

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Accountants' Report and Financial Statements
December 31, 2011 and 2010



Dave Yost • Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Paulding County Hospital, Paulding County, prepared by BKD, LLP, for the audit period January 1, 2011 through December 31, 2011. 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 cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

June 12, 2012

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Paulding County Hospital
A Component Unit of Paulding County, Ohio
December 31, 2011 and 2010

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Independent Accountants' Report on Financial Statements

Board of Trustees
Paulding County Hospital
Paulding, Ohio 45879

We have audited the accompanying basic financial statements of Paulding County Hospital (Hospital), a component unit of Paulding County, Ohio, as of December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Paulding County Hospital as of and for the year ended December 31, 2010, were audited by other accountants whose report dated February 21, 2011, expressed an unqualified opinion on these statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paulding County Hospital as of December 31, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2012 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 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 audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary 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 supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

February 29, 2012

Paulding County Hospital
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Management's Discussion and Analysis
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Management's Discussion and Analysis

The discussion and analysis of Paulding County Hospital's (the "Hospital") financial statements provides an overview of the Hospital's financial activities for the years ended December 31, 2011, 2010, and 2009. Management is responsible for the completeness and fairness of the financial statements and the related note disclosures along with the discussion and analysis.

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. These financial statements and related notes provide information about the activities of the Hospital, including resources held but restricted for specific purposes by contributors, grantors, or enabling legislation.

Financial Highlights

The Hospital's current assets increased by \$1,012,749 or 21.77% from the prior year compared to a \$263,341 or 5.30% increase last year, the Hospital's net assets increased \$1,237,601 or 9.00% from the previous year compared to a \$377,152 or 2.80% increase last year.

The following table provides a breakdown of the Hospital's net assets by category for the years ended December 31, 2011, 2010, and 2009:

	Year Ended December 31		
	2011	2010	2009
Net Assets			
Investment in capital assets, net of related debt	\$ 5,942,068	\$ 6,289,206	\$ 6,348,701
Restricted	11,303	11,298	11,293
Unrestricted	9,027,733	7,442,999	7,006,357

In the year ended December 31, 2011, the Hospital's revenue and other support exceeded expenses, creating an increase in net assets of \$1,237,601. The increase for 2010 and 2009 was \$377,152 and \$183,006, respectively.

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

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 Assets 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 all liabilities 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.

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These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets 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.

Table 1: Assets, Liabilities and Net Assets

	Year Ended December 31			2011/2010 Change	
	2011	2010	2009	Amount	Percent
Assets					
Current assets	\$ 5,665,797	\$ 4,653,048	\$ 4,914,389	\$ 1,012,749	21.77%
Assets limited as to use	6,117,766	5,116,701	4,778,283	1,001,065	19.56%
Capital assets	<u>6,407,315</u>	<u>7,017,592</u>	<u>7,430,683</u>	<u>(610,277)</u>	-8.70%
Total assets	<u>\$18,190,878</u>	<u>\$16,787,341</u>	<u>\$ 17,123,355</u>	<u>\$ 1,403,537</u>	8.36%
Liabilities					
Current Liabilities					
Current liabilities	\$ 2,614,482	\$ 2,269,619	\$ 2,793,350	\$ 344,863	15.19%
Long-term liabilities	282,868	464,849	728,386	(181,981)	-39.15%
Other liabilities	<u>312,424</u>	<u>309,370</u>	<u>235,268</u>	<u>3,054</u>	0.99%
Total liabilities	<u>3,209,774</u>	<u>3,043,838</u>	<u>3,757,004</u>	<u>165,936</u>	5.45%
Net Assets					
Invested in capital assets, of related debt	5,942,068	6,289,206	6,348,701	(347,138)	-5.52%
Restricted	11,303	11,298	11,293	5	0.04%
Unrestricted	<u>9,027,733</u>	<u>7,442,999</u>	<u>7,006,357</u>	<u>1,584,734</u>	21.29%
Total net assets	<u>14,981,104</u>	<u>13,743,503</u>	<u>13,366,351</u>	<u>1,237,601</u>	9.00%
Total liabilities and net assets	<u>\$18,190,878</u>	<u>\$16,787,341</u>	<u>\$ 17,123,355</u>	<u>\$ 1,403,537</u>	8.36%

The primary change in the Hospital's balance sheets relate to the increase in cash provided from operations. Operating results were favorable and contributed to the 9.00% change in net assets for 2011 compared to a 2.82% change for 2010 and a change of 1.42% for 2009.

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Table 2: Operating Results and Changes in Net Assets

The following is a comparative analysis of the major components of the statements of revenue, expenses and changes in net assets of the Hospital for the year ended December 31, 2011, 2010 and 2009.

	Year Ended December 31			2011/2010 Change	
	2011	2010	2009	Amount	Percent
Operating Revenue					
Net patient service revenue	\$ 19,513,672	\$ 18,100,070	\$ 18,337,173	\$ 1,413,602	7.81%
Other	238,579	246,762	238,441	(8,183)	-3.32%
Total operating revenue	<u>19,752,251</u>	<u>18,346,832</u>	<u>18,575,614</u>	<u>1,405,419</u>	7.66%
Operating Expenses					
Salaries and wages	8,755,972	8,230,396	8,287,901	525,576	6.39%
Employee benefits and payroll taxes	2,306,692	2,407,191	2,758,798	(100,499)	-4.17%
Professional services and consultant fees	637,802	562,752	506,195	75,050	13.34%
Medical supplies and other	4,704,709	4,227,456	4,372,389	477,253	11.29%
Purchased services	965,095	1,394,757	1,275,169	(429,662)	-30.81%
Depreciation and amortization	1,203,344	1,276,731	1,324,560	(73,387)	-5.75%
Total operating expenses	<u>18,573,614</u>	<u>18,099,283</u>	<u>18,525,012</u>	<u>474,331</u>	2.62%
Operating Income	<u>1,178,637</u>	<u>247,549</u>	<u>50,602</u>	<u>931,088</u>	376.12%
Other Income (Expense)					
Investment income	63,406	109,858	143,136	(46,452)	-42.28%
Contributions	20,941	22,086	34,796	(1,145)	-5.18%
Interest expense	(21,376)	(8,171)	(46,356)	(13,205)	161.61%
Other income	(4,007)	5,830	828	(9,837)	-168.73%
Total other income	<u>58,964</u>	<u>129,603</u>	<u>132,404</u>	<u>(70,639)</u>	-54.50%
Increase in Net Assets	<u>1,237,601</u>	<u>377,152</u>	<u>183,006</u>	<u>860,449</u>	228.14%
Net Assets, Beginning of Year	<u>13,743,503</u>	<u>13,366,351</u>	<u>13,183,345</u>	<u>377,152</u>	2.82%
Net Assets, End of Year	<u>\$ 14,981,104</u>	<u>\$ 13,743,503</u>	<u>\$ 13,366,351</u>	<u>\$ 1,237,601</u>	9.00%

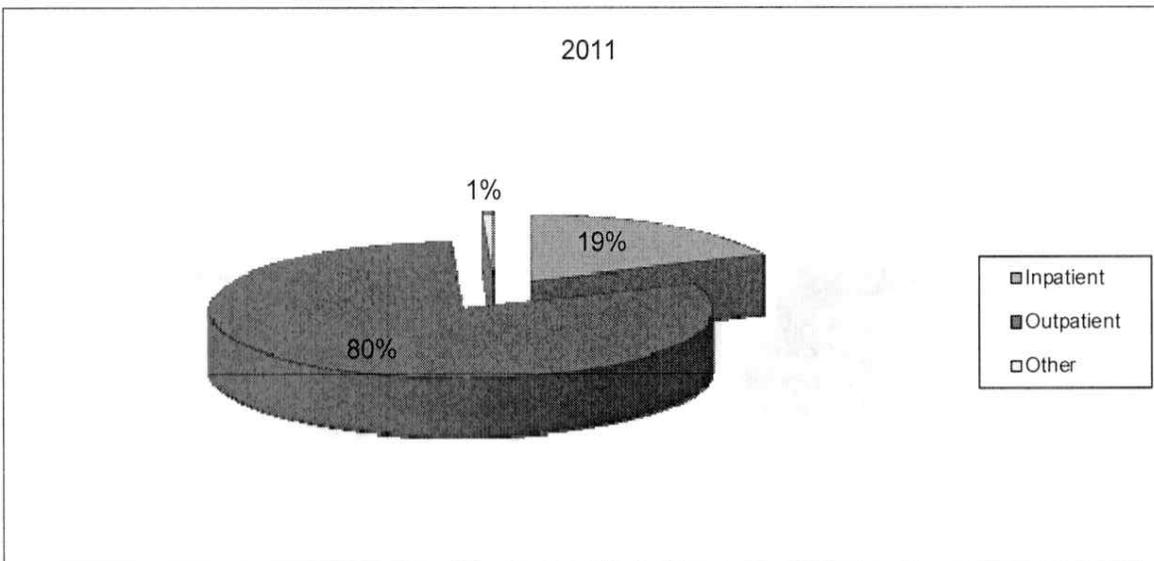
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Operating Revenue

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 increased by 3.91%, while net patient service revenue increased by 7.81%. 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 for have varied over the past three years from 37.15% in 2011, 38.87% in 2010, and 37.35% in 2009. The change in revenue deductions is due in part to third party settlement estimates and state reimbursements for indigent care. The increase in net patient service revenue of 7.81% was attributable in part to an increase in inpatient volumes due to our hospitalist program and the acquisition of a new family practice.
- Other operating revenue decreased 3.32% for 2011 which was due primarily to a decrease in other nonpatient services. In 2010, other operating revenue increased 3.49% and in 2009 it decreased 5.58%.
- The following is a graphic illustration of gross operating revenue by source:

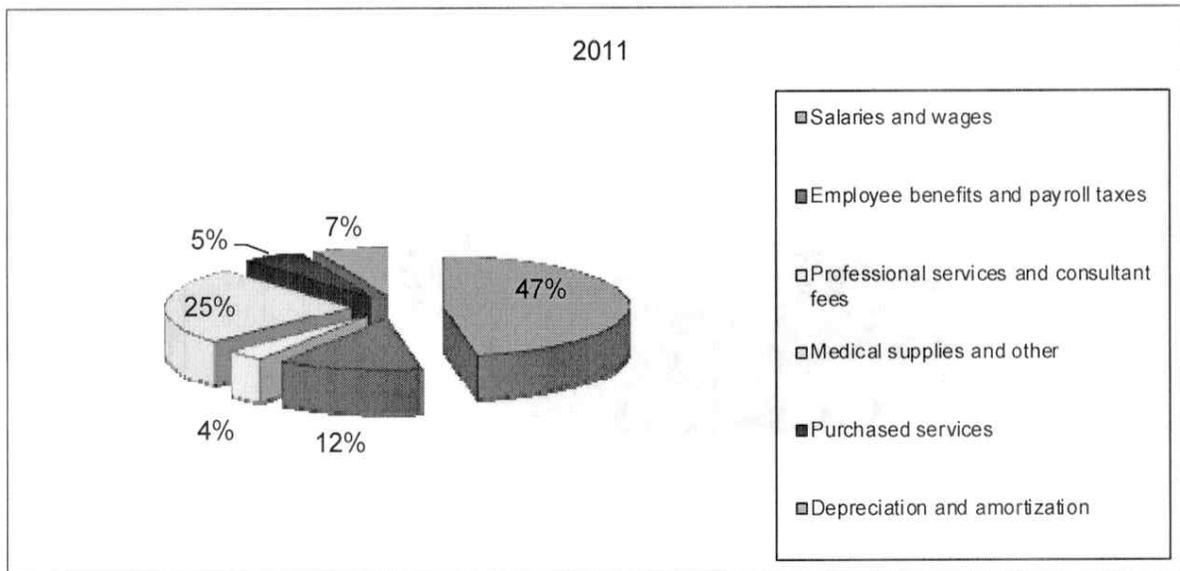


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Operating Expenses

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 6.39%, due in part to the acquisition of a new family practice. Salary costs decreased .69% for 2010 and increased 6.23% for 2009.
- Benefit costs decreased 4.17%, due primarily to a reduction in claims paid related to our self-insured health insurance. Benefits decreased 12.74% in 2010 and increased 14.41% in 2009.
- Professional services and consultant fees increased 13.34%, due to increased contract physician fees. Professional services and consultant fees increased 11.17% in 2010 and 48.26% in 2009.
- Medical supplies and drugs increased 11.29%, due in part to orthopedic volumes and minor equipment. In 2010, medical supplies and drugs decreased 3.31% and in 2009 they increased 3.06%.
- Purchased services decreased 30.81%, due to decreased contract labor. There was an increase of 9.38% in 2010 and a decrease of 7.51% in 2009.
- The following is a graphic illustration of operating expenses by type:



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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 primarily of investment income, interest expense, and contributions.

There was a decrease in nonoperating revenue from the prior year. This was due to primarily to a decrease in investment income and an increase in interest expense.

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			2011/2010
	2011	2010	2009	Increase (Decrease)
Cash Provided by (Used in)				
Operating activities	\$ 2,246,348	\$ 1,579,090	\$ 757,484	\$ 667,258
Noncapital financing activities	16,934	22,086	16,063	(5,152)
Capital and related financing	(877,615)	(1,244,214)	34,796	366,599
Investing activities	(974,002)	(72,412)	(970,179)	(901,590)
Net Increase (Decrease) in Cash and Cash Equivalents	411,665	284,550	(161,836)	127,115
Cash and Cash Equivalents, Beginning of Year	1,416,101	1,131,551	1,293,387	284,550
Cash and Cash Equivalents, End of Year	\$ 1,827,766	\$ 1,416,101	\$ 1,131,551	\$ 411,665

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 \$667,258 over the prior year. This is a result of payments from patient accounts and other operating receipts offset by payments to suppliers, contractors and employees. Cash from operating activities increased \$821,606 in 2010 and decreased \$1,808,544 in 2009.

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Capital purchases, net of grants and contributions were \$593,100. Net capital purchases for 2010 were \$882,447 and for 2009 they were \$435,923.

Investing activities used cash of \$974,002 primarily due to moving \$1,001,065 of cash to assets limited as to use, as compared to \$72,412 and \$970,179 for 2010 and 2009, respectively.

Capital Assets

At December 31, 2011, the Hospital had \$22,466,714 invested in capital assets. Capital assets for 2010 and 2009 were \$21,992,889 and \$21,723,836, respectively. Depreciation and amortization totaled \$1,203,344 for the current year compared to \$1,276,731 in 2010 and \$1,324,560 for 2009. Details of these assets for the past three years are shown below:

	Year Ended December 31			2011/2010
	2011	2010	2009	Increase (Decrease)
Land	\$ 30,609	\$ 30,609	\$ 30,609	\$ -
Land improvements	209,244	190,447	175,452	18,797
Buildings and improvements	12,557,575	12,557,575	12,272,537	-
Equipment	9,389,888	9,207,986	9,238,966	181,902
Construction in progress	279,398	6,272	6,272	273,126
Total	22,466,714	21,992,889	21,723,836	473,825
Accumulated depreciation	(16,059,399)	(14,975,297)	(14,293,153)	(1,084,102)
Net carrying amount	<u>\$ 6,407,315</u>	<u>\$ 7,017,592</u>	<u>\$ 7,430,683</u>	<u>\$ (610,277)</u>

Debt

At December 31, 2011, the Hospital had debt outstanding of \$465,247 compared to \$728,386 and \$1,081,982 for 2010 and 2009, respectively. Details of long-term debt are shown below.

	Year Ended December 31			2011/2010
	2011	2010	2009	Increase (Decrease)
Lease obligations	\$ 18,718	\$ 73,323	\$ 125,661	\$ (54,605)
Notes payable	446,529	655,063	956,321	(208,534)
Total	<u>\$ 465,247</u>	<u>\$ 728,386</u>	<u>\$ 1,081,982</u>	<u>\$ (263,139)</u>

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Other Economic Factors

Recent trends in health care are toward lesser reimbursements. Many recent health care reimbursement changes, including a Medicare payment reduction of 2%, is likely to occur in 2012. The State Medicaid program has also reduced reimbursement by approximately \$200,000 to our facility in the past year. Shrinking Federal aid to State programs will lead to further cuts in the future. The Hospital will continue to monitor changes in reimbursement as they develop and take appropriate management action.

The Supplemental Inpatient Upper Payment Limit and Healthcare Assurance programs have provided valuable relief toward Medicaid shortfalls. The Hospital has and will continue to monitor suggested changes to these programs in conjunction with the Ohio Hospital Association and the Department of Job and Family Services.

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

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, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,827,766	\$ 1,416,101
Patient accounts receivable, net of allowance; \$1,595,066 for 2011 and \$1,360,709 for 2010	2,748,263	2,279,446
Notes receivable	220,288	183,945
Inventory	601,557	614,588
Prepaid expenses and other	267,923	158,968
Total current assets	5,665,797	4,653,048
Assets Limited as to Use	6,117,766	5,116,701
Capital Assets, Net	6,407,315	7,017,592
Total assets	\$ 18,190,878	\$ 16,787,341
 Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 646,322	\$ 470,205
Current portion of long-term debt	182,379	263,537
Accrued expenses and other	970,874	841,862
Estimated amounts due to third-party payers	814,907	694,015
Total current liabilities	2,614,482	2,269,619
Long-Term Debt , net of current portion	282,868	464,849
Other Liabilities	312,424	309,370
Total liabilities	3,209,774	3,043,838
Net Assets		
Invested in capital assets, net of related debt	5,942,068	6,289,206
Restricted, expendable for specific operating activities	11,303	11,298
Unrestricted	9,027,733	7,442,999
Total net assets	14,981,104	13,743,503
Total liabilities and net assets	\$ 18,190,878	\$ 16,787,341

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Statements of Revenue, Expenses and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts; 2011 - \$911,103 and 2010 - \$1,017,110	\$ 19,513,672	\$ 18,100,070
Other	238,579	246,762
	19,752,251	18,346,832
Operating Expenses		
Salaries and wages	8,755,972	8,230,396
Employee benefits and payroll taxes	2,306,692	2,407,191
Medical supplies and other	4,704,709	4,227,456
Professional services and consultant fees	637,802	562,752
Purchased services	965,095	1,394,757
Depreciation and amortization	1,203,344	1,276,731
	18,573,614	18,099,283
	1,178,637	247,549
Operating Income		
Nonoperating Revenue (Expenses)		
Investment income	63,406	109,858
Contributions	20,941	22,086
Interest expense	(21,376)	(8,171)
Other income (expenses)	(4,007)	5,830
	58,964	129,603
	1,237,601	377,152
Increase in Net Assets		
Net Assets, Beginning of Year	13,743,503	13,366,351
Net Assets, End of Year	\$ 14,981,104	\$ 13,743,503

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Statements of Cash Flows
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	2011	2010
Operating Activities		
Receipts from and on behalf of patients	\$ 19,165,747	\$ 18,285,937
Payments to suppliers and contractors	(6,131,489)	(6,336,192)
Payments to employees	(10,930,598)	(10,654,539)
Other receipts, net	142,688	283,884
Net cash provided by operating activities	2,246,348	1,579,090
Noncapital Financing Activities		
Noncapital grants, gifts and other	16,934	22,086
Capital and Related Financing Activities		
Principal payments on notes payable and capital leases	(263,139)	(353,596)
Interest paid on long-term debt	(21,376)	(8,171)
Purchase of capital assets	(593,100)	(882,447)
Net cash used in capital and related financing activities	(877,615)	(1,244,214)
Investing Activities		
Investment income	63,406	93,645
Net change assets limited as to use	(1,001,065)	(322,205)
Advances to physicians, net of forgiveness	(36,343)	131,511
Other	-	24,637
Net cash used in investing activities	(974,002)	(72,412)
Increase in Cash and Cash Equivalents	411,665	284,550
Cash and Cash Equivalents, Beginning of Year	1,416,101	1,131,551
Cash and Cash Equivalents, End of Year	\$ 1,827,766	\$ 1,416,101
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities		
Operating income	\$ 1,178,637	\$ 247,549
Depreciation and amortization	1,203,344	1,276,731
Provision for uncollectible accounts	911,103	1,017,110
Changes in operating assets and liabilities		
Patient accounts receivable	(1,379,920)	(559,684)
Inventory	13,064	(31,460)
Prepaid expenses and other	(108,955)	(11,586)
Accounts payable	176,117	(56,969)
Accrued compensated expenses and other	132,066	(31,042)
Estimated amounts due to third-party payers	120,892	(271,559)
Net cash provided by operating activities	\$ 2,246,348	\$ 1,579,090

Paulding County Hospital
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Notes to Financial Statements
December 31, 2011 and 2010

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 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 (County) and is included as a component unit in the general purpose financial statements of the 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), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenue and expenses. The Hospital first applies restricted net assets, if applicable, when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued after November 30, 1989. No component units are required to be reported in the financial statements.

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.

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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. Assets limited as to use also include assets restricted by contributors for education and other purposes of the home health department.

Investment income on board-designated funds (funded depreciation), general funds and funds restricted by donors 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 payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Inventory

Inventories, consisting primarily of medical supplies, food, 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 and capital lease assets 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	5-20 years
Major moveable equipment	5-20 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%, and are

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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. 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.

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 reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

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.

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

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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.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were issued.

Note 2: 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 54% and 60% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex

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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 3: 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.

The Hospital has designated seven banks 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 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

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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.

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, 2011 and 2010, 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.

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Summary of Carrying Values

The Hospital's deposits are comprised of the following:

	<u>2011</u>	<u>2010</u>
Carrying value		
Cash and cash equivalents	\$ 1,827,766	\$ 1,416,101
Certificates of deposit	<u>5,932,712</u>	<u>4,949,393</u>
	<u>\$ 7,760,478</u>	<u>\$ 6,365,494</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)	\$ 7,897,491	\$ 6,721,174
Amount of deposits covered by federal depository insurance	<u>(4,278,323)</u>	<u>(1,750,000)</u>
Uninsured but collateralized	<u>\$ 3,619,168</u>	<u>\$ 4,971,174</u>

Investment Income

Investment income for the years ended December 31 consisted of:

	<u>2011</u>	<u>2010</u>
Interest income	<u>\$ 63,406</u>	<u>\$ 93,645</u>

Assets Limited as to Use

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

	<u>2011</u>	<u>2010</u>
Restricted by contributors	\$ 11,303	\$ 11,298
Designated by the Board for capital improvements:		
Deposits in financial institutions	5,921,409	4,938,095
Accrued interest receivable	<u>185,054</u>	<u>167,308</u>
Total assets limited as to use	<u>\$ 6,117,766</u>	<u>\$ 5,116,701</u>

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Note 4: Patient Accounts Receivable

Patient accounts receivable at December 31 consisted of:

	<u>2011</u>	<u>2010</u>
Patient accounts receivable	\$ 5,784,009	\$ 5,031,468
Less		
Allowance for uncollectible amounts	1,595,066	1,360,709
Allowance for contractual adjustments	<u>1,440,680</u>	<u>1,391,313</u>
Patient accounts receivable, net	<u>\$ 2,748,263</u>	<u>\$ 2,279,446</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>2011</u>	<u>2010</u>
Medicare	42%	40%
Medical Mutual of Ohio	14%	12%
Medicaid	8%	10%
Other third-party payors	12%	15%
Patient pay	<u>24%</u>	<u>23%</u>
	<u>100%</u>	<u>100%</u>

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Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2011			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 30,609	\$ -	\$ -	\$ 30,609
Land improvements	190,447	18,797	-	209,244
Building and building improvements	12,557,575	-	-	12,557,575
Fixed equipment	1,366,957	-	-	1,366,957
Major moveable equipment	7,841,029	301,177	(119,275)	8,022,931
Construction in progress	6,272	273,126	-	279,398
	<u>21,992,889</u>	<u>593,100</u>	<u>(119,275)</u>	<u>22,466,714</u>
Less accumulated depreciation				
Land improvements	141,743	16,143		157,886
Building and building improvements	7,411,191	449,981		7,861,172
Fixed equipment	1,366,954	-		1,366,954
Major moveable equipment	6,055,409	737,220	(119,242)	6,673,387
	<u>14,975,297</u>	<u>1,203,344</u>	<u>(119,242)</u>	<u>16,059,399</u>
Capital Assets, Net	<u>\$ 7,017,592</u>	<u>\$ (610,244)</u>	<u>\$ (33)</u>	<u>\$ 6,407,315</u>

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	2010			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 30,609			\$ 30,609
Land improvements	175,452	14,995		190,447
Building and building Fixed equipment	12,272,537	286,000	(962)	12,557,575
Major moveable equipment	1,366,957			1,366,957
Construction in progress	7,872,009	581,452	(612,432)	7,841,029
	6,272			6,272
	21,723,836	882,447	(613,394)	21,992,889
Less accumulated depreciation				
Land improvements	127,869	13,874	-	141,743
Building and building Fixed equipment	6,916,785	495,368	(962)	7,411,191
Major moveable equipment	1,366,954	-	-	1,366,954
	5,881,545	767,489	(593,625)	6,055,409
	14,293,153	1,276,731	(594,587)	14,975,297
Capital Assets, Net	\$ 7,430,683	\$ (394,284)	\$ (18,807)	\$ 7,017,592

Note 6: Long-Term Obligations

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

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Notes payable to bank	\$ 655,063	\$ -	\$ (208,534)	\$ 446,529	\$ 163,661
Capital lease obligation	73,323	-	(54,605)	18,718	18,718
Total long-term debt	\$ 728,386	\$ -	\$ (263,139)	\$ 465,247	\$ 182,379
Other long-term obligations					
Accrued compensated absences	\$ 554,270	\$ 277,102	\$ (268,948)	\$ 562,424	\$ 250,000

Paulding County Hospital
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	2010				
	Beginning Balance	Additions	Deductions	Ending	Current
Long-term debt					
Notes payable to bank	\$ 956,321	\$ -	\$ (301,258)	\$ 655,063	\$ 208,932
Capital lease obligation	125,661	-	(52,338)	73,323	54,605
Total long-term debt	\$ 1,081,982	\$ -	\$ (353,596)	\$ 728,386	\$ 263,537
Other long-term obligations					
Accrued compensated absences	\$ 516,069	\$ 266,222	\$ (228,021)	\$ 554,270	\$ 244,900

The lease obligation consists of one capital lease payable over 60 months through April 2012, with monthly payments of \$4,722, including interest at 4.25%, collateralized by equipment.

The notes payable are summarized below:

- Note payable over 60 months through May 2013, with monthly payments of \$961, including interest at 3.29%, collateralized by automobiles.
- Note payable over 120 months through September 2014, with monthly payments of \$13,631, including interest at 3.13%, collateralized by future revenue of the Hospital.
- Note payable over 60 months, with monthly payments of \$6,444, including interest at 4.25%, collateralized by deposits and revenue of the Hospital. This note was outstanding at December 31, 2010 but was paid in full in 2011.

Paulding County Hospital
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The following is a schedule by years of note principal and interest and future minimum lease payments as of December 31, 2011:

	Notes Payable		Lease Payable
	Prinipal	Interest	
Years Ending December 31			
2012	\$ 163,661	\$ 11,843	\$ 18,884
2013	161,790	6,591	-
2014	121,078	1,602	-
	<u>\$ 446,529</u>	<u>\$ 20,036</u>	18,884
Total payments			18,884
Less amount representing interest			<u>(166)</u>
Net present value			<u>\$ 18,718</u>

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

	2011	2010
Cost of equipment under capital lease	\$ 254,844	\$ 254,844
Less accumulated amortization	<u>(237,854)</u>	<u>(186,886)</u>
Net carrying amount	<u>\$ 16,990</u>	<u>\$ 67,958</u>

Note 7: 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.

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.

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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 9 for discussion of self-insured health programs.

Note 8: Accrued Liabilities and Other

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

	2011	2010
Payroll and related items	\$ 498,423	\$ 383,157
Compensated absences	250,000	244,900
Workers' compensation premiums	79,063	76,822
Health insurance claims	125,939	123,157
Other	17,449	13,826
	<u>\$ 970,874</u>	<u>\$ 841,862</u>

Note 9: 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 \$840,000 and \$1,033,000 for the years ended December 31, 2011 and 2010, respectively.

A reconciliation of accrued health insurance at December 31, 2011 and 2010, consists of the following:

Balance at January 1, 2010	\$ 137,580
Health insurance expense	1,019,000
Payments made	<u>1,033,423</u>
Balance at December 31, 2010	123,157
Health insurance expense	843,000
Payments made	<u>840,218</u>
Balance at December 31, 2011	<u>\$ 125,939</u>

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Note 10: Defined Benefit Pension Plan

Pension Benefits – All full-time employees are required to join the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

1. The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit plan.
2. The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% 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.
3. The Combined Plan – a cost-sharing, multi-employer defined benefit 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.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed (MD) Plan do not qualify for ancillary benefits. Members of the MD Plan do not qualify for ancillary benefits, including post-employment healthcare coverage. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report, copies of which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642; or by calling 614.222.5601 or 800.222.7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For member and employer contribution rates were consistent across all three plans. Contribution rates for calendar years 2011, 2010 and 2009 were 10% for the employee share and 14% for the employer share, respectively. Employer contributions required were \$1,209,488, \$1,138,576 and \$1,145,525, respectively, for 2011, 2010 and 2009 which equaled 100% of the required contributions for each year.

Post-Employment Benefits – OPERS maintains a cost-sharing multiple employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for postretirement health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

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A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employers to fund post-retirement health care through their contributions to OPERS. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, 2010 and 2009, local employer units contributed at 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care Plan was established under, and is administered in accordance with Internal Revenue Code Section 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contribution allocated to health care was 7% for 2008 and from January 1 through March 31, 2009, 5.5% from April 1, 2009 through February 28, 2011 and 5% from March 1, 2011 through December 31, 2011. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries.

Payment amounts vary depending on the number of covered dependents and the coverage selected. The portion of the employer contributions that was made to fund post-employment benefits for 2011, 2010 and 2009 was approximately \$347,000, \$416,000 and \$496,000, respectively.

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

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 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.

Note 12: Risks & Uncertainties

Current Economic Conditions

The current protracted economic decline continues to present hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and

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difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact the Hospital's ability to maintain sufficient liquidity.

The following information is provided for your information only. It is not intended to be used as a substitute for professional advice. Please consult your professional advisor for more information.

Supplementary Information

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Independent Accountants' 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

Board of Trustees
Paulding County Hospital
Paulding, Ohio

We have audited the basic financial statements of Paulding County Hospital (Hospital), a component unit of Paulding County, Ohio, as of and for the year ended December 31, 2011, and have issued our report thereon dated February 29, 2012. 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 the 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 Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

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.

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 deficiencies, 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.

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*.

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

BKD, LLP

February 29, 2012



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
JUNE 26, 2012**