

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Auditor's Report and Financial Statements
December 31, 2012 and 2011





Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Paulding County Hospital, Paulding County, prepared by BKD, LLP, for the audit period January 1, 2012 through December 31, 2012. 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

May 29, 2013

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Paulding County Hospital
A Component Unit of Paulding County, Ohio
December 31, 2012 and 2011

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Independent Auditor's Report

Board of Trustees
Paulding County Hospital
Paulding, Ohio 45879

We have audited the accompanying financial statements of Paulding County Hospital (Hospital), a component unit of Paulding County, Ohio, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenue, expenses and changes in net position and cash flows for the years then ended, and related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paulding County Hospital as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Reporting Required by Government Audit Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2013 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.

BKD, LLP

Fort Wayne, Indiana
April 10, 2013

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Management's Discussion and Analysis
Years Ended December 31, 2012 and 2011

Management's Discussion and Analysis

The discussion and analysis of Paulding County Hospital's (Hospital) financial statements provides an overview of the Hospital's financial activities for the years ended December 31, 2012, 2011, and 2010. 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 decreased by \$781,033 or 13.79% from the prior year compared to a \$1,012,749 or 21.77% increase last year. The Hospital's net assets increased \$303,694 or 2.03% from the previous year compared to a \$1,237,601 or 9.00% increase last year.

The following table provides a breakdown of the Hospital's net position by category for the years ended December 31, 2012, 2011 and 2010:

	Year Ended December 31		
	2012	2011	2010
Net Position			
Net investment in capital assets	\$ 6,716,696	\$ 5,942,068	\$ 6,289,206
Restricted	7,025	11,303	11,298
Unrestricted	8,561,077	9,027,733	7,442,999

In the year ended December 31, 2012, the Hospital's revenue and other support exceeded expenses, creating an increase in net position of \$303,694. The increase for 2011 and 2010 was \$1,237,601 and \$377,152, respectively.

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

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenue, Expenses and Changes in Net Position report information about the Hospital as a whole and on its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and 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 position and changes therein. The Hospital's total net position—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 position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

Table 1: Assets, Liabilities and Net Position

	Year Ended December 31			2012/2011 Change	
	2012	2011	2010	Amount	Percent
Assets					
Current assets	\$ 4,884,764	\$ 5,665,797	\$ 4,653,048	\$ (781,033)	-13.79%
Assets limited as to use	6,147,584	6,117,766	5,116,701	29,818	0.49%
Capital assets	<u>6,716,696</u>	<u>6,407,315</u>	<u>7,017,592</u>	<u>309,381</u>	4.83%
Total assets	<u>\$ 17,749,044</u>	<u>\$ 18,190,878</u>	<u>\$ 16,787,341</u>	<u>\$ (441,834)</u>	-2.43%
Liabilities					
Current Liabilities					
Current liabilities	\$ 2,098,546	\$ 2,614,482	\$ 2,269,619	\$ (515,936)	-19.73%
Long-term liabilities	-	282,868	464,849	(282,868)	-100.00%
Other liabilities	<u>365,700</u>	<u>312,424</u>	<u>309,370</u>	<u>53,276</u>	17.05%
Total liabilities	<u>2,464,246</u>	<u>3,209,774</u>	<u>3,043,838</u>	<u>(745,528)</u>	-23.23%
Net Position					
Net investment in capital assets	6,716,696	5,942,068	6,289,206	774,628	13.04%
Restricted	7,025	11,303	11,298	(4,278)	-37.85%
Unrestricted	<u>8,561,077</u>	<u>9,027,733</u>	<u>7,442,999</u>	<u>(466,656)</u>	-5.17%
Total net position	<u>15,284,798</u>	<u>14,981,104</u>	<u>13,743,503</u>	<u>303,694</u>	2.03%
Total liabilities and net position	<u>\$ 17,749,044</u>	<u>\$ 18,190,878</u>	<u>\$ 16,787,341</u>	<u>\$ (441,834)</u>	-2.43%

The primary change in the Hospital's balance sheets relate to the reduction of current and long-term liabilities. Operating results were favorable and contributed to the 2.03% change in net position for 2012 compared to a 9.00% change for 2011 and a change of 2.82% for 2010.

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Management's Discussion and Analysis
Years Ended December 31, 2012 and 2011

Table 2: Operating Results and Changes in Net Position

The following is a comparative analysis of the major components of the statements of revenue, expenses and changes in net position of the Hospital for the year ended December 31, 2012, 2011 and 2010.

	Year Ended December 31			2012/2011 Change	
	2012	2011	2010	Amount	Percent
Operating Revenue					
Net patient service revenue	\$ 18,948,676	\$ 19,513,672	\$ 18,100,070	\$ (564,996)	-2.90%
Other	360,396	238,579	246,762	121,817	51.06%
Total operating revenue	<u>19,309,072</u>	<u>19,752,251</u>	<u>18,346,832</u>	<u>(443,179)</u>	-2.24%
Operating Expenses					
Salaries and wages	9,031,428	8,755,972	8,230,396	275,456	3.15%
Employee benefits and payroll taxes	2,655,115	2,306,692	2,407,191	348,423	15.10%
Professional services and consultant fees	640,766	637,802	562,752	2,964	0.46%
Medical supplies and other	4,799,165	4,704,709	4,227,456	94,456	2.01%
Purchased services	1,022,007	965,095	1,394,757	56,912	5.90%
Depreciation and amortization	956,424	1,203,344	1,276,731	(246,920)	-20.52%
Total operating expenses	<u>19,104,905</u>	<u>18,573,614</u>	<u>18,099,283</u>	<u>531,291</u>	2.86%
Operating Income	<u>204,167</u>	<u>1,178,637</u>	<u>247,549</u>	<u>(974,470)</u>	-82.68%
Other Income (Expense)					
Investment income	38,409	63,406	109,858	(24,997)	-39.42%
Contributions	31,689	20,941	22,086	10,748	51.33%
Interest expense	(6,005)	(21,376)	(8,171)	15,371	-71.91%
Other income	35,434	(4,007)	5,830	39,441	-984.30%
Total other income	<u>99,527</u>	<u>58,964</u>	<u>129,603</u>	<u>40,563</u>	68.79%
Increase in Net Position	303,694	1,237,601	377,152	(933,907)	-75.46%
Net Position, Beginning of Year	<u>14,981,104</u>	<u>13,743,503</u>	<u>13,366,351</u>	<u>1,237,601</u>	9.00%
Net Position, End of Year	<u>\$ 15,284,798</u>	<u>\$ 14,981,104</u>	<u>\$ 13,743,503</u>	<u>\$ 303,694</u>	2.03%

Paulding County Hospital

A Component Unit of Paulding County, Ohio

Management's Discussion and Analysis

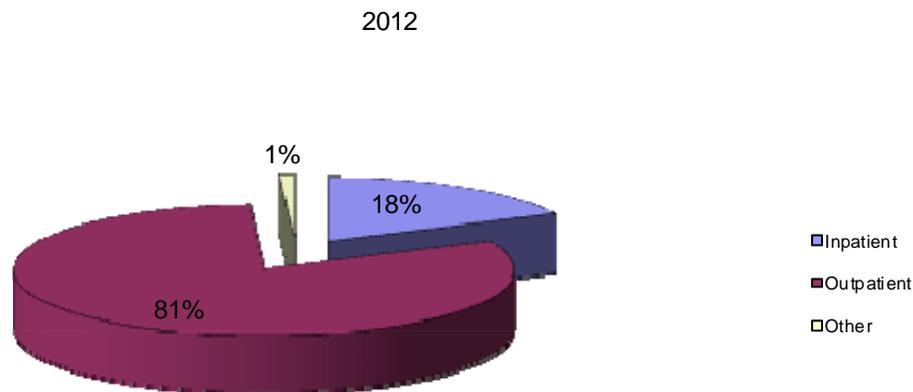
Years Ended December 31, 2012 and 2011

Operating Revenue

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

Operating revenue changes were a result of the following factors:

- Gross patient revenue decreased by 1.05%, while net patient service revenue decreased by 2.90%. To calculate net patient service revenue, gross patient revenue is reduced by revenue deductions. These deductions are the amounts that are not paid to the Hospital under contractual arrangements primarily with Medicare, Medicaid, Anthem and other commercial carriers. These revenue deductions have varied over the past three years from 38.84% in 2012, 37.15% in 2011, and 38.87% in 2010. The change in revenue deductions is due in part to third party settlement estimates and state reimbursements for indigent care. The decrease in net patient service revenue of 2.90% was attributable primarily to a decrease in inpatient and outpatient volumes.
- Other operating revenue increased 51.06% for 2012, which was due primarily to an increase in funding associated with the conversion to electronic health records. In 2011, other operating revenue decreased 3.32% and in 2010 it increased 3.49%.
- The following is a graphic illustration of gross operating revenue by source:

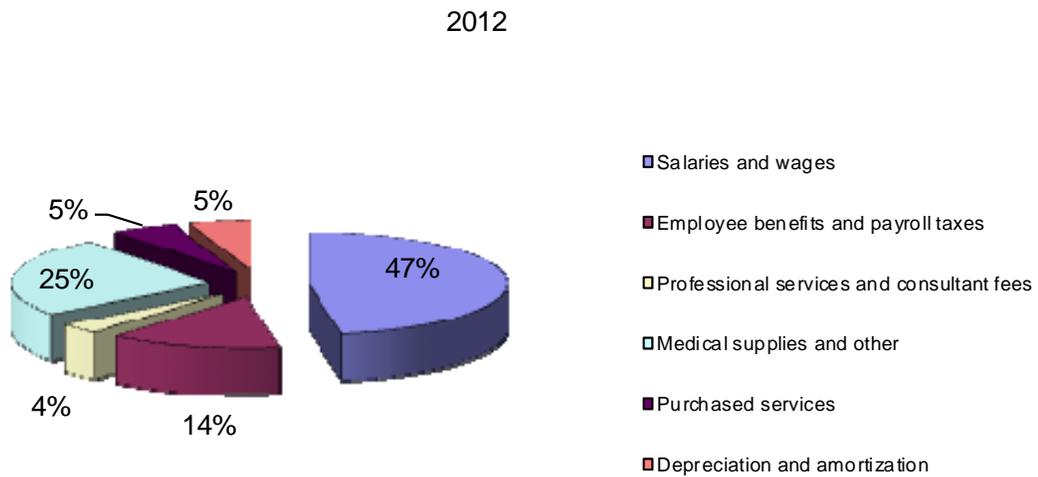


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Management's Discussion and Analysis
Years Ended December 31, 2012 and 2011

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 3.15% due primarily to the acquisition of a new practice. Salary costs increased 6.39% for 2011 and decreased 0.69% for 2010.
- Benefit costs increased 15.10%, due primarily to an increase in claims paid related to our self-insured health insurance. Benefits decreased 4.17% in 2011 and decreased 12.74% in 2010.
- Medical supplies and drugs increased 2.01%, due in part to the acquisition of a new practice. In 2011, medical supplies and drugs increased 11.29% and in 2010 they decreased 3.31%.
- Professional services and consultant fees remained relatively consistent in 2012, increasing 0.46%. Professional services and consultant fees increased 13.34% in 2011 and 11.17% in 2010.
- Purchased services increased 5.90%. There was a decrease of 30.81% in 2011 and an increase of 9.38% in 2010.
- The following is a graphic illustration of operating expenses by type:



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Management's Discussion and Analysis
Years Ended December 31, 2012 and 2011

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 an increase in nonoperating revenue from the prior year. This was due to primarily to a decrease in investment income and a decrease 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			2012/2011
	2012	2011	2010	Increase (Decrease)
Cash Provided by (Used in)				
Operating activities	\$ 1,158,686	\$ 2,246,348	\$ 1,579,090	\$ (1,087,662)
Noncapital financing activities	67,123	16,934	22,086	50,189
Capital and related financing activities	(1,737,057)	(877,615)	(1,244,214)	(859,442)
Investing activities	(28,416)	(974,002)	(72,412)	945,586
Net Increase (Decrease) in Cash and Cash Equivalents	(539,664)	411,665	284,550	(951,329)
Cash and Cash Equivalents, Beginning of Year	1,827,766	1,416,101	1,131,551	411,665
Cash and Cash Equivalents, End of Year	\$ 1,288,102	\$ 1,827,766	\$ 1,416,101	\$ (539,664)

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

Cash provided by operating activities decreased \$1,087,662 over the prior year. This is a result of payments from patient accounts and other operating receipts offset by payments to suppliers,

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contractors and employees coupled with a reduction in volumes during the year. Cash from operating activities increased \$667,258 in 2011 and increased \$821,606 in 2010.

Capital purchases, net of grants and contributions were \$1,265,805. Net capital purchases for 2011 were \$593,100 and for 2010 they were \$882,447.

Investing activities used cash of \$28,416, as compared to \$974,002 and \$72,412 for 2011 and 2010, respectively.

Capital Assets

At December 31, 2012, the Hospital had \$23,503,781 invested in capital assets. Capital assets for 2011 and 2010 were \$22,466,714 and \$21,992,889, respectively. Depreciation and amortization totaled \$956,424 for the current year compared to \$1,203,344 in 2011 and \$1,276,731 for 2010. Details of these assets for the past three years are shown below:

	Year Ended December 31			2012/2011
	2012	2011	2010	Increase (Decrease)
Land	\$ 30,609	\$ 30,609	\$ 30,609	\$ -
Land improvements	220,244	209,244	190,447	11,000
Buildings and improvements	13,257,177	12,557,575	12,557,575	699,602
Equipment	9,831,015	9,389,888	9,207,986	441,127
Construction in progress	164,703	279,398	6,272	(114,695)
Total	23,503,748	22,466,714	21,992,889	1,037,034
Accumulated depreciation	(16,787,052)	(16,059,399)	(14,975,297)	(727,653)
Net carrying amount	\$ 6,716,696	\$ 6,407,315	\$ 7,017,592	\$ 309,381

Debt

At December 31, 2012, the Hospital had no debt outstanding, compared to \$465,247 and \$728,386 for 2011 and 2010, respectively. Details of long-term debt are shown below.

	Year Ended December 31			2012/2011
	2012	2011	2010	Increase (Decrease)
Lease obligations	\$ -	\$ 18,718	\$ 73,323	\$ (18,718)
Notes payable	-	446,529	655,063	(446,529)
Total	\$ -	\$ 465,247	\$ 728,386	\$ (465,247)

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Other Economic Factors

Continued trends toward decreased reimbursement continue from the Centers for Medicare and Medicaid Services. Sequestration cuts to the Medicare program are likely to reduce payments by 2% sometime in 2013. The outcome of the Federal Affordable Care Act and State Medicaid Expansion Program will depend on how reimbursement is structured for hospitals like ours.

The Supplemental Upper Payment Limit and Health Care Assurance programs have continued to provide relief for our Medicaid shortfalls and are anticipated to continue over the next two years under the State of Ohio's current budget plan. As in the past, our Administrative Team will continue to monitor suggested changes with the Ohio Hospital Association and the Department of Job and Family Services.

In addition, the Board of Trustees 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
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Balance Sheets
December 31, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,288,102	\$ 1,827,766
Patient accounts receivable, net of allowance; \$1,207,187 for 2012 and \$1,595,066 for 2011	2,243,081	2,748,263
Notes receivable	257,295	220,288
Inventory	600,248	601,557
Prepaid expenses and other	496,038	267,923
	4,884,764	5,665,797
Assets Limited as to Use	6,147,584	6,117,766
Capital Assets, Net	6,716,696	6,407,315
	\$ 17,749,044	\$ 18,190,878
	\$ 17,749,044	\$ 18,190,878
 Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 577,653	\$ 646,322
Current portion of long-term debt	-	182,379
Accrued expenses and other	1,049,408	970,874
Estimated amounts due to third-party payers	471,485	814,907
	2,098,546	2,614,482
Long-Term Debt , net of current portion	-	282,868
Other Liabilities	365,700	312,424
	2,464,246	3,209,774
Net Position		
Net investment in capital assets	6,716,696	5,942,068
Restricted	7,025	11,303
Unrestricted	8,561,077	9,027,733
	15,284,798	14,981,104
Total liabilities and net position	\$ 17,749,044	\$ 18,190,878
	\$ 17,749,044	\$ 18,190,878

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Statements of Revenue, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts; 2012 - \$718,233 and 2011 - \$911,103	\$ 18,948,676	\$ 19,513,672
Other	360,396	238,579
	<hr/>	<hr/>
Total operating revenue	19,309,072	19,752,251
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Operating Expenses		
Salaries and wages	9,031,428	8,755,972
Employee benefits and payroll taxes	2,655,115	2,306,692
Medical supplies and other	4,799,165	4,704,709
Professional services and consultant fees	640,766	637,802
Purchased services	1,022,007	965,095
Depreciation and amortization	956,424	1,203,344
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Total operating expenses	19,104,905	18,573,614
	<hr/>	<hr/>
Operating Income	204,167	1,178,637
	<hr/>	<hr/>
Nonoperating Revenue (Expenses)		
Investment income	38,409	63,406
Contributions	31,689	20,941
Interest expense	(6,005)	(21,376)
Other income (expenses)	35,434	(4,007)
	<hr/>	<hr/>
Total nonoperating revenue	99,527	58,964
	<hr/>	<hr/>
Increase in Net Position	303,694	1,237,601
	<hr/>	<hr/>
Net Position Beginning of Year	14,981,104	13,743,503
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Net Position End of Year	<u>\$ 15,284,798</u>	<u>\$ 14,981,104</u>

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	\$ 19,110,436	\$ 19,165,747
Payments to suppliers and contractors	(6,530,607)	(6,131,489)
Payments to employees	(11,554,733)	(10,930,598)
Other receipts, net	133,590	142,688
	<u>1,158,686</u>	<u>2,246,348</u>
Net cash provided by operating activities	<u>1,158,686</u>	<u>2,246,348</u>
Noncapital Financing Activities		
Noncapital grants, gifts and other	67,123	16,934
	<u>67,123</u>	<u>16,934</u>
Capital and Related Financing Activities		
Principal payments on notes payable and capital leases	(465,247)	(263,139)
Interest paid on long-term debt	(6,005)	(21,376)
Purchase of capital assets	(1,265,805)	(593,100)
	<u>(1,737,057)</u>	<u>(877,615)</u>
Net cash used in capital and related financing activities	<u>(1,737,057)</u>	<u>(877,615)</u>
Investing Activities		
Investment income	38,409	63,406
Net change assets limited as to use	(29,818)	(1,001,065)
Advances to physicians (notes receivable), net of forgiveness	(37,007)	(36,343)
	<u>(28,416)</u>	<u>(974,002)</u>
Net cash used in investing activities	<u>(28,416)</u>	<u>(974,002)</u>
Increase (Decrease) in Cash and Cash Equivalents	(539,664)	411,665
Cash and Cash Equivalents, Beginning of Year	<u>1,827,766</u>	<u>1,416,101</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,288,102</u>	<u>\$ 1,827,766</u>
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities		
Operating income	\$ 204,167	\$ 1,178,637
Depreciation and amortization	956,424	1,203,344
Provision for uncollectible accounts	718,233	911,103
Changes in operating assets and liabilities		
Patient accounts receivable	(213,051)	(1,379,920)
Inventory	1,309	13,064
Prepaid expenses and other	(228,115)	(108,955)
Accounts payable	(68,669)	176,117
Accrued compensated expenses and other	131,810	132,066
Estimated amounts due to third-party payers	(343,422)	120,892
	<u>(343,422)</u>	<u>120,892</u>
Net cash provided by operating activities	<u>\$ 1,158,686</u>	<u>\$ 2,246,348</u>

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2012 and 2011

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).

Basis of Accounting and Presentation

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

During the year ended December 31, 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in Paragraph 7 of that statement for business-type activities to apply post-November 30, 1989, FASB statements and interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Hospital's net position, changes in net position or financial reporting disclosures.

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 unsecured. A majority of the physician notes receivable are forgiven over time under the terms specified in the physician loan agreement.

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Compensated Absences

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

Net Position

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

Net Patient Service Revenue

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

Charity Care

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

Income Taxes

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

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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.

Adoption of Governmental Accounting Standards Board Statement No. 63

In 2012, the Hospital changed its method of presentation of deferred outflows of resources, deferred inflows of resources, and net position, in accordance with the adoption of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources in the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. GASB 63 has been applied retrospectively and had no effect on the Hospital’s prior year change in net position.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the American Recovery and Reinvestment Act of 2009, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital’s Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

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In 2012, the Hospital completed the first-year requirements under both the Medicare and Medicaid programs and has recorded revenue of approximately \$135,000, which is included in other revenue within operating revenues in the statement of revenues, expenses and changes in net position.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's 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 51% and 54% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 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

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

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

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

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

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

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

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

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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, 2012 and 2011, 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.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution.

Summary of Carrying Values

The Hospital's deposits are comprised of the following:

	2012	2011
Carrying value		
Cash and cash equivalents	\$ 1,288,102	\$ 1,827,766
Assets whose use is limited		
Certificates of deposit	5,985,063	5,932,712
Accrued interest	162,521	185,054
	\$ 7,435,686	\$ 7,945,532
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)	\$ 5,896,437	\$ 7,897,491
Amount of deposits covered by federal depository insurance	(1,903,423)	(4,278,323)
Uninsured but collateralized	\$ 3,993,014	\$ 3,619,168

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Investment Income

Investment income for the years ended December 31 consisted of:

	2012	2011
Interest income	\$ 38,409	\$ 63,406

Assets Limited as to Use

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

	2012	2011
Restricted by contributors	\$ 7,025	\$ 11,303
Designated by the Board for capital improvements:		
Deposits in financial institutions	5,978,038	5,921,409
Accrued interest receivable	162,521	185,054
Total assets limited as to use	\$ 6,147,584	\$ 6,117,766

Note 4: Patient Accounts Receivable

Patient accounts receivable at December 31 consisted of:

	2012	2011
Patient accounts receivable	\$ 4,763,079	\$ 5,784,009
Less		
Allowance for uncollectible amounts	1,207,187	1,595,066
Allowance for contractual adjustments	1,312,811	1,440,680
Patient accounts receivable, net	\$ 2,243,081	\$ 2,748,263

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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:

	2012	2011
Medicare	35%	42%
Medical Mutual of Ohio	13%	14%
Medicaid	8%	8%
Other third-party payors	14%	12%
Patient pay	30%	24%
	100%	100%

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2012			
	Beginning Balance	Additions/ Transfers	Disposals	Ending Balance
Land	\$ 30,609	\$ -	\$ -	\$ 30,609
Land improvements	209,244	11,000	-	220,244
Building and building improvements	12,557,575	699,602	-	13,257,177
Fixed equipment	1,366,957	-	-	1,366,957
Major moveable equipment	8,022,931	669,898	(228,771)	8,464,058
Construction in progress	279,398	(114,695)	-	164,703
	22,466,714	1,265,805	(228,771)	23,503,748
Less accumulated depreciation				
Land improvements	\$ 157,886	\$ 18,142	\$ -	\$ 176,028
Building and building improvements	7,861,172	442,731	-	8,303,903
Fixed equipment	1,366,954	-	-	1,366,954
Major moveable equipment	6,673,387	495,551	(228,771)	6,940,167
	16,059,399	956,424	(228,771)	16,787,052
Capital Assets, Net	\$ 6,407,315	\$ 309,381	\$ -	\$ 6,716,696

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	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>

Note 6: Long-Term Obligations

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

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Notes payable to bank	\$ 446,529	\$ -	\$ (446,529)	\$ -	\$ -
Capital lease obligation	18,718	-	(18,718)	-	-
Total long-term debt	<u>\$ 465,247</u>	<u>\$ -</u>	<u>\$ (465,247)</u>	<u>\$ -</u>	<u>\$ -</u>

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		2012				
		Beginning			Ending	Current
		Balance	Additions	Deductions	Balance	Portion
Other long-term obligations						
	Accrued compensated absences	\$ 562,424	\$ 339,472	\$ (286,196)	\$ 615,700	\$ 250,000
		\$ 562,424	\$ 339,472	\$ (286,196)	\$ 615,700	\$ 250,000
		2011				
		Beginning			Ending	Current
		Balance	Additions	Deductions	Balance	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
		\$ 728,386	\$ -	\$ (263,139)	\$ 465,247	\$ 182,379
	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
		\$ 554,270	\$ 277,102	\$ (268,948)	\$ 562,424	\$ 250,000

The lease obligation consisted 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. This note was outstanding at December 31, 2011, but was paid in full in 2012.
- 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. This note was outstanding at December 31, 2011, but was paid in full in 2012.
- 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.

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The carrying value of equipment under a capital lease obligation at December 31, 2011, is as follows:

	2011
Cost of equipment under capital lease	\$ 254,844
Less accumulated amortization	(237,854)
Net carrying amount	\$ 16,990

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.

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.

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Note 8: Accrued Liabilities and Other

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

	2012	2011
Payroll and related items	\$ 588,329	\$ 498,423
Compensated absences	250,000	250,000
Workers' compensation premiums	90,281	79,063
Health insurance claims	120,798	125,939
Other	-	17,449
	<u>\$ 1,049,408</u>	<u>\$ 970,874</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 \$1,140,000 and \$840,000 for the years ended December 31, 2012 and 2011, respectively.

A reconciliation of accrued health insurance at December 31, 2012 and 2011, consists of the following:

Balance at January 1, 2011	\$ 123,157
Health insurance expense	843,000
Payments made	<u>840,218</u>
Balance at December 31, 2011	125,939
Health insurance expense	1,134,382
Payments made	<u>1,139,523</u>
Balance at December 31, 2012	<u>\$ 120,798</u>

Note 10: Multiemployer Plan

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.

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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, multiemployer 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 2012, 2011 and 2010 were 10% for the employee share and 14% for the employer share, respectively. Employer contributions required were \$1,261,782, \$1,209,488 and \$1,138,576, respectively, for 2012, 2011 and 2010 which equaled 100% of the required contributions for each year. State law limits the Hospital's maximum contribution rate to 14% of annual covered salary.

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.

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 2012, 2011 and 2010, 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.

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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 contributions 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, 5% from March 1, 2011 through December 31, 2011, and 4% from January 1, 2012 through December 31, 2012. 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 2012, 2011, and 2010 was approximately \$360,000, \$347,000 and \$416,000, 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.

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 11: 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 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.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2012 and 2011

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.

Supplementary Information

Independent Auditor's 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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Paulding County Hospital (Hospital), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 10, 2013.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance

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*.

Other Matter

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

BKD, LLP

Fort Wayne, Indiana
April 10, 2013



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 11, 2013**