

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Independent Auditor's Report and Financial Statements
December 31, 2015





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, 2015 through December 31, 2015. 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 24, 2016

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Paulding County Hospital
A Component Unit of Paulding County, Ohio
December 31, 2015

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Independent Auditor's Report

Board of Trustees
Paulding County Hospital
Paulding, Ohio

Report on the Financial Statements

We have audited the accompanying balance sheet of Paulding County Hospital (Hospital), a component unit of Paulding County, Ohio, as of December, 31, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2015, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2015, the Hospital adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information 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 GASB, 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 audits 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 February 26, 2016, 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
February 26, 2016

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Management's Discussion and Analysis
Year Ended December 31, 2015

Introduction

The management's discussion and analysis of the financial performance of Paulding County Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2015 and 2014. It should be read in conjunction with the accompanying financial statements of the Hospital. Management is responsible for the completeness and fairness of the financial statements and the related note disclosures along with the discussion and analysis. The information included within the management's discussion and analysis for the year ended December 31, 2014, has not been adjusted for the impact of Governmental Accounting Standards Board (GASB) 68.

Financial Highlights

The Hospital's current assets increased by \$440,330 or 8.07% from the prior year compared to a \$1,582,328 or 40.86% increase last year. This change was primarily driven by an increase in cash and cash equivalents as a result of positive operating cash flow and an increase in prepaid expenses and other, offset by a reduction in patient accounts receivable.

The Hospital's total liabilities increased \$7,689,219 or 298.80% from the prior year compared to a \$400,630 or 18.44% increase last year. This change was due primarily to the adoption of GASB 68 and the recognition of \$7,633,240 in net pension liability.

The Hospital's net position decreased \$5,945,007 or 37.23% from the previous year compared to an increase of \$288,525 or 1.84% last year. This change was due primarily to an increase of \$508,013 in net position and a decrease of \$6,453,020 due to the adoption of GASB 68 related to the net pension liability.

The following table provides a breakdown of the Hospital's net position by category for the years ended December 31, 2015 and 2014:

Net Position	Year Ended December 31	
	2015	2014
Net investment in capital assets	\$ 6,729,027	\$ 7,137,445
Unrestricted	3,295,364	8,831,953

In the year ended December 31, 2015, the Hospital's revenue and other support exceeded expenses, creating an increase in net position of \$508,013 before the effect of the adoption of GASB 68. The increase for 2014 was \$288,525.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Management's Discussion and Analysis
Year Ended December 31, 2015

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. The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements and related notes provide information about the activities of the Hospital, including resources held but restricted. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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.

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.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Management's Discussion and Analysis
Year Ended December 31, 2015

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

	Year Ended December 31		2015/2014 Change	
	2015	2014	Amount	Percent
Assets and Deferred Outflows of Resources				
Current assets	\$ 5,895,675	\$ 5,455,345	\$ 440,330	8.07%
Assets limited as to use	6,474,065	5,949,943	524,122	8.81%
Capital assets	6,729,027	7,137,445	(408,418)	-5.72%
Net pension asset	51,839	-	51,839	100.00%
Total assets	<u>19,150,606</u>	<u>18,542,733</u>	<u>607,873</u>	3.28%
Deferred outflows of resources	<u>1,286,258</u>	<u>-</u>	<u>1,286,258</u>	100.00%
Total assets and deferred outflows of resources	<u><u>\$ 20,436,864</u></u>	<u><u>\$ 18,542,733</u></u>	<u><u>\$ 1,894,131</u></u>	10.21%
Liabilities				
Current liabilities	\$ 2,320,361	\$ 2,189,752	\$ 130,609	5.96%
Noncurrent liabilities	308,953	383,583	(74,630)	-19.46%
Net pension liability	7,633,240	-	7,633,240	100.00%
Total liabilities	<u>10,262,554</u>	<u>2,573,335</u>	<u>7,689,219</u>	298.80%
Deferred Inflows of Resources	<u>149,919</u>	<u>-</u>	<u>149,919</u>	100.00%
Net Position				
Net investment in capital assets	6,729,027	7,137,445	(408,418)	-5.72%
Unrestricted	3,295,364	8,831,953	(5,536,589)	-62.69%
Total net position	<u>10,024,391</u>	<u>15,969,398</u>	<u>(5,945,007)</u>	-37.23%
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 20,436,864</u></u>	<u><u>\$ 18,542,733</u></u>	<u><u>\$ 1,894,131</u></u>	10.21%

Assets and Deferred Outflows of Resources

As of December 31, 2015, the Hospital's total assets and deferred outflows of resources amounted to approximately \$20.4 million. Capital assets, net of depreciation, represented the Hospital's largest asset, totaling approximately \$6.7 million, or 33%, of total assets and deferred outflows of resources. The Hospital's next largest asset, assets whose use is limited, totaled approximately \$6.5 million, or 32%, of total assets and deferred outflows of resources.

Total assets and deferred outflows of resources increased by approximately \$1.8 million from the prior year. This increase was driven by:

- An increase of approximately \$1 million in current assets and assets limited as to use primarily due to improved operations that resulted in a \$508,013 increase in the net position.
- A decrease of approximately \$752,000 in patient accounts receivable. In 2014, patient accounts receivable was higher than usual due to a system conversion resulting in delays in billing.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Management's Discussion and Analysis
Year Ended December 31, 2015

- An increase in prepaid expenses and other based on the Hospital continuing to attest to meaningful use for electronic health records.
- An increase of approximately \$1.3 million of deferred outflows of resources as the result of the adoption of GASB 68 in the current year.

Liabilities and Deferred Inflows of Resources

At December 31, 2015, the Hospital's liabilities and deferred inflows of resources were approximately \$10.4 million. Current liabilities, primarily consisting of accounts payable and accrued totaled approximately \$2.3 million or 21% of total liabilities and deferred inflows of resources. The net pension liability totaled approximately \$7.6 million or 75% of total liabilities.

Total liabilities and deferred inflows of resources increased \$7.8 million from the prior year primarily due to the addition of approximately \$7.6 million in net pension liability as a result of adopting GASB 68.

Net Position

Net position at December 31, 2015, totaled approximately \$10 million, or 49%, of total assets and deferred outflows of resources. Net position – net investment in capital assets totaled approximately \$6.7 million, or 67%, of total net position. Unrestricted net position totaled approximately \$3.3 million, or 33%, of total net position.

Total net position decreased approximately \$5.9 million, or 37.2%, primarily due to the adoption of GASB 68 related to the net pension liability as discussed above.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Management's Discussion and Analysis
Year Ended December 31, 2015

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, 2015 and 2014:

	Year Ended December 31		2015/2014 Change	
	2015	2014	Amount	Percent
Operating Revenue				
Net patient service revenue	\$ 18,670,054	\$ 19,649,797	\$ (979,743)	-4.99%
Other	1,567,251	797,714	769,537	96.47%
Total operating revenues	<u>20,237,305</u>	<u>20,447,511</u>	<u>(210,206)</u>	-1.03%
Operating Expenses				
Salaries and wages	8,476,815	9,254,411	(777,596)	-8.40%
Employee benefits and payroll taxes	2,424,800	2,257,011	167,789	7.43%
Professional services and consultant fees	1,931,610	1,660,207	271,403	16.35%
Medical supplies and other	4,744,874	4,842,245	(97,371)	-2.01%
Purchased services	1,126,747	1,031,749	94,998	9.21%
Depreciation and amortization	1,135,467	1,147,686	(12,219)	-1.06%
Total operating expenses	<u>19,840,313</u>	<u>20,193,309</u>	<u>(352,996)</u>	-1.75%
Operating Income	<u>396,992</u>	<u>254,202</u>	<u>142,790</u>	56.17%
Nonoperating Revenue				
Investment income	25,413	20,974	4,439	21.16%
Contributions	15,615	6,572	9,043	137.60%
Other income	69,993	6,777	63,216	932.80%
Total other income	<u>111,021</u>	<u>34,323</u>	<u>76,698</u>	223.46%
Increase in Net Position	<u>508,013</u>	<u>288,525</u>	<u>219,488</u>	76.07%
Net Position, Beginning of Year, as Previously Reported	15,969,398	15,680,873	288,525	1.84%
Cummulative Effect of Change in Accounting Principle	<u>(6,453,020)</u>	-	<u>(6,453,020)</u>	100.00%
Net Position, Beginning of Year, as Restated	<u>9,516,378</u>	<u>15,680,873</u>	<u>(6,164,495)</u>	-39.31%
Net Position, End of Year	<u>\$ 10,024,391</u>	<u>\$ 15,969,398</u>	<u>\$ (5,945,007)</u>	-37.23%

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Management's Discussion and Analysis
Year Ended December 31, 2015

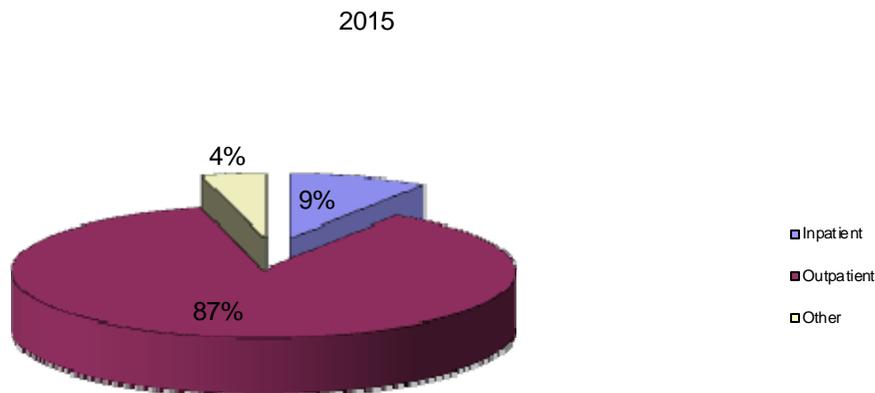
Operating Revenue

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 6.12%, while net patient service revenue decreased by 4.99%. 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 two years and were 50.11% in 2015 and 44.28% in 2014. The change in revenue deductions is due in part to third-party settlement estimates, state reimbursements for indigent care and changes in bad debt allowances.
- Other operating revenue increased 96.47% for 2015, which was due primarily to revenue associated with the Medicare Electronic Health Records Program. In 2014, other operating revenue increased 9.85%.

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



Paulding County Hospital

A Component Unit of Paulding County, Ohio

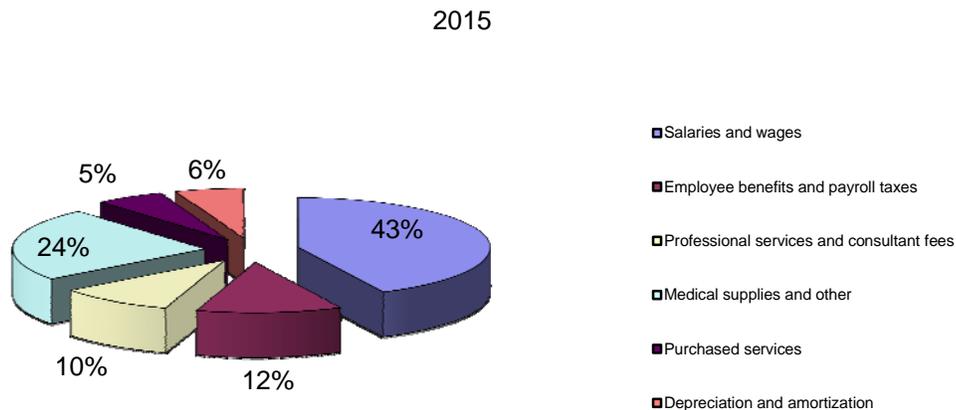
Management's Discussion and Analysis

Year Ended December 31, 2015

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 decreased 8.40%, due primarily to continued management of staffing levels in the current year. Salary costs increased 0.64% for 2014.
- Benefit costs increased 7.43%, due primarily to higher health insurance costs in the current year. Benefits decreased 13.08% in 2014.
- Professional services and consultant fees increased 16.35% due primarily to emergency room physician fees. Professional services and consultant fees increased 80.77% in 2014.
- Medical supplies and drugs decreased 2.01%, due primarily to patient volumes and decreased overhead expenditures. In 2014, medical supplies and drugs increased 1.83%.
- Purchased services increased 9.21%, due primarily to electronic communication costs. Purchased services decreased 7.62% in 2014.
- 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
Year Ended December 31, 2015

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 an increase in nonoperating revenue from the prior year. This was due primarily to an increase in miscellaneous other income as a result of a payback from a physician who left the Hospital.

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		2015/2014
	2015	2014	Increase (Decrease)
Cash Provided by (Used in)			
Operating activities	\$ 1,711,416	\$ 872,895	\$ 838,521
Noncapital financing activities	85,608	13,349	72,259
Capital and related financing activities	(741,906)	(698,514)	(43,392)
Investing activities	(490,811)	454,191	(945,002)
Net Increase in Cash and Cash Equivalents	564,307	641,921	(77,614)
Cash and Cash Equivalents, Beginning of Year	1,098,285	456,364	641,921
Cash and Cash Equivalents, End of Year	\$ 1,662,592	\$ 1,098,285	\$ 564,307

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 \$838,521 over the prior year. Cash from operating activities decreased \$363,206 in 2014.

Capital purchases, net of grants and contributions were \$741,906, which was an increase of \$43,392 over the prior year. Net capital purchases for 2014 were \$698,514.

Investing activities used cash of \$490,811, as compared to providing cash of \$454,191 for 2014. The Hospital moved additional cash and cash equivalents to assets limited as to use in 2015.

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Management's Discussion and Analysis
Year Ended December 31, 2015

Capital Assets

At December 31, 2015, the Hospital had \$26,770,257 invested in capital assets. Capital assets for 2014 were \$26,069,140. Depreciation and amortization expense totaled \$1,135,467 for the current year compared to \$1,147,686 in 2014. Details of these assets for the past three years are shown below:

	Year Ended December 31		2015/2014
	2015	2014	Increase (Decrease)
Land	\$ 30,609	\$ 30,609	\$ -
Land improvements	233,994	220,244	13,750
Buildings and improvements	14,712,248	14,377,367	334,881
Equipment	11,793,406	10,872,448	920,958
Construction in progress	-	568,472	(568,472)
Total	<u>26,770,257</u>	<u>26,069,140</u>	<u>701,117</u>
Accumulated depreciation	<u>(20,041,230)</u>	<u>(18,931,695)</u>	<u>(1,109,535)</u>
Net carrying amount	<u>\$ 6,729,027</u>	<u>\$ 7,137,445</u>	<u>\$ (408,418)</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.

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 Sheet
December 31, 2015

Assets and Deferred Outflows of Resources

Current Assets

Cash and cash equivalents	\$ 1,662,592
Patient accounts receivable, net of allowance; \$1,784,775 for 2015	2,335,038
Notes receivable	299,380
Inventory	715,092
Prepaid expenses and other	883,573
Total current assets	<u>5,895,675</u>

Assets Limited as to Use 6,474,065

Capital Assets, Net 6,729,027

Net Pension Asset 51,839
Total assets 19,150,606

Deferred Outflows of Resources 1,286,258

Total assets and deferred outflows of resources \$ 20,436,864

**Liabilities, Deferred Inflows of Resources
and Net Position**

Current Liabilities

Accounts payable	\$ 1,098,181
Accrued expenses and other	1,057,956
Estimated amounts due to third-party payers	164,224
Total current liabilities	<u>2,320,361</u>

Noncurrent Liabilities 308,953

Net Pension Liability 7,633,240
Total liabilities 10,262,554

Deferred Inflows of Resources 149,919

Net Position

Net investment in capital assets	6,729,027
Unrestricted	3,295,364
Total net position	<u>10,024,391</u>

Total liabilities, deferred inflows of resources and net position \$ 20,436,864

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2015

Operating Revenue

Net patient service revenue, net of provision for uncollectible accounts; 2015 - \$1,382,840	\$ 18,670,054
Other	<u>1,567,251</u>
Total operating revenue	<u>20,237,305</u>

Operating Expenses

Salaries and wages	8,476,815
Employee benefits and payroll taxes	2,424,800
Medical supplies and other	4,744,874
Professional services and consultant fees	1,931,610
Purchased services	1,126,747
Depreciation and amortization	<u>1,135,467</u>
Total operating expenses	<u>19,840,313</u>

Operating Income

396,992

Nonoperating Revenue

Investment income	25,413
Contributions	15,615
Other income	<u>69,993</u>
Total nonoperating revenue	<u>111,021</u>

Increase in Net Position

508,013

Net Position, Beginning of Year, as Previously Reported

15,969,398

Cummulative Effect of Change in Accounting Principle

(6,453,020)

Net Position, Beginning of Year, as Restated

9,516,378

Net Position, End of Year

\$ 10,024,391

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Statement of Cash Flows
Year Ended December 31, 2015

Operating Activities	
Receipts from and on behalf of patients	\$ 18,471,105
Payments to suppliers and contractors	(7,415,936)
Payments to employees	(10,911,004)
Other receipts, net	<u>1,567,251</u>
Net cash provided by operating activities	<u>1,711,416</u>
Noncapital Financing Activities	
Noncapital grants, gifts and other	<u>85,608</u>
Capital and Related Financing Activities	
Purchase of capital assets	<u>(741,906)</u>
Net cash used in capital and related financing activities	<u>(741,906)</u>
Investing Activities	
Investment income	25,413
Net change assets limited as to use	(524,122)
Advances to physicians (notes receivable), net of forgiveness	7,898
Net cash used in investing activities	<u>(490,811)</u>
Increase in Cash and Cash Equivalents	564,307
Cash and Cash Equivalents, Beginning of Year	<u>1,098,285</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,662,592</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 396,992
Depreciation and amortization	1,135,467
Provision for uncollectible accounts	1,382,840
Changes in operating assets and liabilities	
Patient accounts receivable	(630,393)
Inventory	(108,133)
Prepaid expenses and other	(528,235)
Accounts payable	387,295
Accrued compensated expenses and other	(9,389)
Estimated amounts due to third-party payers	<u>(315,028)</u>
Net cash provided by operating activities	<u>\$ 1,711,416</u>
Supplemental Cash Flow Information	
Capital asset acquisitions included in accounts payable	\$ 77,292

Paulding County Hospital
A Component Unit of Paulding County, Ohio
Notes to Financial Statements
December 31, 2015

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 Trustees 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.

Investment income on Board-designated funds (funded depreciation) 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 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.

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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.

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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 2015, the Hospital completed the third-year requirements under both the Medicare and Medicaid programs and recorded revenue of approximately \$583,000, which is included in other revenue within operating revenues in the statement of revenue, expenses and changes in net position.

Change in Accounting Principle

During 2015, the Hospital adopted the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. These statements establish new accounting and financial requirements for pension plans provided by the Hospital to its employees. The Hospital employees participate in cost-sharing, multiple-employer plans, which are within the scope of these statements. These statements require the Hospital to recognize a net pension liability or asset, pension expense, and pension related deferred inflows and outflows of resources based on the Hospital's proportionate share of collective amounts for all participating employers in the plan. The Hospital's portion of the net pension liability and asset, pension expense, and pension related deferred inflows and outflows of resources have been recognized in the accompanying financial statements.

Adoption of these statements resulted in a reduction to the beginning net position as of January 1, 2015, of approximately \$6,453,000 to recognize the cumulative effect of applying these statements to beginning net position. The decrease is attributed to recognition of a net pension asset and liability of approximately \$14,000 and \$7,461,000, respectively, at December 31, 2014, and deferred outflows of resources related to the Hospital's contributions made subsequent to the measurement date of January 1, 2014 through December 31, 2014, of approximately \$994,000.

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Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare - Effective January 1, 2001, the Hospital received full accreditation from the Center for Medicare and Medicaid services for the critical access hospital designation. As a critical access hospital, the Hospital receives reasonable, cost-based reimbursement for both inpatient and outpatient services provided to Medicare beneficiaries.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The Hospital is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid administrative contractor.

Approximately 40% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the year ended December 31, 2015. 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 2015 net patient service revenue increased approximately \$13,000 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).

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

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

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

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

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

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

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.

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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, 2015, 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:

	2015
Carrying value	
Cash and cash equivalents	\$ 1,662,592
Assets whose use is limited	
Money market funds and certificates of deposit	6,360,556
Accrued interest	113,509
	\$ 8,136,657
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)	\$ 8,378,712
Amount of deposits covered by federal depository insurance	(1,917,750)
Uninsured but collateralized	\$ 6,460,962

Investment Income

Investment income for the year ended December 31 consisted of:

	2015
Interest income	\$ 25,413

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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:

	2015
Designated by the Board for capital improvements	
Deposits in financial institutions	\$ 6,360,556
Accrued interest receivable	113,509
Total assets limited as to use	\$ 6,474,065

Note 4: Patient Accounts Receivable

Patient accounts receivable at December 31 consisted of:

	2015
Patient accounts receivable	\$ 6,805,749
Less	
Allowance for uncollectible amounts	1,784,775
Allowance for contractual adjustments	2,685,936
Patient accounts receivable, net	\$ 2,335,038

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:

	Percent 2015
Medicare	42%
Medical Mutual of Ohio	10%
Medicaid	12%
Other third-party payors	11%
Patient pay	25%
	100%

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Note 5: Capital Assets

Capital assets activity for the year ended December 31 was:

	2015			
	Beginning Balance	Additions/ Transfers	Disposals	Ending Balance
Land	\$ 30,609	\$ -	\$ -	\$ 30,609
Land improvements	220,244	13,750	-	233,994
Building and building improvements	14,377,367	334,881	-	14,712,248
Fixed equipment	1,366,957	-	-	1,366,957
Major moveable equipment	9,505,491	946,890	(25,932)	10,426,449
Construction in progress	568,472	(568,472)	-	-
	<u>26,069,140</u>	<u>727,049</u>	<u>(25,932)</u>	<u>26,770,257</u>
Less accumulated depreciation				
Land improvements	196,347	6,041	-	202,388
Building and building improvements	9,355,131	521,788	-	9,876,919
Fixed equipment	1,366,957	-	-	1,366,957
Major moveable equipment	8,013,260	607,638	(25,932)	8,594,966
	<u>18,931,695</u>	<u>1,135,467</u>	<u>(25,932)</u>	<u>20,041,230</u>
Capital Assets, Net	<u>\$ 7,137,445</u>	<u>\$ (408,418)</u>	<u>\$ -</u>	<u>\$ 6,729,027</u>

Note 6: Long-Term Obligations

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

	2015				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Other long-term obligations					
Accrued compensated absences	\$ 633,583	\$ 232,950	\$ (307,580)	\$ 558,953	\$ 250,000
Net pension liability	-	7,633,240	-	7,633,240	-
	<u>-</u>	<u>7,633,240</u>	<u>-</u>	<u>7,633,240</u>	<u>-</u>
Total other long-term obligations	<u>\$ 633,583</u>	<u>\$ 7,866,190</u>	<u>\$ (307,580)</u>	<u>\$ 8,192,193</u>	<u>\$ 250,000</u>

Note 7: Medical Malpractice Claims

Based on the nature of its operations, the Hospital is at times subject to pending or threatened legal actions, which arise in the normal course of its activities.

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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:

	2015
Payroll and related items	\$ 606,393
Compensated absences	250,000
Workers' compensation premiums	80,439
Health insurance claims	121,124
	\$ 1,057,956

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 \$878,000 for the year ended December 31, 2015.

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A reconciliation of accrued health insurance at December 31, 2015, consists of the following:

Balance at December 31, 2014	\$	100,211
Health insurance expense		899,079
Payments made		<u>878,166</u>
Balance at December 31, 2015	\$	<u><u>121,124</u></u>

Note 10: Multi-employer Plans

Defined Benefit Pension Plans

Plan Description

The Hospital contributes to the Ohio Public Employees Retirement System (OPERS) a cost-sharing multiple-employer defined benefit pension plan covering substantially all employees. All employees are required to join the Ohio Public Employees Retirement System (OPERS). OPERS administers three pension plans as described below. Each of the three options is discussed in greater detail in the following sections:

1. The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan.
2. The Member-Directed (MD) Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan – a cost-sharing, multi-employer defined benefit pension 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 issues a stand-alone financial report, these reports may be obtained by contacting the organization as follows:

OPERS
 277 East Town Street
 Columbus, Ohio 43215-4642
 Telephone (800) 222-7377
www.opers.org

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Benefits Provided

Plan benefits for OPERS are established under Chapter 145 of the Ohio Revised Code (ORC). Members are categorized into three groups with varying provisions of the law applicable to each group. Members who were eligible to retire on January 7, 2013, and those eligible to retire no later than five years after that date comprise transition group A. Members who have 20 years of service credit prior to January 7, 2013, or are eligible to retire no later than 10 years after January 7, 2013, are included in transition group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013. Additionally, OPERS has three separate divisions with varying degrees of benefits: (1) state and local, (2) law enforcement and (3) public safety. The Hospital does not have any employees included in the law enforcement or public safety divisions.

Benefits in the Traditional Plan for state and local members are calculated on the basis of age, final average salary and service credit. State and local members in transition groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for state and local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For group C the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. Final average salary represents the average of the three highest years of earnings over a member's career for groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefit receive a percentage reduction in the benefit amount.

OPERS offers a combined plan that has elements of both a defined benefit and defined contribution plan. In the combined plan, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit. Eligibility requirements under the combined plan for age and years of service are identical to the defined benefit plan described earlier. The benefit formula for the defined benefit component of the plan for state and local members in transition groups A and B applies a factor of 1.0% to the member's final average salary for the first 30 years of service. A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition group C applies a factor of 1.0% to the member's final average salary and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit.

A cost-of-living adjustment (COLA) is provided each year and is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

Only active employees of the Hospital participate and are covered by the plan. At December 31, 2015, 211 employees participated and were covered by the OPERS Pension Plans.

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Contributions

The ORC provides OPERS statutory authority over employee and employer contributions. The required contractually determined contribution rates, respectively of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The contractually required contribution rates for the employee and the Hospital are as follows for the year ended December 31, 2015:

	OPERS
Employee	10%
Hospital	14%
	Employer Contributions
Traditional	\$ 818,826
Combined	56,981

For the year ended December 31, 2015, contributions to the pension plans from the Hospital were \$875,807.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The Hospital reported an asset and a liability for OPERS of \$51,839 and \$7,633,240, respectively, as of December 31, 2015, for its proportionate share of the net pension asset and liability. The net pension asset and liability were measured as of December 31, 2014, and the total pension asset and liability used to calculate the net pension asset or liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension asset and liability was based on a projection of the Hospital's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2015, the Hospital's proportion was 0.063288% for OPERS Traditional Pension Plan and 0.134639% for OPERS Combined Plan.

For the year ended December 31, 2015, the Hospital recognized pension expense of \$867,849. At December 31, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Traditional Plan		Combined Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 134,101	\$ -	\$ 15,818
Net difference between projected and actual earnings on pension plan investments	407,287	-	3,164	-
Hospital's contributions subsequent to the measurement date	818,826	-	56,981	-
	\$ 1,226,113	\$ 134,101	\$ 60,145	\$ 15,818

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At December 31, 2015, the Hospital reported \$818,826 and \$56,981 for the traditional and combined plans, respectively, as deferred outflows of resources related to pensions resulting from Hospital contributions subsequent to the measurement date that will be recognized as a(n) decrease (increase) to the net pension liability (asset) in the year ending December 31, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2015, related to pensions will be recognized in pension expense as follows:

	Traditional	Combined	Total
2016	\$ 39,947	\$ (1,090)	\$ 38,857
2017	39,947	(1,090)	38,857
2018	91,470	(1,090)	90,380
2019	101,822	(1,090)	100,732
2020	-	(1,881)	(1,881)
Thereafter	-	(6,413)	(6,413)
	<u>\$ 273,186</u>	<u>\$ (12,654)</u>	<u>\$ 260,532</u>

Actuarial Assumptions

The total pension liability in the December 31, 2014, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

OPERS	Traditional Plan	Combined Plan
Valuation date	December 31, 2014	December 31, 2014
Experience study	5-year period ended December 31, 2010	5-year period ended December 31, 2010
Inflation	3.75%	3.75%
Salary increases	4.25% - 10.05% including inflation at 3.75%	4.25% - 8.05% including inflation at 3.75%
Investment rate of return	8.00%	8.00%
Cost-of-living adjustments	3.00% simple	3.00% simple

Mortality rates for OPERS are the RP-2000 mortality table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used.

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The long-term expected rate of return on OPERS defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage, adjusted for inflation:

	OPERS	
Asset Class	Allocation	Long-Term Expected Rate of Return
Domestic equities	19.90%	5.84%
International equities	19.10%	7.40%
Fixed income	23.00%	2.31%
Real estate	10.00%	4.25%
Alternative investments	10.00%	9.25%
Other investments	18.00%	4.59%
	100.00%	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 8% for the year ended December 31, 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate

The Hospital's proportionate share of the net pension liability (asset) has been calculated using a discount rate of 8%. The following presents the Hospital's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate:

	1% Decrease 7.0%	Current Discount Rate 8.0%	1% Increase 9.0%
Hospital's proportionate share of the net pension liability - Traditional	\$ 14,042,974	\$ 7,633,240	\$ 2,234,699
Hospital's proportionate share of the net pension liability (asset) - Combined	6,732	(51,839)	(98,286)

Paulding County Hospital
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Pension Plans Fiduciary Net Position

Detailed information about the pension plans' fiduciary net position is available in the separately issued OPERS financial report.

Payable to the Pension Plans

At December 31, 2015, the Hospital reported a payable of \$158,045, for the outstanding amount of contributions to the pension plans required for the year ended December 31, 2015.

Defined Contribution Plan

OPERS also offers a defined contribution plan, the Member-Directed Plan (MD). The MD plan does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

Other Postemployment Benefits

OPERS provides postemployment health care benefits to retirees with ten or more years of qualifying service credit under the Traditional Pension and Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan benefits include a medical plan, prescription drug program and Medicare Part B premium reimbursement. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code (ORC) permits, but does not require OPERS to provide Other Postemployment Benefits (OPEB) to its eligible benefit recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the ORC.

Each year the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For the calendar year ended December 31, 2015, OPERS allocated 2.0% of the employer contribution rate to fund the health care program for members in the Traditional Pension Plan and Combined Plan. The allocated 2.0% is the statutorily required contribution rates for OPERS, payment amounts vary depending on the number of covered dependents and the coverage selected. Hospital employer contributions to OPERS to fund OPEB for 2015 approximated 2.0%, or approximately \$146,000.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing on January 1, 2014. OPERS expects to be able to consistently allocate 4.0% of the employer contributions toward the health care fund after the end of the transition period.

Paulding County Hospital
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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.

Required Supplementary Information

Paulding County Hospital
A Component Unit of Paulding County, Ohio

Schedule of Hospital's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System (OPERS)

Traditional	2015
Hospital's proportion of the net pension liability	0.063288%
Hospital's proportionate share of the net pension liability	\$ 7,633,240
Hospital's covered-employee payroll	7,759,123
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	98.38%
Plan fiduciary net position as a percentage of the total pension liability	86.45%
Combined	
Hospital's proportion of the net pension asset	0.134639%
Hospital's proportionate share of the net pension asset	\$ (51,839)
Hospital's covered-employee payroll	470,444
Hospital's proportionate share of the net pension asset as a percentage of its covered-employee payroll	-11.02%
Plan fiduciary net position as a percentage of the total pension asset	114.83%

Schedule of Hospital Contributions
Ohio Public Employees Retirement System (OPERS)

Traditional	2015
Statutorily required contribution	\$ 818,826
Contributions in relation to the statutorily required contributions	<u>(818,826)</u>
Contributions deficiency (excess)	<u>\$ -</u>
Hospital's covered-employee payroll	\$ 6,823,550
Contributions as a percentage of covered-employee payroll	12.00%
Combined	
Statutorily required contribution	\$ 56,981
Contributions in relation to the statutorily required contributions	<u>(56,981)</u>
Contributions deficiency (excess)	<u>\$ -</u>
Hospital's covered-employee payroll	\$ 474,843
Contributions as a percentage of covered-employee payroll	12.00%

The amounts presented in the Schedule of Hospital's Proportionate Share of the Net Pension Liability are presented as of December 31, 2014. The amounts presented in the Schedule of Hospital's Contributions are presented as of December 31, 2015.

These are 10-year schedules – however, the information is not required to be presented retroactively. Years will be added to these schedules in future years until 10 years of information is available.

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, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 26, 2016, which included an emphasis of matter paragraph for change in accounting principle.

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 report 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 on compliance. This report 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
February 26, 2016

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Dave Yost • Auditor of State

PAULDING COUNTY HOSPITAL

PAULDING COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 7, 2016**