

**Paulding County Hospital**  
**A Component Unit of Paulding County, Ohio**  
Auditor's Report and Financial Statements  
December 31, 2013 and 2012







# 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, 2013 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

April 16, 2014

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**Paulding County Hospital**  
**A Component Unit of Paulding County, Ohio**  
**December 31, 2013 and 2012**

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## Independent Auditor's Report

Board of Trustees  
Paulding County Hospital  
Paulding, Ohio 45879

### Report on the Financial Statements

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, 2013 and 2012, 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 opinions 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 opinions.

### *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, 2013, and 2012, 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 Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2014, 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* in considering the Hospital's internal control over financial reporting and compliance.

**BKD, LLP**

Fort Wayne, Indiana  
March 7, 2014



**Paulding County Hospital**  
**A Component Unit of Paulding County, Ohio**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2013 and 2012**

***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, 2013, 2012, and 2011. 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 \$1,011,747 or 20.71% from the prior year compared to a \$781,033 or 13.79% decrease last year. The Hospital's net position increased \$396,075 or 2.59% from the previous year compared to a \$303,694 or 2.03% increase last year.

The following table provides a breakdown of the Hospital's net position by category for the years ended December 31, 2013, 2012 and 2011:

	<b>Year Ended December 31</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Net Position</b>			
Net investment in capital assets	\$ 7,587,695	\$ 6,716,696	\$ 5,942,068
Restricted	6,977	7,025	11,303
Unrestricted	8,086,201	8,561,077	9,027,733

In the year ended December 31, 2013, the Hospital's revenue and other support exceeded expenses, creating an increase in net position of \$396,075. The increase for 2012 and 2011 was \$303,694 and \$1,237,601, 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			2013/2012 Change	
	2013	2012	2011	Amount	Percent
<b>Assets</b>					
Current assets	\$ 3,873,017	\$ 4,884,764	\$ 5,665,797	\$ (1,011,747)	-20.71%
Assets limited as to use	6,392,866	6,147,584	6,117,766	245,282	3.99%
Capital assets	7,587,695	6,716,696	6,407,315	870,999	12.97%
Total assets	<u>\$ 17,853,578</u>	<u>\$ 17,749,044</u>	<u>\$ 18,190,878</u>	<u>\$ 104,534</u>	0.59%
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Current liabilities	\$ 1,841,244	\$ 2,098,546	\$ 2,614,482	\$ (257,302)	-12.26%
Long-term liabilities	-	-	282,868	-	0.00%
Other liabilities	331,461	365,700	312,424	(34,239)	-9.36%
Total liabilities	<u>2,172,705</u>	<u>2,464,246</u>	<u>3,209,774</u>	<u>(291,541)</u>	-11.83%
<b>Net Position</b>					
Net investment in capital assets	7,587,695	6,716,696	5,942,068	870,999	12.97%
Restricted	6,977	7,025	11,303	(48)	-0.68%
Unrestricted	8,086,201	8,561,077	9,027,733	(474,876)	-5.55%
Total net position	<u>15,680,873</u>	<u>15,284,798</u>	<u>14,981,104</u>	<u>396,075</u>	2.59%
Total liabilities and net position	<u>\$ 17,853,578</u>	<u>\$ 17,749,044</u>	<u>\$ 18,190,878</u>	<u>\$ 104,534</u>	0.59%

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 2.59% change in net position for 2013 compared to a 2.03% change for 2012 and a change of 9.00% for 2011.

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**Table 2: Operating Results and Changes in Net Position**

The following is a comparative analysis of the major components of the statements of revenue, expenses and changes in net position of the Hospital for the year ended December 31, 2013, 2012 and 2011.

	<b>Year Ended December 31</b>			<b>2013/2012 Change</b>	
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>Amount</b>	<b>Percent</b>
<b>Operating Revenue</b>					
Net patient service revenue	\$ 19,099,250	\$ 18,948,676	\$ 19,513,672	\$ 150,574	0.79%
Other	726,159	360,396	238,579	365,763	101.49%
Total operating revenue	<u>19,825,409</u>	<u>19,309,072</u>	<u>19,752,251</u>	<u>516,337</u>	2.67%
<b>Operating Expenses</b>					
Salaries and wages	9,195,734	9,031,428	8,755,972	164,306	1.82%
Employee benefits and payroll taxes	2,596,584	2,655,115	2,306,692	(58,531)	-2.20%
Professional services and consultant fees	918,397	640,766	637,802	277,631	43.33%
Medical supplies and other	4,755,417	4,799,165	4,704,709	(43,748)	-0.91%
Purchased services	958,694	1,022,007	965,095	(63,313)	-6.19%
Depreciation and amortization	<u>1,061,007</u>	<u>956,424</u>	<u>1,203,344</u>	<u>104,583</u>	10.93%
Total operating expenses	<u>19,485,833</u>	<u>19,104,905</u>	<u>18,573,614</u>	<u>380,928</u>	1.99%
<b>Operating Income</b>	<u>339,576</u>	<u>204,167</u>	<u>1,178,637</u>	<u>135,409</u>	66.32%
<b>Nonoperating Revenue (Expense)</b>					
Investment income	21,968	38,409	63,406	(16,441)	-42.81%
Contributions	22,819	31,689	20,941	(8,870)	-27.99%
Interest expense	-	(6,005)	(21,376)	6,005	-100.00%
Other income (expense)	<u>11,712</u>	<u>35,434</u>	<u>(4,007)</u>	<u>(23,722)</u>	-66.95%
Total other income	<u>56,499</u>	<u>99,527</u>	<u>58,964</u>	<u>(43,028)</u>	-43.23%
<b>Increase in Net Position</b>	396,075	303,694	1,237,601	92,381	30.42%
<b>Net Position, Beginning of Year</b>	<u>15,284,798</u>	<u>14,981,104</u>	<u>13,743,503</u>	<u>303,694</u>	2.03%
<b>Net Position, End of Year</b>	<u>\$ 15,680,873</u>	<u>\$ 15,284,798</u>	<u>\$ 14,981,104</u>	<u>\$ 396,075</u>	2.59%

**Paulding County Hospital**  
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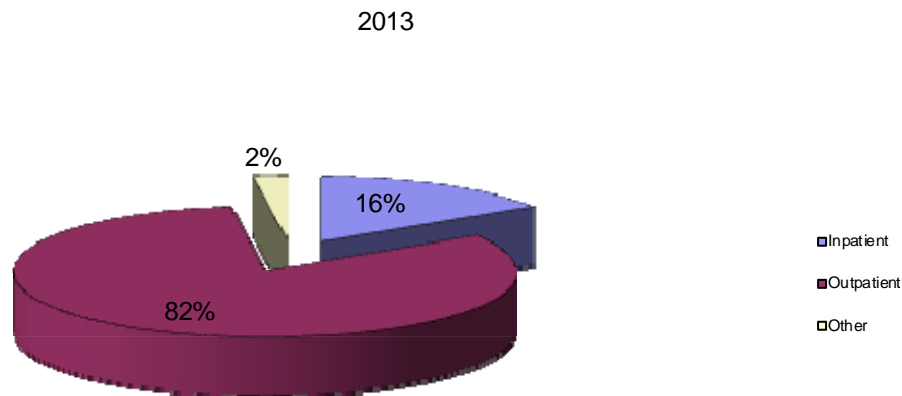
***Operating Revenue***

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 3.48%, while net patient service revenue increased by 0.79%. 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 40.31% in 2013, 38.84% in 2012, and 37.15% in 2011. The change in revenue deductions is due in part to third party settlement estimates and state reimbursements for indigent care.
- Other operating revenue increased 101.49% for 2013, which was due primarily to the Hospital achieving meaningful use under the Medicare program. In 2012, other operating revenue increased 51.06% and in 2011 it decreased 3.32%.

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

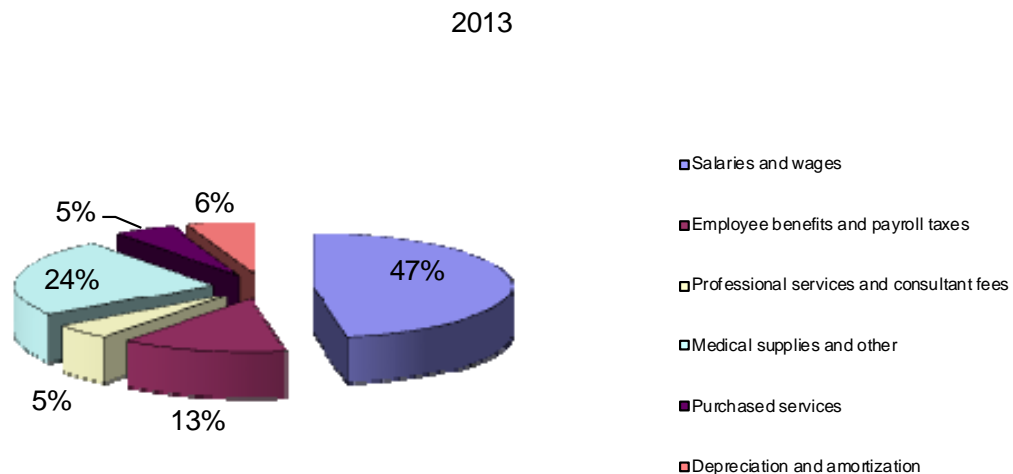


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**Operating Expenses**

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 1.82%, due primarily to the start of a new physician practice. Salary costs increased 3.15% for 2012 and increased 6.39% for 2011.
- Benefit costs decreased 2.20%, due primarily to workers compensation premiums. Benefits increased 15.10% in 2012 and decreased 4.17% in 2011.
- Medical supplies and drugs decreased 0.91%, due primarily to patient volumes and decreased overhead expenditures. In 2012, medical supplies and drugs increased 2.01% and in 2011 they increased 11.29%.
- Professional services and consultant fees increased 43.33%, due primarily to Emergency Room Physician Fees. Professional services and consultant fees increased 0.46% in 2012 and 13.34% in 2011.
- Purchased services decreased 6.19%, due primarily to Contracted Therapy Costs. Purchased services increased 5.90% in 2012 and decreased 30.81% in 2011.
- 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 a decrease in investment income and fewer contributions received in the current year.

***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			2013/2012 Increase (Decrease)
	2013	2012	2011	
<b>Cash Provided by (Used in)</b>				
Operating activities	\$ 1,236,101	\$ 1,158,686	\$ 2,246,348	\$ 77,415
Noncapital financing activities	34,531	67,123	16,934	(32,592)
Capital and related financing activities	(1,838,779)	(1,737,057)	(877,615)	(101,722)
Investing activities	(263,591)	(28,416)	(974,002)	(235,175)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(831,738)	(539,664)	411,665	(292,074)
<b>Cash and Cash Equivalents, Beginning of Year</b>	1,288,102	1,827,766	1,416,101	(539,664)
<b>Cash and Cash Equivalents, End of Year</b>	\$ 456,364	\$ 1,288,102	\$ 1,827,766	\$ (831,738)

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 \$77,415 over the prior year. Cash from operating activities decreased \$1,087,662 in 2012 and increased \$667,258 in 2011.

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Capital purchases, net of grants and contributions were \$1,932,006. This increase was a result of the Hospital continuing to make investments in capital assets related to electronic health records. Net capital purchases for 2012 were \$1,265,805 and for 2011 they were \$593,100.

Investing activities used cash of \$263,591, as compared to \$28,416 and \$974,002 for 2012 and 2011, respectively.

**Capital Assets**

At December 31, 2013, the Hospital had \$25,371,704 invested in capital assets. Capital assets for 2012 and 2011 were \$23,503,748 and \$22,466,714, respectively. Depreciation and amortization expense totaled \$1,061,007 for the current year compared to \$956,424 in 2012 and \$1,203,344 for 2011. Details of these assets for the past three years are shown below:

	<b>Year Ended December 31</b>			<b>2013/2012</b>
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>Increase</b> <b>(Decrease)</b>
Land	\$ 30,609	\$ 30,609	\$ 30,609	\$ -
Land improvements	220,244	220,244	209,244	-
Buildings and improvements	14,357,502	13,257,177	12,557,575	1,100,325
Equipment	10,225,625	9,831,015	9,389,888	394,610
Construction in progress	537,724	164,703	279,398	373,021
<b>Total</b>	<b>25,371,704</b>	<b>23,503,748</b>	<b>22,466,714</b>	<b>1,867,956</b>
Accumulated depreciation	(17,784,009)	(16,787,052)	(16,059,399)	(996,957)
<b>Net carrying amount</b>	<b>\$ 7,587,695</b>	<b>\$ 6,716,696</b>	<b>\$ 6,407,315</b>	<b>\$ 870,999</b>

**Debt**

At December 31, 2013 and 2012, the Hospital had no debt outstanding, compared to \$465,247 for 2011. Details of long-term debt are shown below.

	<b>Year Ended December 31</b>			<b>2013/2012</b>
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>Increase</b> <b>(Decrease)</b>
Lease obligations	\$ -	\$ -	\$ 18,718	\$ -
Notes payable	-	-	446,529	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 465,247</b>	<b>\$ -</b>

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***Other Economic Factors***

The Paulding County Hospital will continue to explore revenue enhancements, cost reductions and productivity improvements in 2014 in an effort to remain an asset in the community. Its economic position is also closely tied to that of the local medical staff as it continually works with physicians in the community to ensure that the medical needs of the public are being met.

Federal and State Healthcare Reform will be closely monitored specifically as they relate to both Federal and State Healthcare expansion. Preliminary estimates by the Ohio Hospital Association show opportunities for additional patient utilization in the future.

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, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 456,364	\$ 1,288,102
Patient accounts receivable, net of allowance; \$1,093,047 for 2013 and \$1,207,187 for 2012	2,186,455	2,243,081
Notes receivable	297,572	257,295
Inventory	597,448	600,248
Prepaid expenses and other	335,178	496,038
	<hr/>	<hr/>
Total current assets	3,873,017	4,884,764
<b>Assets Limited as to Use</b>	6,392,866	6,147,584
<b>Capital Assets, Net</b>	7,587,695	6,716,696
	<hr/>	<hr/>
Total assets	<u>\$ 17,853,578</u>	<u>\$ 17,749,044</u>
 <b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 766,129	\$ 577,653
Accrued expenses and other	1,057,707	1,049,408
Estimated amounts due to third-party payers	17,408	471,485
	<hr/>	<hr/>
Total current liabilities	1,841,244	2,098,546
<b>Other Liabilities</b>	331,461	365,700
	<hr/>	<hr/>
Total liabilities	2,172,705	2,464,246
<b>Net Position</b>		
Net investment in capital assets	7,587,695	6,716,696
Restricted	6,977	7,025
Unrestricted	8,086,201	8,561,077
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Total net position	15,680,873	15,284,798
Total liabilities and net position	<u>\$ 17,853,578</u>	<u>\$ 17,749,044</u>

**Paulding County Hospital**  
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**Statements of Revenue, Expenses and Changes in Net Position**  
**Years Ended December 31, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Operating Revenue</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2013 - \$911,188 and 2012 - \$718,233	\$ 19,099,250	\$ 18,948,676
Other	726,159	360,396
	<hr/>	<hr/>
Total operating revenue	19,825,409	19,309,072
	<hr/>	<hr/>
<b>Operating Expenses</b>		
Salaries and wages	9,195,734	9,031,428
Employee benefits and payroll taxes	2,596,584	2,655,115
Medical supplies and other	4,755,417	4,799,165
Professional services and consultant fees	918,397	640,766
Purchased services	958,694	1,022,007
Depreciation and amortization	1,061,007	956,424
	<hr/>	<hr/>
Total operating expenses	19,485,833	19,104,905
	<hr/>	<hr/>
<b>Operating Income</b>	339,576	204,167
	<hr/>	<hr/>
<b>Nonoperating Revenue (Expense)</b>		
Investment income	21,968	38,409
Contributions	22,819	31,689
Interest expense	-	(6,005)
Other income	11,712	35,434
	<hr/>	<hr/>
Total nonoperating revenue	56,499	99,527
	<hr/>	<hr/>
<b>Increase in Net Position</b>	396,075	303,694
	<hr/>	<hr/>
<b>Net Position Beginning of Year</b>	15,284,798	14,981,104
	<hr/>	<hr/>
<b>Net Position End of Year</b>	\$ 15,680,873	\$ 15,284,798
	<hr/> <hr/>	<hr/> <hr/>

**Paulding County Hospital**  
**A Component Unit of Paulding County, Ohio**  
**Statements of Cash Flows**  
**Years Ended December 31, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 18,701,799	\$ 19,110,436
Payments to suppliers and contractors	(6,537,259)	(6,530,607)
Payments to employees	(11,818,258)	(11,554,733)
Other receipts, net	889,819	133,590
	<u>1,236,101</u>	<u>1,158,686</u>
Net cash provided by operating activities		
<b>Noncapital Financing Activities</b>		
Noncapital grants, gifts and other	34,531	67,123
	<u>34,531</u>	<u>67,123</u>
<b>Capital and Related Financing Activities</b>		
Principal payments on notes payable and capital leases	-	(465,247)
Interest paid on long-term debt	-	(6,005)
Purchase of capital assets	(1,838,779)	(1,265,805)
	<u>(1,838,779)</u>	<u>(1,265,805)</u>
Net cash used in capital and related financing activities		
<b>Investing Activities</b>		
Investment income	21,968	38,409
Net change assets limited as to use	(245,282)	(29,818)
Advances to physicians (notes receivable), net of forgiveness	(40,277)	(37,007)
	<u>(263,591)</u>	<u>(28,416)</u>
Net cash used in investing activities		
<b>Decrease in Cash and Cash Equivalents</b>	(831,738)	(539,664)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,288,102</u>	<u>1,827,766</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 456,364</u>	<u>\$ 1,288,102</u>
<b>Reconciliation of Income from Operations to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 339,576	\$ 204,167
Depreciation and amortization	1,061,007	956,424
Provision for uncollectible accounts	911,188	718,233
Changes in operating assets and liabilities		
Patient accounts receivable	(854,562)	(213,051)
Inventory	2,800	1,309
Prepaid expenses and other	160,860	(228,115)
Accounts payable	95,249	(68,669)
Accrued compensated expenses and other	(25,940)	131,810
Estimated amounts due to third-party payers	(454,077)	(343,422)
	<u>\$ 1,236,101</u>	<u>\$ 1,158,686</u>
Net cash provided by operating activities		
<b>Supplemental Cash Flow Information</b>		
Capital asset acquisitions included in accounts payable	\$ 93,227	\$ -

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**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 position, if applicable, when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

***Use of Estimates***

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

***Cash and Cash Equivalents***

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

***Assets Limited as to Use and Investment Income***

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

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***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.

***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

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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.

***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.

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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.

***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.

In 2013 and 2012, the Hospital completed the first-year requirements under both the Medicare and Medicaid programs and has recorded revenue of approximately \$315,000 and \$135,000, respectively, which is included in other revenue within operating revenues in the statements of revenue, 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

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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 50% and 51% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2013 and 2012, 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 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



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

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

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

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, 2013 and 2012, 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:

	<b>2013</b>	<b>2012</b>
Carrying value		
Cash and cash equivalents	\$ 456,364	\$ 1,288,102
Assets whose use is limited		
Certificates of deposit	6,307,288	5,985,063
Accrued interest	85,578	162,521
	<u>\$ 6,849,230</u>	<u>\$ 7,435,686</u>
Deposits		
Amount of deposits reflected on the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit)	\$ 6,919,001	\$ 7,012,218
Amount of deposits covered by federal depository insurance	<u>(1,915,705)</u>	<u>(1,903,423)</u>
Uninsured but collateralized	<u>\$ 5,003,296</u>	<u>\$ 5,108,795</u>

**Investment Income**

Investment income for the years ended December 31 consisted of:

	<b>2013</b>	<b>2012</b>
Interest income	<u>\$ 21,968</u>	<u>\$ 38,409</u>

**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:

	<b>2013</b>	<b>2012</b>
Restricted by contributors	\$ 6,977	\$ 7,025
Designated by the Board for capital improvements:		
Deposits in financial institutions	6,307,288	5,985,063
Accrued interest receivable	85,578	162,521
Total assets limited as to use	<u>\$ 6,392,866</u>	<u>\$ 6,147,584</u>

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**Note 4: Patient Accounts Receivable**

Patient accounts receivable at December 31 consisted of:

	<b>2013</b>	<b>2012</b>
Patient accounts receivable	\$ 4,666,532	\$ 4,763,079
Less		
Allowance for uncollectible amounts	1,093,047	1,207,187
Allowance for contractual adjustments	1,387,030	1,312,811
Patient accounts receivable, net	\$ 2,186,455	\$ 2,243,081

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:

	<b>2013</b>	<b>2012</b>
Medicare	36%	35%
Medical Mutual of Ohio	16%	13%
Medicaid	9%	8%
Other third-party payors	11%	14%
Patient pay	28%	30%
	100%	100%

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31 was:

	<b>2013</b>			
	<b>Beginning Balance</b>	<b>Additions/ Transfers</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 30,609	\$ -	\$ -	\$ 30,609
Land improvements	220,244	-	-	220,244
Building and building improvements	13,257,177	1,100,325	-	14,357,502
Fixed equipment	1,366,957	-	-	1,366,957
Major moveable equipment	8,464,058	458,660	(64,050)	8,858,668
Construction in progress	164,703	373,021	-	537,724
	23,503,748	1,932,006	(64,050)	25,371,704

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	<b>2013</b>			
	<b>Beginning Balance</b>	<b>Additions/ Transfers</b>	<b>Disposals</b>	<b>Ending Balance</b>
Less accumulated depreciation				
Land improvements	\$ 176,028	\$ 13,684	\$ -	\$ 189,712
Building and building improvements	8,303,903	535,104	-	8,839,007
Fixed equipment	1,366,954	3	-	1,366,957
Major moveable equipment	6,940,167	512,216	(64,050)	7,388,333
	16,787,052	1,061,007	(64,050)	17,784,009
Capital Assets, Net	\$ 6,716,696	\$ 870,999	\$ -	\$ 7,587,695

	<b>2012</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
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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**Note 6: Long-Term Obligations**

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

	<b>2013</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Other long-term obligations					
Accrued compensated absences	\$ 615,700	\$ 235,877	\$ (270,116)	\$ 581,461	\$ 250,000
	<b>2012</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending</b>	<b>Current</b>
Long-term debt					
Notes payable to bank	\$ 446,529	\$ -	\$ (446,529)	\$ -	\$ -
Capital lease obligation	18,718	-	(18,718)	-	-
Total long-term debt	\$ 465,247	\$ -	\$ (465,247)	\$ -	\$ -
	<b>2012</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending</b>	<b>Current</b>
Other long-term obligations					
Accrued compensated absences	\$ 562,424	\$ 339,472	\$ (286,196)	\$ 615,700	\$ 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.

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- 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 paid in full in 2012.

**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.

**Note 8: Accrued Liabilities and Other**

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

	<b>2013</b>	<b>2012</b>
Payroll and related items	\$ 550,027	\$ 588,329
Compensated absences	250,000	250,000
Workers' compensation premiums	86,937	90,281
Health insurance claims	170,743	120,798
	<u>\$ 1,057,707</u>	<u>\$ 1,049,408</u>

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**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 \$1,080,000 and \$1,140,000 for the years ended December 31, 2013 and 2012, respectively.

A reconciliation of accrued health insurance at December 31, 2013 and 2012, consists of the following:

Balance at January 1, 2012	\$ 125,939
Health insurance expense	1,134,382
Payments made	<u>1,139,523</u>
Balance at December 31, 2012	120,798
Health insurance expense	1,132,223
Payments made	<u>1,082,278</u>
Balance at December 31, 2013	<u><u>\$ 170,743</u></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.
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.

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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 2013, 2012 and 2011 were 10% for the employee share and 14% for the employer share, respectively. Employer contributions required were \$1,254,709, \$1,261,782 and \$1,209,488, respectively, for 2013, 2012 and 2011 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 2013, 2012 and 2011, 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 contributions allocated to health care was 5.5% from April 1, 2009 through February 28, 2011, 5% from March 1, 2011 through December 31, 2011, 4% from January 1, 2012 through December 31, 2012 and 1% from January 1, 2013 to December 31, 2013. 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 2013, 2012, and 2011 was approximately \$90,000, \$360,000 and \$347,000, respectively.



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**December 31, 2013 and 2012**

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.

## **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, 2013, 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 March 7, 2014.

### ***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  
March 7, 2014



# 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  
MAY 8, 2014**