

Paulding County Hospital

**Financial Report
with Additional Information
December 31, 2009**



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of Paulding County Hospital, prepared by Plante & Moran, PLLC, for the audit period January 1, 2009 through December 31, 2009. 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. Paulding County Hospital is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 13, 2010

This Page is Intentionally Left Blank.

Paulding County Hospital

Contents

Report Letter	1
Management's Discussion and Analysis	2-8
Financial Statements	
Balance Sheet	9
Statement of Revenues, Expenses, and Changes in Net Assets	10
Statement of Cash Flows	11-12
Notes to Financial Statements	13-28
Additional Information	29
Report on Internal Control and Compliance	30-31

Independent Auditor's Report

To the Board of Directors
Paulding County Hospital

We have audited the accompanying financial statements of the business-type activities of Paulding County Hospital (a component unit of Paulding County) (the "Hospital") as of and for the years ended December 31, 2009 and 2008, 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paulding County Hospital at December 31, 2009 and 2008 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2010 on our consideration of Paulding County Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Plante & Moran, PLLC

March 1, 2010

Paulding County Hospital

Management's Discussion and Analysis

Management's Discussion and Analysis

The discussion and analysis of Paulding County Hospital's (the "Hospital") financial statements provide an overview of the Hospital's financial activities for the year ended December 31, 2009. Management is responsible for the completeness and fairness of the financial statements and the related footnote disclosures along with the discussion and analysis.

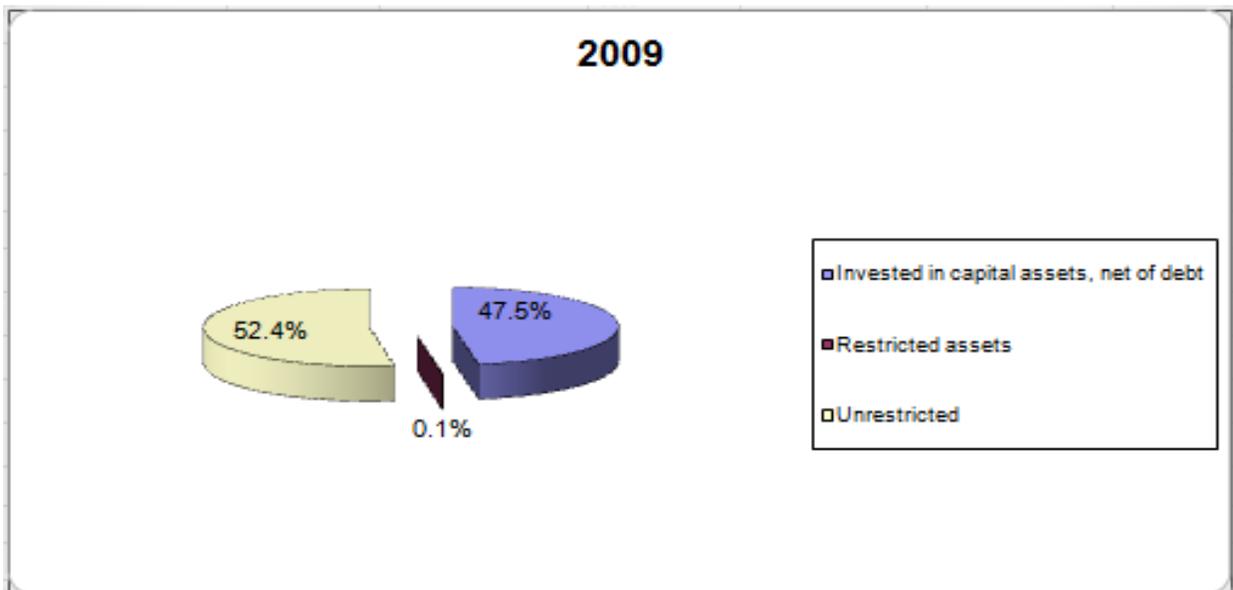
Using this Annual Report

The Hospital's financial statements consist of three statements - a balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purpose by contributors, grantors, or enabling legislation.

Financial Highlights

The Hospital's current assets decreased by \$273,621, or 5.3 percent, from the prior year compared to an \$843,729, or 19.4 percent, increase last year. In total, the Hospital's net assets increased \$183,006, or 1.4 percent, from the previous year compared to a \$254,316, or 2.0 percent, increase last year.

The following chart provides a breakdown of net assets by category for the year ended December 31, 2009:



Paulding County Hospital

Management's Discussion and Analysis (Continued)

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets

One of the most important questions asked about the Hospital's finances is, "Is Paulding County Hospital as a whole better off or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses, and changes in net assets report information on the Hospital as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as Paulding County Hospital's operating results.

These two statements report the Hospital's net assets and the changes in them. You can think of Paulding County Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider many other nonfinancial factors, such as the trend in patient days, outpatient visits, conditions of the buildings, and strength of the medical staff, to assess the overall health of the Hospital.

The financial statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Condensed Financial Information

The following is a comparative analysis of the major components of the statement of net assets of the Hospital as of December 31, 2009, 2008, and 2007:

	Year Ended December 31			Change for 2009	
	2009	2008	2007	Amount	Percent
Assets					
Current assets	\$ 4,914,389	\$ 5,188,010	\$ 4,344,281	\$ (273,621)	-5.3%
Noncurrent assets	4,778,283	4,660,348	3,840,591	117,935	2.5%
Capital assets	<u>7,430,683</u>	<u>8,335,696</u>	<u>8,772,154</u>	<u>(905,013)</u>	-10.9%
Total assets	<u>\$ 17,123,355</u>	<u>\$ 18,184,054</u>	<u>\$ 16,957,026</u>	<u>\$ (1,060,699)</u>	-5.8%
Liabilities					
Current liabilities	\$ 2,793,350	\$ 3,717,658	\$ 2,302,614	\$ (924,308)	-24.9%
Long-term liabilities	728,386	1,081,983	1,522,552	(353,597)	-32.7%
Other liabilities	<u>235,268</u>	<u>201,068</u>	<u>202,831</u>	<u>34,200</u>	17.0%
Total liabilities	3,757,004	5,000,709	4,027,997	(1,243,705)	-24.9%
Net Assets					
Invested in capital assets, net of debt	6,348,701	6,765,814	6,788,266	(417,113)	-6.2%
Restricted assets	11,293	14,197	13,808	(2,904)	-20.5%
Unrestricted	<u>7,006,357</u>	<u>6,403,334</u>	<u>6,126,955</u>	<u>603,023</u>	9.4%
Total net assets	<u>13,366,351</u>	<u>13,183,345</u>	<u>12,929,029</u>	<u>183,006</u>	1.4%
Total liabilities and net assets	<u>\$ 17,123,355</u>	<u>\$ 18,184,054</u>	<u>\$ 16,957,026</u>	<u>\$ (1,060,699)</u>	-5.8%

Paulding County Hospital

Management's Discussion and Analysis (Continued)

Current assets decreased as a result of cash paid to the State Franchise Fee and Cost Report Settlements. It also decreased as a result of fewer prepaid maintenance expenses.

Noncurrent assets increased as a result of increased restricted deposits and accrued interest.

Capital assets decreased resulting from a lesser need for the purchase of equipment.

Current liabilities decreased reflecting a decrease in third-party payables.

Long-term liabilities changed due to decreases in notes payable/debt obligations.

	Year Ended December 31			Change for 2009	
	2009	2008	2007	Amount	Percent
Operating Revenue					
Net patient service revenue	\$ 18,337,173	\$ 17,288,018	\$ 17,248,465	\$ 1,049,155	6.1%
Other	238,441	252,529	254,548	(14,088)	-5.6%
Total operating revenue	18,575,614	17,540,547	17,503,013	1,035,067	5.9%
Operating Expenses					
Salaries and wages	8,287,901	7,801,670	7,998,544	486,231	6.2%
Employee benefits and payroll taxes	2,758,798	2,411,228	2,910,421	347,570	14.4%
Medical supplies and drugs	4,372,389	4,242,703	3,966,890	129,686	3.1%
Professional services and consultant fees	506,195	341,433	428,205	164,762	48.3%
Purchased services	1,275,169	1,378,709	1,423,406	(103,540)	-7.5%
Depreciation and amortization	1,324,560	1,258,766	1,248,145	65,794	5.2%
Total operating expenses	18,525,012	17,434,509	17,975,611	1,090,503	6.3%
Operating Income (Loss)	50,602	106,038	(472,598)	(55,436)	-52.3%
Other Income (Expense)					
Investment income	143,136	165,741	185,345	(22,605)	-13.6%
Contributions	34,796	29,090	26,992	5,706	19.6%
Interest earnings on restricted assets	6	38	9	(32)	-84.2%
Interest expense	(46,356)	(62,361)	(73,468)	16,005	-25.7%
Other income	822	15,770	40,214	(14,948)	-94.8%
Total other income	132,404	148,278	179,092	(15,874)	-10.7%
Increase (Decrease) in Net Assets	183,006	254,316	(293,506)	\$ (71,310)	-28.0%
Net Assets - Beginning of year	13,183,345	12,929,029	13,222,535		
Net Assets - End of year	<u>\$ 13,366,351</u>	<u>\$ 13,183,345</u>	<u>\$ 12,929,029</u>		

Operating Revenues

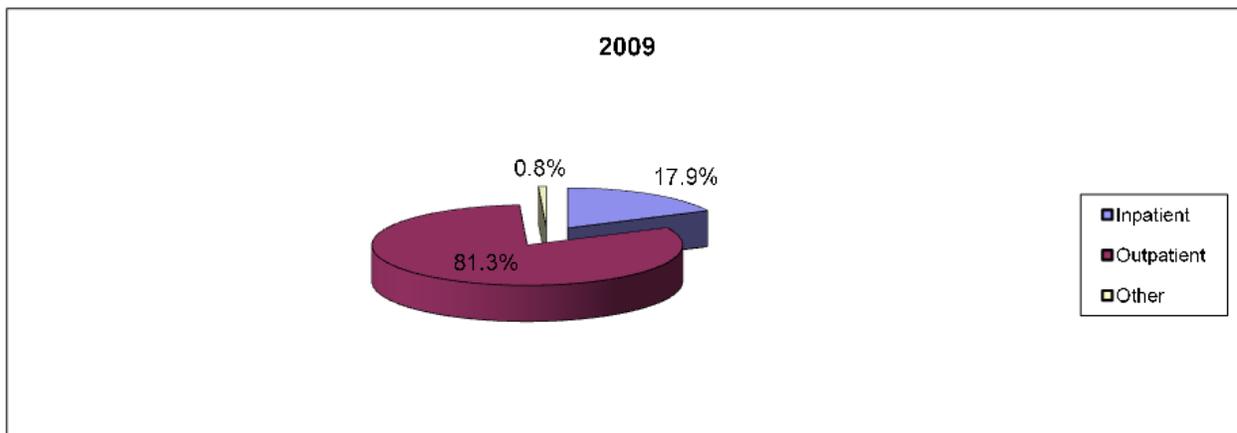
Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as inpatient services, outpatient services, physician offices, and the cafeteria. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

Paulding County Hospital

Management's Discussion and Analysis (Continued)

Operating revenue changes were a result of the following factors:

- Gross patient revenues increased 12.0 percent, while net patient service revenue increased 6.1 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, and Anthem. These revenue deductions have varied over the past three years from 30.09 in 2007, 33.63 in 2008, and now 37.35 in 2009 as percentage gross revenue.
- The following is a graphic illustration of operating revenues by source:



Operating Expenses

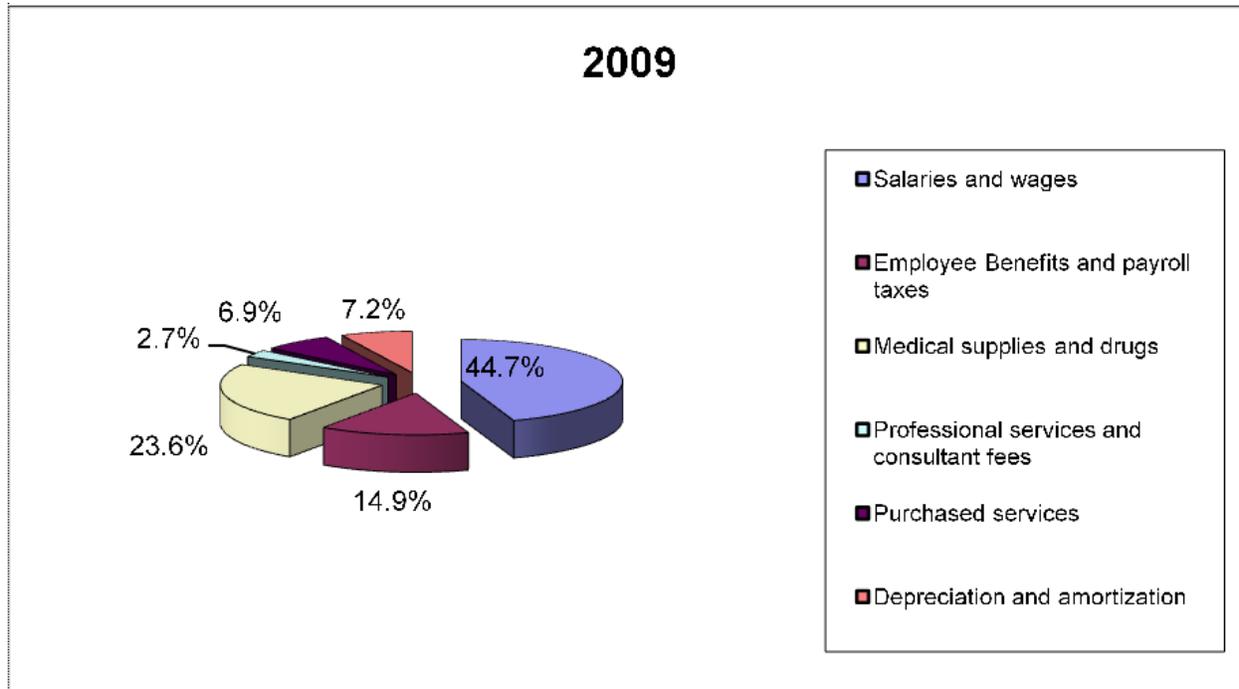
Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Hospital. The operating expense changes were the result of the following factors:

- Salary costs increased 6.2 percent as a result of additional physician and other patient care service compensations.
- Employee benefits increased 14.4 percent, reflecting self-funded health insurance claims and Ohio Public Employer's Retirement System contributions.
- Professional services increased by 48.3 percent, reflecting increased physician fees.
- Purchased services decreased by 7.5 percent, reflecting cost reduction efforts.
- Depreciation expense increased 5.2 percent, reflecting additions to property, plant, and equipment over the past few years.

Paulding County Hospital

Management's Discussion and Analysis (Continued)

The following is a graphic illustration of operating expenses by type:



Nonoperating Gains (Losses)

Nonoperating gains and losses are all sources and uses that are primarily non-exchange in nature. They would consist primarily of investment income (including realized and unrealized gains and losses), interest expense, grants, and contracts that do not require any services to be performed.

The category "other," within nonoperating gains (losses), consists of items that are typically nonrecurring or unusual to the Hospital. Examples would be capital grants, additions to permanent endowments, and transfers from related entities.

Statement of Cash Flows

Another way to assess the financial health of the 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

Paulding County Hospital

Management's Discussion and Analysis (Continued)

	2009	2008	2007	2009 Increase (Decrease)
Net cash from:				
Operating activities	\$ 757,484	\$ 2,567,210	\$ 1,128,996	\$ (1,809,726)
Investing activities	16,063	(713,405)	23,473	729,468
Noncapital and financing activities	34,796	29,090	26,992	5,706
Capital and related financing activities	(970,179)	(1,306,582)	(782,433)	336,403
Net Increase (Decrease) in Cash	(161,836)	576,313	397,028	(738,149)
Cash - Beginning of year	1,293,387	717,074	320,046	576,313
Cash - End of year	<u>\$ 1,131,551</u>	<u>\$ 1,293,387</u>	<u>\$ 717,074</u>	<u>\$ (161,836)</u>

The following discussion amplifies the overview of cash flows presented above.

Cash provided by operating activities decreased \$1,809,726 from the prior year as a result of franchise fees and Medicare settlements. Cash provided by investing activities increased \$729,468 due to transferring operating funds to board designated savings funds in 2008. Capital and related financing activities increased cash flows by \$336,403, reflecting the purchase of capital assets without the issuance of additional debt.

Capital Assets and Debt Administration

Capital Assets - At December 31, 2009, the Hospital had \$7.4 million invested in capital assets, net of accumulated depreciation of \$14.3 million. Depreciation and amortization totaled \$1,324,560 on the current year compared to \$1,258,766 and \$1,248,145 for 2008 and 2007, respectively. Details of these assets for the past two years are shown below.

	2009	2008	2007	2009 Increase (Decrease)
Land	\$ 30,609	\$ 30,609	\$ 30,609	\$ -
Land improvements	47,583	46,042	58,201	1,541
Buildings and improvements	5,355,752	5,875,167	6,093,898	(519,415)
Furniture, fixtures, and equipment	1,990,466	2,368,344	2,357,103	(377,878)
Construction in process	6,273	15,534	232,343	(9,261)
Total	<u>\$ 7,430,683</u>	<u>\$ 8,335,696</u>	<u>\$ 8,772,154</u>	<u>\$ (905,013)</u>

Paulding County Hospital

Management's Discussion and Analysis (Continued)

Debt - At year end, the Hospital had \$1,598,051 in debt outstanding as compared to \$1,995,648 and \$2,403,349 for 2008 and 2007, respectively. The table below summarizes these amounts by type of debt instrument:

	2009	2008	2007	2009 Increase (Decrease)
Lease obligations	\$ 125,661	\$ 175,828	\$ 223,907	\$ (50,167)
Note payable	956,321	1,394,054	1,759,981	(437,733)
Compensated absences	516,069	425,766	419,461	90,303
Total long-term liabilities	<u>\$ 1,598,051</u>	<u>\$ 1,995,648</u>	<u>\$ 2,403,349</u>	<u>\$ (397,597)</u>

Economic Factors That Will Affect the Future

The Supplemental Inpatient Upper Payment Limit and Healthcare Assurance programs have continued to provide valuable relief toward Medicaid shortfalls in prior years. We are anticipating some additional relief from the Healthcare Assurance Program in 2010.

National Healthcare Reform and its potential effect on critical access hospitals will be watched very closely in the year to come. Although it is unclear at this time what will be approved by the president, we are hopeful that pieces could be beneficial to small hospitals.

In addition, the board of directors approved an average increase of 5.5 percent in the charge structure for the upcoming fiscal year.

Contacting the Hospital's 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 money it has received in the past. If you have questions about this report or need additional information, we welcome you to contact the chief financial officer, Robert L. Goshia, II.

Paulding County Hospital

Balance Sheet

	December 31, 2009	December 31, 2008
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 1,131,551	\$ 1,293,387
Accounts receivable (Note 3)	2,736,872	2,800,343
Notes receivable	315,456	289,114
Prepaid expenses and other	147,382	252,003
Inventory	583,128	553,163
Total current assets	4,914,389	5,188,010
Assets Limited as to Use (Notes 2 and 4)	4,778,283	4,660,348
Capital Assets - Net (Note 5)	7,430,683	8,335,696
Total assets	<u>\$ 17,123,355</u>	<u>\$ 18,184,054</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 6)	\$ 353,596	\$ 487,899
Accounts payable	527,174	374,291
Estimated third-party payor settlements	965,574	1,739,361
Accrued liabilities and other (Note 7)	947,006	1,116,107
Total current liabilities	2,793,350	3,717,658
Long-term Debt - Net of current portion (Note 6)	728,386	1,081,983
Other Liabilities (Note 6)	235,268	201,068
Total liabilities	3,757,004	5,000,709
Net Assets		
Invested in capital assets - Net of related debt	6,348,701	6,765,814
Donor-restricted for specific operating activities	11,293	14,197
Unrestricted	7,006,357	6,403,334
Total net assets	13,366,351	13,183,345
Total liabilities and net assets	<u>\$ 17,123,355</u>	<u>\$ 18,184,054</u>

Paulding County Hospital

Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended	
	December 31, 2009	December 31, 2008
Operating Revenues		
Net patient service revenue	\$ 18,337,173	\$ 17,288,018
Other	238,441	252,529
Total operating revenues	18,575,614	17,540,547
Operating Expenses		
Salaries and wages	8,287,901	7,801,670
Employee benefits and payroll taxes	2,758,798	2,411,228
Medical supplies and drugs	4,372,389	4,242,703
Professional services and consultant fees	506,195	341,433
Purchased services	1,275,169	1,378,709
Depreciation and amortization	1,324,560	1,258,766
Total operating expenses	18,525,012	17,434,509
Income from Operations	50,602	106,038
Other Income (Expense)		
Investment income	143,136	165,741
Contributions	34,796	29,090
Interest earnings on restricted assets	6	38
Interest expense	(46,356)	(62,361)
Other income	822	15,770
Total other income	132,404	148,278
Increase in Net Assets	183,006	254,316
Net Assets - Beginning of year	13,183,345	12,929,029
Net Assets - End of year	\$ 13,366,351	\$ 13,183,345

Paulding County Hospital

Statement of Cash Flows

	Year Ended	
	December 31, 2009	December 31, 2008
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 17,626,857	\$ 18,677,544
Cash payments to suppliers for services and goods	(5,949,546)	(6,082,782)
Cash payments to employees for services	(11,151,639)	(10,279,196)
Other operating receipts	231,812	251,644
Net cash provided by operating activities	757,484	2,567,210
Cash Flows from Noncapital Financing Activities -		
Unrestricted contributions received	34,796	29,090
Cash Flows from Investing Activities		
Investment income	77,095	153,066
Change in assets limited as to use	(51,888)	(807,044)
Advances to physicians - Net of forgiveness	(26,342)	(83,104)
Other	17,198	23,677
Net cash provided by (used in) investing activities	16,063	(713,405)
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of debt	-	53,087
Principal payments on notes payable	(437,733)	(419,014)
Interest paid on long-term debt	(46,356)	(62,361)
Purchase of capital assets	(435,923)	(830,215)
Principal payments on capital leases	(50,167)	(48,079)
Net cash used in capital and related financing activities	(970,179)	(1,306,582)
Net (Decrease) Increase in Cash and Cash Equivalents	(161,836)	576,313
Cash and Cash Equivalents - Beginning of year	1,293,387	717,074
Cash and Cash Equivalents - End of year	<u>\$ 1,131,551</u>	<u>\$ 1,293,387</u>
Supplemental Cash Flow Information - Cash paid for interest	<u>\$ 46,356</u>	<u>\$ 62,361</u>

Paulding County Hospital

Statement of Cash Flows (Continued)

A reconciliation of income from operations to net cash from operating activities is as follows:

	Year Ended	
	December 31, 2009	December 31, 2008
Reconciliation of Income from Operations to Net Cash from Operating Activities		
Income from operations	\$ 50,602	\$ 106,038
Adjustments to reconcile income from operations to net cash from operating activities:		
Depreciation	1,324,560	1,258,766
Provision for bad debts	1,048,360	1,046,951
Changes in assets and liabilities:		
Increase in accounts receivable	(984,889)	(1,245,959)
Increase in inventory	(29,965)	(17,338)
Decrease in prepaid expenses and other	104,621	40,034
Increase (decrease) in accounts payable	152,883	(156,801)
Decrease in accrued expenses and other	(134,901)	(53,015)
(Decrease) increase in third-party payor settlements	(773,787)	1,588,534
Net cash provided by operating activities	<u>\$ 757,484</u>	<u>\$ 2,567,210</u>

Paulding County Hospital

Notes to Financial Statements December 31, 2009 and 2008

Note I - Nature of Business and Significant Accounting Policies

Organization - Paulding County Hospital (the "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 directors 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 (the "County") and is included as a component unit in the general purpose financial statements of the County.

Basis of Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Hospital follows the business-type activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Hospital's activities. The Hospital has elected not to apply the provisions of all pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989. No component units are required to be reported in the financial statements.

Proprietary Fund Accounting - The financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

Cash and Cash Equivalents - Cash and cash equivalents are defined as short-term highly liquid investments purchased with initial maturities of three months or less.

Accounts Receivable - Accounts receivable for 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 payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Inventory - Inventory, consisting primarily of medical supplies, food, and drugs, is valued at the lower of cost or market determined on a first-in, first-out (FIFO) basis.

Paulding County Hospital

Notes to Financial Statements December 31, 2009 and 2008

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Assets Limited as to Use - Assets limited as to use include assets set aside by the Hospital's board of directors for future capital improvements, over which the board retains control, and may, at its discretion, subsequently use for other purposes. Assets limited as to use also include assets restricted by contributors for education and other purposes of the home health department.

Capital Assets - Capital assets are recorded at cost or, if donated, at fair value at the date of receipt. Depreciation is provided over the estimated useful life and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

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.

Compensated Absences - Paid time off is charged to operations when earned. Unused and earned benefits are recorded as a current liability in the financial statements. 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.

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 unrestricted resources before restricted resources.

Net Assets - Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and are 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, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Paulding County Hospital

Notes to Financial Statements December 31, 2009 and 2008

Note I - Nature of Business and Significant Accounting Policies (Continued)

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. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others. Retroactive adjustments to these estimated amounts are recorded in future periods as final settlements are determined. The Hospital recorded a favorable adjustment of approximately \$78,000 in 2009 and an unfavorable adjustment of approximately \$719,000 in 2008, due to prior year retroactive adjustments in excess of amounts previously estimated.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

Income (Loss) from Operations - 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 healthcare services. Nonexchange revenues, including contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Investment Income - Investment income on board-designated funds (funded depreciation) and general funds is recorded as nonoperating gains. Interest earnings on funds restricted by contributors are also recorded as nonoperating gains.

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

Charity care provided, based on charges at established rates, was approximately \$125,000 and \$112,000 in 2009 and 2008, respectively.

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 certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Paulding County Hospital

Notes to Financial Statements December 31, 2009 and 2008

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Pension Plan - Substantially all of the Hospital's employees are eligible to participate in a defined benefit pension plan sponsored by the Ohio Public Employees' Retirement System (OPERS). The Hospital funds pension costs accrued based on contribution rates determined by OPERS.

Federal Income Tax - As a political subdivision, the Hospital is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code.

Reclassifications - Certain amounts in the Hospital's 2008 financial statements have been reclassified to conform with the presentation in the Hospital's 2009 financial statements.

Note 2 - Deposits and Investments

Chapter 135 of the Ohio Uniform Depositor Act authorizes local and governmental units to make deposits in any national bank located in the state subject to inspection by the superintendent of financial institutions and is 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, the treasurer, or the governing board investing in these instruments.

The Hospital has designated Antwerp Exchange Bank, First Financial Bank, Farmers & Merchants State Bank, First Federal Savings & Loan, Sherwood State Bank, State Bank & Trust, and Ottoville Bank Company for the deposit of its funds. An investment policy has not been filed with the auditor of state on behalf of the Hospital. Investment of interim funds is limited to cash and cash equivalents, 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 those funds required to be kept in a "cash" or "near cash" status for immediate use by the Hospital. Such funds must be maintained either in depository accounts or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Paulding County Hospital

Notes to Financial Statements December 31, 2009 and 2008

Note 2 - Deposits and Investments (Continued)

Inactive Funds - Inactive funds are those funds 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 no 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 those 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 that are 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.

Paulding County Hospital

Notes to Financial Statements December 31, 2009 and 2008

Note 2 - Deposits and Investments (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage or the use of leverage and short selling is 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.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The Hospital's cash and investments are subject to custodial credit risk, as 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 year end, 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. As a result, the Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Paulding County Hospital

Notes to Financial Statements December 31, 2009 and 2008

Note 2 - Deposits and Investments (Continued)

The Hospital's deposits and investments are comprised of the following:

	<u>2009</u>	<u>2008</u>
Deposits	\$ 1,131,551	\$ 1,293,387
Certificates of deposit	<u>4,627,188</u>	<u>4,575,300</u>
Total	<u>\$ 5,758,739</u>	<u>\$ 5,868,687</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)	\$ 6,134,788	\$ 5,985,296
Amount of deposits covered by federal depository insurance	<u>(1,750,000)</u>	<u>(1,764,196)</u>
Amount of deposits collateralized	<u>\$ 4,384,788</u>	<u>\$ 4,221,100</u>

Amounts of deposits not insured by federal depository insurance are collateralized by itemized securities pledged by the depository bank and held in the name of the Hospital and respective bank.

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	<u>2009</u>	<u>2008</u>
Gross patient accounts receivable	\$ 5,399,956	\$ 4,687,607
Less uncollectible accounts	(1,057,613)	(882,465)
Less contractual adjustments	<u>(1,605,471)</u>	<u>(1,004,799)</u>
Net patient accounts receivable	<u>\$ 2,736,872</u>	<u>\$ 2,800,343</u>

Paulding County Hospital

Notes to Financial Statements December 31, 2009 and 2008

Note 3 - Patient Accounts Receivable (Continued)

The Hospital provides services without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	Percent	
	2009	2008
Medicare	42	37
Medical Mutual of Ohio	12	20
Medicaid	13	7
Other third-party payors	17	19
Patient pay	16	17
Total	100	100

Note 4 - Assets Limited as to Use

The composition of these assets is described in Note 2. The classification and limited uses of these assets are described below:

	2009	2008
Restricted by contributors for construction, education, and other purposes - Deposits in financial institutions	\$ 11,293	\$ 14,197
Designated by the board for capital improvements:		
Deposits in financial institutions	4,615,895	4,561,103
Accrued interest receivable	151,095	85,048
Total assets limited as to use	\$ 4,778,283	\$ 4,660,348

Paulding County Hospital

Notes to Financial Statements December 31, 2009 and 2008

Note 5 - Capital Assets

Capital asset activity for the year ended December 31, 2009 was as follows:

	2008	Additions	Transfers	Retirements	2009	Depreciable Life - Years
Land	\$ 30,609	\$ -	\$ -	\$ -	\$ 30,609	-
Land improvements	177,876	16,345	-	(18,769)	175,452	5-25
Building and improvements	12,266,212	6,325	-	-	12,272,537	5-50
Fixed equipment	1,366,957	-	-	-	1,366,957	5-20
Moveable equipment	5,501,751	406,139	-	(12,829)	5,895,061	5-20
Moveable equipment - Capital leases	1,976,948	-	-	-	1,976,948	5
Construction in progress	15,534	7,114	-	(16,376)	6,272	-
Total	21,335,887	435,923	-	(47,974)	21,723,836	
Capital assets being depreciated:						
Land improvements	131,834	14,804	-	(18,769)	127,869	
Building and improvements	6,391,046	525,739	-	-	6,916,785	
Fixed equipment	1,366,954	-	-	-	1,366,954	
Moveable equipment	4,012,636	784,017	-	(12,829)	4,783,824	
Moveable equipment - Capital leases	1,097,721	-	-	-	1,097,721	
Total	13,000,191	1,324,560	-	(31,598)	14,293,153	
Net carrying amount	\$ 8,335,696	\$ (888,637)	\$ -	\$ (16,376)	\$ 7,430,683	

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

	2007	Additions	Transfers	Retirements	2008	Depreciable Life - Years
Land	\$ 30,609	\$ -	\$ -	\$ -	\$ 30,609	-
Land improvements	196,212	-	-	(18,336)	177,876	5-25
Building and improvements	12,197,665	22,828	305,898	(260,179)	12,266,212	5-50
Fixed equipment	1,370,706	-	-	(3,749)	1,366,957	5-20
Moveable equipment	4,841,204	718,298	-	(57,751)	5,501,751	5-20
Moveable equipment - Capital leases	1,976,948	-	-	-	1,976,948	5
Construction in progress	232,343	89,089	(305,898)	-	15,534	-
Total	20,845,687	830,215	-	(340,015)	21,335,887	
Less accumulated depreciation:						
Land improvements	138,011	12,159	-	(18,336)	131,834	
Building and improvements	6,119,908	531,317	-	(260,179)	6,391,046	
Fixed equipment	1,370,270	434	-	(3,750)	1,366,954	
Moveable equipment	3,347,623	714,856	-	(49,843)	4,012,636	
Moveable equipment - Capital leases	1,097,721	-	-	-	1,097,721	
Total	12,073,533	1,258,766	-	(332,108)	13,000,191	
Net carrying amount	\$ 8,772,154	\$ (428,551)	\$ -	\$ (7,907)	\$ 8,335,696	

Paulding County Hospital

Notes to Financial Statements December 31, 2009 and 2008

Note 6 - Long-term Debt

The lease obligations consist of one amount summarized below:

- Capital lease payable over 60 months, with monthly payments of \$4,722, including interest at 4.25 percent, collateralized by equipment

The notes payable are summarized below:

- Notes payable over 60 months, with monthly payments of \$961, including interest at 3.29 percent, collateralized by automobiles
- Notes payable over 120 months, with monthly payments of \$13,631, including interest at 3.13 percent, collateralized by future revenues of the Hospital
- Notes payable over 60 months, with monthly payments of \$18,763, including interest at 3.25 percent, collateralized by CT Scanner
- Notes payable over 60 months, with monthly payments of \$6,444, including interest at 4.25 percent, collateralized by deposits and revenues of the Hospital

Long-term debt activity for the year ended December 31, 2009 was as follows:

	<u>2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>2009</u>	<u>Current Portion</u>
Leases, bonds, and loans payable:					
Leases payable	\$ 175,828	\$ -	\$ (50,167)	\$ 125,661	\$ 52,337
Notes payable	1,394,054	-	(437,733)	956,321	301,259
Compensated absences	<u>425,766</u>	<u>321,969</u>	<u>(231,666)</u>	<u>516,069</u>	<u>280,801</u>
Total long-term liabilities	<u>\$ 1,995,648</u>	<u>\$ 321,969</u>	<u>\$ (719,566)</u>	<u>\$ 1,598,051</u>	<u>\$ 634,397</u>

Long-term debt activity for the year ended December 31, 2008 was as follows:

	<u>2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>2008</u>	<u>Current Portion</u>
Leases, bonds, and loans payable:					
Lease payable	\$ 223,907	\$ -	\$ (48,079)	\$ 175,828	\$ 50,163
Notes payable	1,759,981	53,087	(419,014)	1,394,054	437,736
Compensated absences	<u>419,461</u>	<u>227,676</u>	<u>(221,371)</u>	<u>425,766</u>	<u>224,698</u>
Total long-term liabilities	<u>\$ 2,403,349</u>	<u>\$ 280,763</u>	<u>\$ (688,464)</u>	<u>\$ 1,995,648</u>	<u>\$ 712,597</u>

Paulding County Hospital

Notes to Financial Statements December 31, 2009 and 2008

Note 6 - Long-term Debt (Continued)

The following is a schedule by years of note principal and interest and future minimum lease payments as of December 31, 2009:

	<u>Note Principal</u>	<u>Note Interest</u>	<u>Leases Payable</u>
2010	\$ 301,259	\$ 26,224	\$ 56,666
2011	208,932	17,725	56,666
2012	163,262	11,843	18,884
2013	161,790	6,591	-
2014	121,078	1,602	-
	<u>\$ 956,321</u>	<u>\$ 63,985</u>	132,216
Total payments			
Less amount representing interest			<u>(6,555)</u>
Net present value			<u>\$ 125,661</u>

The carrying value of equipment under capital lease obligations at December 31 is as follows:

	<u>2009</u>	<u>2008</u>
Cost of equipment under capital lease	\$ 254,844	\$ 254,844
Less accumulated amortization	<u>(135,917)</u>	<u>(84,948)</u>
Net carrying amount	<u>\$ 118,927</u>	<u>\$ 169,896</u>

Note 7 - Accrued Liabilities

The details of accrued liabilities at December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Payroll and related items	\$ 352,659	\$ 602,830
Compensated absences	280,801	224,698
Workers' compensation premiums	173,079	139,955
Health insurance claims	137,580	120,982
Other	<u>2,887</u>	<u>27,642</u>
Total accrued liabilities	<u>\$ 947,006</u>	<u>\$ 1,116,107</u>

Note 8 - Cost Report Settlements

Approximately 61 percent of the Hospital's revenues from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with third-party payors follows:

- **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 will receive reasonable, cost-based reimbursement for both inpatient and outpatient services provided to Medicare beneficiaries.
- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients are paid on a cost-reimbursement method. The Hospital is reimbursed for outpatient services on an established fee-for-service methodology.

The Medicare program has initiated a Recovery Audit Contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The RAC program is scheduled to begin for Ohio hospitals in 2010. The Hospital is unable to determine if it will be audited and if so, the extent of liability for overpayments, if any.

The Medicaid payment system in Ohio is a prospective one, whereby rates for the following state fiscal year beginning July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant changes in rates or the payment system itself could have a material impact on the future Medicaid funding to providers.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

Paulding County Hospital

Notes to Financial Statements December 31, 2009 and 2008

Note 8 - Cost Report Settlements (Continued)

The Hospital also has 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 9 - Defined Benefit Pension Plan

Plan Description - The Hospital contributes to the Ohio Public Employees' Retirement System of Ohio (OPERS). OPERS administers three separate pension plans: the traditional pension plan (TP) - a cost-sharing multiple-employer defined benefit pension plan; the member-directed plan (MD) - a defined contribution plan; and the combined plan (CO) - a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and death benefits, annual cost of living adjustments, and postretirement healthcare benefits to qualifying members of both the traditional and the combined plans; however, healthcare benefits are not statutorily guaranteed. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment healthcare coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS board of trustees. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to the Ohio Public Employees' Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-6705 or 1-800-222-PERS (7377).

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2008, member and employer contribution rates were consistent across all three plans (TP, MD, and CO) and are actuarially determined. The 2008 member contribution rate for members of local government units was 10 percent of their annual covered salary. The 2008, 2007, and 2006 employer contribution rate for local government units was 14 percent, 13.85 percent, and 13.70 percent, respectively, of covered payroll. The Hospital's contributions to OPERS for the years ended December 31, 2009, 2008, and 2007 were \$1,145,525, \$1,092,307, and \$1,158,594, respectively. Required employer contributions for all plans are equal to 100 percent of employer charges and must be extracted from the employer's records.

Note 9 - Defined Benefit Pension Plan (Continued)

Postretirement Benefits - In order to qualify for postretirement healthcare coverage under the TP and CO plans, age and service retirees must have 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an other postemployment benefit (OPEB), as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2008 and 2007 employer contribution rate for local government employer units was 14 percent and 13.85 percent, respectively, of covered payroll. Of this amount, 7 percent was used to fund health care during 2008 and 5 percent and 6 percent were used for January 1 through June 30, 2007 and July 1 through December 31, 2007, respectively. The portion of the employer's contribution used to fund postemployment benefits for 2007 and 2006 was approximately \$573,000 and \$465,000, respectively.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The actuarial valuation includes a number of assumptions. The investment return assumption rate for 2007 was 6.50 percent. An annual increase of 4 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4 percent base increase, were assumed to range from 0.50 percent to 6.30 percent. Healthcare costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50 percent to 4 percent for the next seven years. In subsequent years (eight and beyond), healthcare costs were assumed to increase at 4 percent (the projected wage inflation rate) annually. These assumptions and calculations are based on the system's latest actuarial review performed as of December 31, 2007.

The number of active contributing participants in the traditional and combined plans at December 31, 2008 was 363,503. The number of active contributing participants for both plans used in the December 31, 2007 actuarial valuation was 364,076. As of December 31, 2007, the actuarial value of the retirement system's net assets available for OPEB was \$12.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.8 billion and \$17.0 billion, respectively.

Healthcare Plan - On September 9, 2004, the OPERS retirement board adopted a healthcare preservation plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, 2007, and 2008, which will allow additional funds to be allocated to the healthcare plan.

Paulding County Hospital

Notes to Financial Statements December 31, 2009 and 2008

Note 10 - Risk Management

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.

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 this insurance policy represents the Hospital's cost for such claims for the year, and it has been charged to operations as a current expense. There have been no claims settled in the last three years that have exceeded insured limits.

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 12 for discussion of self-insured health programs.

Note 11 - 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 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.

Compensation 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.

Paulding County Hospital

Notes to Financial Statements December 31, 2009 and 2008

Note 12 - 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 \$40,000 per employee or total claims in excess of \$1,357,207. The plan policy year ends on December 31. Claims, charged to operations when incurred, were approximately \$1,309,000 and \$1,046,000 for the years ended December 31, 2009 and 2008, respectively.

A reconciliation of accrued health insurance at December 31, 2009 and 2008 consists of the following:

Balance at January 1, 2008	\$ 192,765
Health insurance expense	1,046,000
Payments made	<u>(1,117,783)</u>
Balance at December 31, 2008	120,982
Health insurance expense	1,309,000
Payments made	<u>(1,292,402)</u>
Balance at December 31, 2009	<u>\$ 137,580</u>

Additional Information

Report on Internal Control and Compliance

To the Board of Directors
Paulding County Hospital

We have audited the financial statements of Paulding County Hospital (a component unit of Paulding County) as of and for the year December 31, 2009 and have issued our report thereon dated March 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors
Paulding County Hospital

Compliance and Other Matters

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

This report is intended solely for the information and use of the auditor of the State of Ohio, the board of directors of Paulding County Hospital, management, and others within the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

March 1, 2010



Mary Taylor, CPA
Auditor of State

PAULDING COUNTY HOSPITAL

PAUDLING 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
MAY 6, 2010**