Hospital operations.</p> <p><i>Effect</i> – Internally-designated cash balances and the activity in these cash balances were not appropriately reflected in the statements of cash flows.</p> <p><i>Cause</i> – Internally-designated cash balances have grown substantially.</p> <p><i>Recommendation</i> – Management should ensure all cash and cash equivalents are properly reflected in the statements of cash flows.</p> <p><i>Views of Responsible Officials and Planned Corrective Action</i> – Management agrees appropriate disclosure is necessary within the audited financial statements and has taken steps to ensure the appropriate disclosures are made.</p>

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Dave Yost • Auditor of State

PAULDING COUNTY HOSPITAL

PAULDING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 24, 2018**