

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Auditor's Report and Financial Statements
December 31, 2014 and 2013





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, 2014 through December 31, 2014. 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

May 8, 2015

This page intentionally left blank.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
December 31, 2014 and 2013

Contents

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis	3
Financial Statements	
Balance Sheets	11
Statements of Revenue, Expenses and Changes in Net Position.....	12
Statements of Cash Flows	13
Notes to Financial Statements	14
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 <i>Government Auditing Standards</i>.....	28

Independent Auditor's Report

Board of Trustees
Paulding County Hospital
Paulding, Ohio 45879

Report on the Financial Statements

We have audited the balance sheets of Paulding County Hospital (Hospital), a component unit of Paulding County, Ohio, as of December 31, 2014 and 2013, 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, 2014, and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 5, 2015, 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 5, 2015

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Management's Discussion and Analysis
Years Ended December 31, 2014 and 2013

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, 2014, 2013 and 2012. Management is responsible for the completeness and fairness of the financial statements and the related note disclosures along with the discussion and analysis.

Using This Annual Report

This annual financial report includes the report of independent auditors, this management's discussion and analysis, the financial statements and notes to the financial statements. These financial statements and related notes provide information about the activities of the Hospital, including resources held but restricted for specific purposes by contributors, grantors or enabling legislation.

Financial Highlights

The Hospital's current assets increased by \$1,582,328 or 40.86% from the prior year compared to a \$1,011,747 or 20.71% decrease last year. The Hospital's net position increased \$288,525 or 1.84% from the previous year compared to a \$396,075 or 2.59% increase last year.

The following table provides a breakdown of the Hospital's net position by category for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31		
	2014	2013	2012
Net Position			
Net investment in capital assets	\$ 7,137,445	\$ 7,587,695	\$ 6,716,696
Restricted	-	6,977	7,025
Unrestricted	8,831,953	8,086,201	8,561,077

In the year ended December 31, 2014, the Hospital's revenue and other support exceeded expenses, creating an increase in net position of \$288,525. The increase for 2013 and 2012 was \$396,075 and \$303,694, 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.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Management's Discussion and Analysis
Years Ended December 31, 2014 and 2013

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			2014/2013 Change	
	2014	2013	2012	Amount	Percent
Assets					
Current assets	\$ 5,455,345	\$ 3,873,017	\$ 4,884,764	\$ 1,582,328	40.86%
Assets limited as to use	5,949,943	6,392,866	6,147,584	(442,923)	-6.93%
Capital assets	7,137,445	7,587,695	6,716,696	(450,250)	-5.93%
Total assets	<u>\$ 18,542,733</u>	<u>\$ 17,853,578</u>	<u>\$ 17,749,044</u>	<u>\$ 689,155</u>	3.86%
Liabilities					
Current Liabilities					
Current liabilities	\$ 2,189,752	\$ 1,841,244	\$ 2,098,546	\$ 348,508	18.93%
Other liabilities	383,583	331,461	365,700	52,122	15.72%
Total liabilities	<u>2,573,335</u>	<u>2,172,705</u>	<u>2,464,246</u>	<u>400,630</u>	18.44%
Net Position					
Net investment in capital assets	7,137,445	7,587,695	6,716,696	(450,250)	-5.93%
Restricted	-	6,977	7,025	(6,977)	-100.00%
Unrestricted	8,831,953	8,086,201	8,561,077	745,752	9.22%
Total net position	<u>15,969,398</u>	<u>15,680,873</u>	<u>15,284,798</u>	<u>288,525</u>	1.84%
Total liabilities and net position	<u>\$ 18,542,733</u>	<u>\$ 17,853,578</u>	<u>\$ 17,749,044</u>	<u>\$ 689,155</u>	3.86%

The primary change in the Hospital's balance sheets relate to the increase of total assets and current assets. Operating results were favorable and contributed to the 1.84% change in net position for 2014, compared to a 2.59% change for 2013, and change of 2.03% change for 2012.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Management's Discussion and Analysis
Years Ended December 31, 2014 and 2013

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, 2014, 2013 and 2012.

	Year Ended December 31			2014/2013 Change	
	2014	2013	2012	Amount	Percent
Operating Revenue					
Net patient service revenue	\$ 19,649,797	\$ 19,099,250	\$ 18,948,676	\$ 550,547	2.88%
Other	797,714	726,159	360,396	71,555	9.85%
Total operating revenue	<u>20,447,511</u>	<u>19,825,409</u>	<u>19,309,072</u>	<u>622,102</u>	3.14%
Operating Expenses					
Salaries and wages	9,254,411	9,195,734	9,031,428	58,677	0.64%
Employee benefits and payroll taxes	2,257,011	2,596,584	2,655,115	(339,573)	-13.08%
Professional services and consultant fees	1,660,207	918,397	640,766	741,810	80.77%
Medical supplies and other	4,842,245	4,755,417	4,799,165	86,828	1.83%
Purchased services	1,031,749	958,694	1,022,007	73,055	7.62%
Depreciation and amortization	1,147,686	1,061,007	956,424	86,679	8.17%
Total operating expenses	<u>20,193,309</u>	<u>19,485,833</u>	<u>19,104,905</u>	<u>707,476</u>	3.63%
Operating Income	<u>254,202</u>	<u>339,576</u>	<u>204,167</u>	<u>(85,374)</u>	-25.14%
Nonoperating Revenue					
Investment income	20,974	21,968	38,409	(994)	-4.52%
Contributions	6,572	22,819	31,689	(16,247)	-71.20%
Other income	6,777	11,712	29,429	(4,935)	-42.14%
Total other income	<u>34,323</u>	<u>56,499</u>	<u>99,527</u>	<u>(22,176)</u>	-39.25%
Increase in Net Position	288,525	396,075	303,694	(107,550)	-27.15%
Net Position, Beginning of Year	<u>15,680,873</u>	<u>15,284,798</u>	<u>14,981,104</u>	<u>396,075</u>	2.59%
Net Position, End of Year	<u>\$ 15,969,398</u>	<u>\$ 15,680,873</u>	<u>\$ 15,284,798</u>	<u>\$ 288,525</u>	1.84%

Paulding County Hospital

A Component Unit of Paulding County, Ohio

Management's Discussion and Analysis

Years Ended December 31, 2014 and 2013

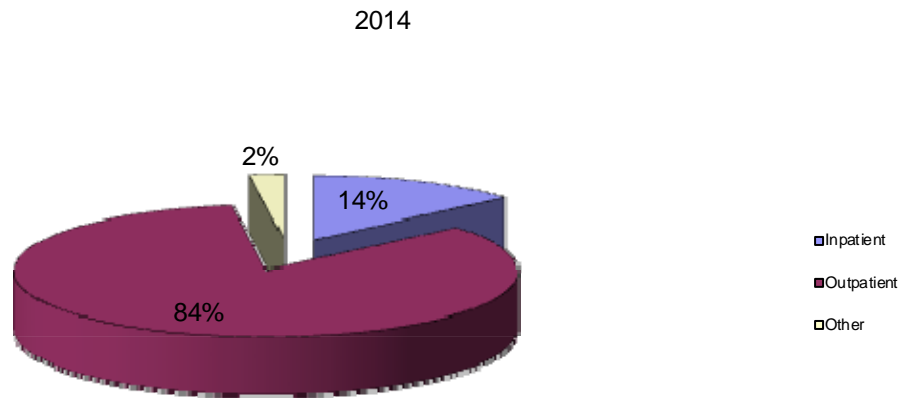
Operating Revenue

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 5.98%, while net patient service revenue increased by 2.88%. 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 44.28% in 2014, 40.31% in 2013, and 38.84% in 2012. The change in revenue deductions is due in part to third party settlement estimates and state reimbursements for indigent care.
- Other operating revenue increased 9.85% for 2014, which was due primarily to a full year of revenue associated with the emergency room physician fees. In 2013, other operating revenue increased 101.49% and in 2012 it increased 51.06%.

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



Paulding County Hospital

A Component Unit of Paulding County, Ohio

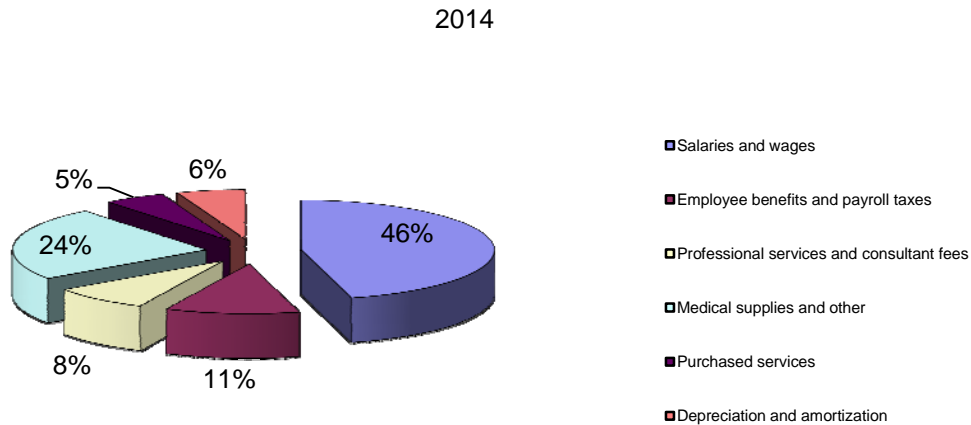
Management's Discussion and Analysis

Years Ended December 31, 2014 and 2013

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 0.64%, due primarily to management of staffing levels in the current year. Salary costs increased 1.82% for 2013, and increased 3.15% for 2012.
- Benefit costs decreased 13.08%, due primarily to lower health insurance costs in the current year. Benefits decreased 2.20% in 2013, and increased 15.10% in 2012.
- Professional services and consultant fees increased 80.77% due primarily to emergency room physician fees. Professional services and consultant fees increased 43.33% in 2013, and 0.46% in 2012.
- Medical supplies and drugs increased 1.83%, due primarily to patient volumes and increased overhead expenditures. In 2013, medical supplies and drugs decreased 0.91% and in 2012, they increased 2.01%.
- Purchased services increased 7.62%, due primarily to electronic communication. Purchased services decreased 6.19% in 2013, and increased 5.90% in 2012.
- The following is a graphic illustration of operating expenses by type:



Paulding County Hospital
A Component Unit of Paulding County, Ohio
Management's Discussion and Analysis
Years Ended December 31, 2014 and 2013

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 and contributions.

There was a decrease in nonoperating revenue from the prior year. This was due to primarily to 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			2014/2013
	2014	2013	2012	Increase (Decrease)
Cash Provided by (Used in)				
Operating activities	\$ 872,895	\$ 1,236,101	\$ 1,158,686	\$ (363,206)
Noncapital financing activities	13,349	34,531	67,123	(21,182)
Capital and related financing activities	(698,514)	(1,838,779)	(1,737,057)	1,140,265
Investing activities	454,191	(263,591)	(28,416)	717,782
Net Increase (Decrease) in Cash and Cash Equivalents	641,921	(831,738)	(539,664)	1,473,659
Cash and Cash Equivalents, Beginning of Year	456,364	1,288,102	1,827,766	(831,738)
Cash and Cash Equivalents, End of Year	\$ 1,098,285	\$ 456,364	\$ 1,288,102	\$ 641,921

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 \$363,206 over the prior year. Cash from operating activities increased \$77,415 in 2013, and decreased \$1,087,662 in 2012.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Management's Discussion and Analysis
Years Ended December 31, 2014 and 2013

Capital purchases, net of grants and contributions were \$698,514, which was a decrease of \$1,140,265 over the prior year. This decrease was a result of the Hospital not making as significant of investment in capital assets. In prior years, investments were made related to electronic health records. Net capital purchases for 2013 were \$1,932,006 and 2012 were \$1,265,805.

Investing activities provided cash of \$454,191, as compared to using \$263,591 and \$28,416 for 2013 and 2012, respectively.

Capital Assets

At December 31, 2014, the Hospital had \$26,069,140 invested in capital assets. Capital assets for 2013 and 2012 were \$25,371,704 and \$23,503,748, respectively. Depreciation and amortization expense totaled \$1,147,686 for the current year compared to \$1,061,007 in 2013 and \$956,424 in 2012. Details of these assets for the past three years are shown below:

	Year Ended December 31			2014/2013
	2014	2013	2012	Increase (Decrease)
Land	\$ 30,609	\$ 30,609	\$30,609	\$ -
Land improvements	220,244	220,244	220,244	-
Buildings and improvements	14,377,367	14,357,502	13,257,177	19,865
Equipment	10,872,448	10,225,625	9,831,015	646,823
Construction in progress	568,472	537,724	164,703	30,748
Total	<u>26,069,140</u>	<u>25,371,704</u>	<u>23,503,748</u>	<u>697,436</u>
Accumulated depreciation	<u>(18,931,695)</u>	<u>(17,784,009)</u>	<u>(16,787,052)</u>	<u>(1,147,686)</u>
Net carrying amount	<u>\$ 7,137,445</u>	<u>\$ 7,587,695</u>	<u>\$ 6,716,696</u>	<u>\$ (450,250)</u>

Other Economic Factors

The Paulding County Hospital will continue to explore revenue enhancements, cost reductions and productivity improvements in 2015 in an effort to remain an asset in the community. Its economic position is also closely tied to that of the local medical staff as it continually works with physicians in the community to ensure that the medical needs of the public are being met.

The Supplemental Upper Payment Limit and Health Care Assurance programs have continued to provide relief for our Medicaid shortfalls 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.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Management's Discussion and Analysis
Years Ended December 31, 2014 and 2013

Contacting the Hospital's Financial Management

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

Robert L. Goshia, II
Chief Financial Officer

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Balance Sheets
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,098,285	\$ 456,364
Patient accounts receivable, net of allowance; \$1,430,446 for 2014 and \$1,093,047 for 2013	3,087,485	2,186,455
Notes receivable	307,278	297,572
Inventory	606,959	597,448
Prepaid expenses and other	355,338	335,178
Total current assets	<u>5,455,345</u>	<u>3,873,017</u>
Assets Limited as to Use	5,949,943	6,392,866
Capital Assets, Net	<u>7,137,445</u>	<u>7,587,695</u>
Total assets	<u>\$ 18,542,733</u>	<u>\$ 17,853,578</u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 725,743	\$ 766,129
Accrued expenses and other	984,757	1,057,707
Estimated amounts due to third-party payers	479,252	17,408
Total current liabilities	<u>2,189,752</u>	<u>1,841,244</u>
Noncurrent Liabilities	383,583	331,461
Total liabilities	<u>2,573,335</u>	<u>2,172,705</u>
Net Position		
Net investment in capital assets	7,137,445	7,587,695
Restricted	-	6,977
Unrestricted	8,831,953	8,086,201
Total net position	<u>15,969,398</u>	<u>15,680,873</u>
Total liabilities and net position	<u>\$ 18,542,733</u>	<u>\$ 17,853,578</u>

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Statements of Revenue, Expenses and Changes in Net Position
Years Ended December 31, 2014 and 2013

	2014	2013
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts; 2014 - \$958,501 and 2013 - \$911,188	\$ 19,649,797	\$ 19,099,250
Other	797,714	726,159
Total operating revenue	20,447,511	19,825,409
Operating Expenses		
Salaries and wages	9,254,411	9,195,734
Employee benefits and payroll taxes	2,257,011	2,596,584
Medical supplies and other	4,842,245	4,755,417
Professional services and consultant fees	1,660,207	918,397
Purchased services	1,031,749	958,694
Depreciation and amortization	1,147,686	1,061,007
Total operating expenses	20,193,309	19,485,833
Operating Income	254,202	339,576
Nonoperating Revenue		
Investment income	20,974	21,968
Contributions	6,572	22,819
Other income	6,777	11,712
Total nonoperating revenue	34,323	56,499
Increase in Net Position	288,525	396,075
Net Position Beginning of Year	15,680,873	15,284,798
Net Position End of Year	\$ 15,969,398	\$ 15,680,873

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 19,210,611	\$ 18,701,799
Payments to suppliers and contractors	(7,573,509)	(6,537,259)
Payments to employees	(11,532,250)	(11,818,258)
Other receipts, net	768,043	889,819
Net cash provided by operating activities	<u>872,895</u>	<u>1,236,101</u>
Noncapital Financing Activities		
Noncapital grants, gifts and other	<u>13,349</u>	<u>34,531</u>
Capital and Related Financing Activities		
Purchase of capital assets	(698,514)	(1,838,779)
Net cash used in capital and related financing activities	<u>(698,514)</u>	<u>(1,838,779)</u>
Investing Activities		
Investment income	20,974	21,968
Net change assets limited as to use	442,923	(245,282)
Advances to physicians (notes receivable), net of forgiveness	(9,706)	(40,277)
Net cash provided (used) in investing activities	<u>454,191</u>	<u>(263,591)</u>
Increase (Decrease) in Cash and Cash Equivalents	641,921	(831,738)
Cash and Cash Equivalents, Beginning of Year	<u>456,364</u>	<u>1,288,102</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,098,285</u>	<u>\$ 456,364</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 254,202	\$ 339,576
Depreciation and amortization	1,147,686	1,061,007
Provision for uncollectible accounts	958,501	911,188
Changes in operating assets and liabilities		
Patient accounts receivable	(1,859,531)	(854,562)
Inventory	(9,511)	2,800
Prepaid expenses and other	(20,160)	160,860
Accounts payable	(39,308)	95,249
Accrued compensated expenses and other	(20,828)	(25,940)
Estimated amounts due to third-party payers	461,844	(454,077)
Net cash provided by operating activities	<u>\$ 872,895</u>	<u>\$ 1,236,101</u>
Supplemental Cash Flow Information		
Capital asset acquisitions included in accounts payable	\$ 92,149	\$ 93,227

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2014 and 2013

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) is recorded as nonoperating income.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2014 and 2013

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 receive termination payments on one-half of the accumulated sick leave balance up to a maximum of 240 hours.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2014 and 2013

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.

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.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2014 and 2013

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 2014 and 2013, the Hospital completed the second and first-year requirements under both the Medicare and Medicaid programs and has recorded revenue of approximately \$128,000 and \$315,000, 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 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.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2014 and 2013

Approximately 46% and 50% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2014 and 2013, 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.

The 2014 net patient service revenue increased approximately \$580,000 due to changes in amounts previously estimated that are no longer necessary as a result of interim and final settlements.

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.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2014 and 2013

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

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

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

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

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2014 and 2013

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, 2014 and 2013, the Hospital had no bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Hospital believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. However, since all of the Hospital's bank deposits are collateralized, the Hospital believes it has maintained an acceptable risk level at these institutions.

Summary of Carrying Values

The Hospital's deposits are comprised of the following:

	2014	2013
Carrying value		
Cash and cash equivalents	\$ 1,098,285	\$ 456,364
Assets whose use is limited		
Money market funds and certificates of deposit	5,851,282	6,307,288
Accrued interest	98,661	85,578
	<u>\$ 7,048,228</u>	<u>\$ 6,849,230</u>
Deposits		
Amount of deposits reflected on the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit)	\$ 7,523,357	\$ 6,919,001
Amount of deposits covered by federal depository insurance	<u>(1,917,009)</u>	<u>(1,915,705)</u>
Uninsured but collateralized	<u>\$ 5,606,348</u>	<u>\$ 5,003,296</u>

Investment Income

Investment income for the years ended December 31 consisted of:

	2014	2013
Interest income	<u>\$ 20,974</u>	<u>\$ 21,968</u>

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2014 and 2013

Assets Limited as to Use

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

	<u>2014</u>	<u>2013</u>
Designated by the Board for capital improvements:		
Deposits in financial institutions	\$ 5,851,282	\$ 6,307,288
Accrued interest receivable	98,661	85,578
	<u> </u>	<u> </u>
Total assets limited as to use	<u>\$ 5,949,943</u>	<u>\$ 6,392,866</u>

Note 4: Patient Accounts Receivable

Patient accounts receivable at December 31 consisted of:

	<u>2014</u>	<u>2013</u>
Patient accounts receivable	\$ 7,328,569	4,666,532
Less		
Allowance for uncollectible amounts	1,430,446	1,093,047
Allowance for contractual adjustments	2,810,638	1,387,030
	<u> </u>	<u> </u>
Patient accounts receivable, net	<u>\$ 3,087,485</u>	<u>\$ 2,186,455</u>

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

	<u>2014</u>	<u>2013</u>
Medicare	39%	36%
Medical Mutual of Ohio	11%	16%
Medicaid	13%	9%
Other third-party payors	19%	11%
Patient pay	18%	28%
	<u> </u>	<u> </u>
	<u>100%</u>	<u>100%</u>

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2014 and 2013

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2014			
	Beginning Balance	Additions/ Transfers	Disposals	Ending Balance
Land	\$ 30,609	\$ -	\$ -	\$ 30,609
Land improvements	220,244	-	-	220,244
Building and building improvements	14,357,502	19,865	-	14,377,367
Fixed equipment	1,366,957	-	-	1,366,957
Major moveable equipment	8,858,668	646,823	-	9,505,491
Construction in progress	537,724	30,748	-	568,472
	<u>25,371,704</u>	<u>697,436</u>	<u>-</u>	<u>26,069,140</u>
Less accumulated depreciation				
Land improvements	\$ 189,712	\$ 6,635	\$ -	\$ 196,347
Building and building improvements	8,839,007	516,124	-	9,355,131
Fixed equipment	1,366,957	624,927	-	1,991,884
Major moveable equipment	7,388,333	-	-	7,388,333
	<u>17,784,009</u>	<u>1,147,686</u>	<u>-</u>	<u>18,931,695</u>
Capital Assets, Net	<u>\$ 7,587,695</u>	<u>\$ (450,250)</u>	<u>\$ -</u>	<u>\$ 7,137,445</u>

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2014 and 2013

	2013			
	Beginning Balance	Additions/ Transfers	Disposals	Ending Balance
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
	<u>23,503,748</u>	<u>1,932,006</u>	<u>(64,050)</u>	<u>25,371,704</u>
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
	<u>16,787,052</u>	<u>1,061,007</u>	<u>(64,050)</u>	<u>17,784,009</u>
Capital Assets, Net	<u>\$ 6,716,696</u>	<u>\$ 870,999</u>	<u>\$ -</u>	<u>\$ 7,587,695</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:

	2014				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Other long-term obligations					
Accrued compensated absences	\$ 581,461	\$ 315,864	\$ (263,742)	\$ 633,583	\$ 250,000

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Other long-term obligations					
Accrued compensated absences	\$ 615,700	\$ 235,877	\$ (270,116)	\$ 581,461	\$ 250,000

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2014 and 2013

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:

	2014	2013
Payroll and related items	\$ 550,442	\$ 550,027
Compensated absences	250,000	250,000
Workers' compensation premiums	84,104	86,937
Health insurance claims	100,211	170,743
	<u>\$ 984,757</u>	<u>\$ 1,057,707</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 \$718,000 and \$1,080,000 for the years ended December 31, 2014 and 2013, respectively.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2014 and 2013

A reconciliation of accrued health insurance at December 31, 2014 and 2013, consists of the following:

Balance at January 1, 2013	\$ 120,798
Health insurance expense	1,132,223
Payments made	<u>1,082,278</u>
Balance at December 31, 2013	170,743
Health insurance expense	647,708
Payments made	<u>718,240</u>
Balance at December 31, 2014	<u>\$ 100,211</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.

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.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2014 and 2013

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 2014, 2013 and 2012 were 10% for the employee share and 14% for the employer share, respectively. Employer contributions required were \$1,310,644, \$1,254,709, and \$1,261,782, respectively, for 2014, 2013 and 2012 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 2014, 2013 and 2012, 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, 1% from January 1, 2013 to December 31, 2013 and 2% from January 1, 2014 through December 31, 2014. 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 2014, 2013, and 2012, was approximately \$190,000, \$90,000, and \$360,000, 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.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2014 and 2013

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.

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, 2014, 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 5, 2015.

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 and Other Matters

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

Purpose of This Report

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 5, 2015



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 21, 2015**