

**Paulding County Hospital**  
**A Component Unit of Paulding County, Ohio**  
Independent Auditor's Reports and Financial Statements  
December 31, 2016 and 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, 2016 through December 31, 2016. 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, 2017

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**Paulding County Hospital**  
**A Component Unit of Paulding County, Ohio**  
**December 31, 2016 and 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 sheets of Paulding County Hospital (Hospital), a component unit of Paulding County, Ohio, as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years 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 audits. We conducted our audits 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, 2016 and 2015, 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 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 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 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 April 11, 2017, 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  
April 11, 2017



**Paulding County Hospital**  
**A Component Unit of Paulding County, Ohio**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2016 and 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, 2016, 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 \$750,194 or 12.72 percent from the prior year compared to a \$440,330 or 8.07 percent 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 accounts receivable due to higher patient activity near year-end.

The Hospital's total liabilities increased \$2,909,802 or 28.35 percent from the prior year compared to a \$7,689,219 or 298.80 percent increase last year. This change in the current year was due primarily to an increase in the net pension liability of \$2,699,065. In the prior year, the increase was due primarily to the adoption of GASB 68 and the recognition of \$7,633,240 in net pension liability. The effects of adopting GASB 68 are not reflected in the 2014 data within this management's discussion and analysis.

The Hospital's net position increased \$426,411 or 4.28 percent from the previous year compared to an increase of \$508,013 or 76.07 percent last year, after considering the change in prior year 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, 2016, 2015 and 2014:

<b>Net Position</b>	<b>Year Ended December 31</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net investment in capital assets	\$ 6,154,239	\$ 6,729,027	\$ 7,137,445
Restricted - net pension asset	68,112	51,839	-
Unrestricted	4,228,451	3,243,525	8,831,953

In the year ended December 31, 2016, the Hospital's revenue and other support exceeded expenses, creating an increase in net position of \$426,411. The increase for 2015 was \$508,013 before the effect of the adoption of GASB 68.

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**Years Ended December 31, 2016 and 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 deferred outflows of resources and all liabilities and deferred inflows of resources—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—assets and deferred outflows of resources less liabilities and deferred inflows of resources—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.

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

	Year Ended December 31			2016/2015 Change	
	2016	2015	2014	Amount	Percent
<b>Assets</b>					
Current assets	\$ 6,645,869	\$ 5,895,675	\$ 5,455,345	\$ 750,194	12.72%
Assets limited as to use	7,199,769	6,474,065	5,949,943	725,704	11.21%
Capital assets	6,154,239	6,729,027	7,137,445	(574,788)	-8.54%
Net pension asset	68,112	51,839	-	16,273	31.39%
Total assets	<u>20,067,989</u>	<u>19,150,606</u>	<u>18,542,733</u>	<u>917,383</u>	4.79%
<b>Deferred Outflows of Resources</b>	<u>4,076,698</u>	<u>1,286,258</u>	<u>-</u>	<u>2,790,440</u>	216.94%
Total assets and deferred outflows of resources	<u>\$ 24,144,687</u>	<u>\$ 20,436,864</u>	<u>\$ 18,542,733</u>	<u>\$ 3,707,823</u>	18.14%
<b>Liabilities</b>					
Current liabilities	\$ 2,520,835	\$ 2,320,361	\$ 2,189,752	\$ 200,474	8.64%
Noncurrent liabilities	319,216	308,953	383,583	10,263	3.32%
Net pension liability	10,332,305	7,633,240	-	2,699,065	35.36%
Total liabilities	<u>13,172,356</u>	<u>10,262,554</u>	<u>2,573,335</u>	<u>2,909,802</u>	28.35%
<b>Deferred Inflows of Resources</b>	<u>521,529</u>	<u>149,919</u>	<u>-</u>	<u>371,610</u>	247.87%
<b>Net Position</b>					
Net investment in capital assets	6,154,239	6,729,027	7,137,445	(574,788)	-8.54%
Restricted - net pension asset	68,112	51,839	-	16,273	31.39%
Unrestricted	4,228,451	3,243,525	8,831,953	984,926	30.37%
Total net position	<u>10,450,802</u>	<u>10,024,391</u>	<u>15,969,398</u>	<u>426,411</u>	4.25%
Total liabilities, deferred inflows of resources and net position	<u>\$ 24,144,687</u>	<u>\$ 20,436,864</u>	<u>\$ 18,542,733</u>	<u>\$ 3,707,823</u>	18.14%

**Assets and Deferred Outflows of Resources**

As of December 31, 2016, the Hospital's total assets and deferred outflows of resources amounted to approximately \$24.1 million. Assets whose use is limited represented the Hospital's largest asset totaling approximately \$7.2 million, or 30 percent, of total assets and deferred outflows of resources. The Hospital's next largest asset, capital assets, net of depreciation, totaled approximately \$6.2 million, or 25 percent, of total assets and deferred outflows of resources.

Total assets and deferred outflows of resources increased by approximately \$3,700,000 from the prior year. This increase was driven by:

- An increase of approximately \$1,476,000 in current assets and assets limited as to use primarily due to positive operating cash flow.

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- An increase of approximately \$406,000 in patient accounts receivable. In 2016, patient accounts receivable was higher due to an increase in the number of patients and types of services.
- An increase in deferred outflows of resources as a result of changes in pension items under GASB 68.

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 percent, 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 percent, 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.
- 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, 2016, the Hospital's liabilities and deferred inflows of resources were approximately \$13.7 million. Current liabilities, primarily consisting of accounts payable, accrued expenses and estimated amounts due to third-party payors totaled approximately \$2.5 million or 18.41 percent of total liabilities and deferred inflows of resources. The net pension liability totaled approximately \$10.3 million or 75.45 percent of total liabilities and deferred outflows of resources.

Total liabilities and deferred inflows of resources increased approximately \$3.3 million from the prior year primarily due to an increase of approximately \$413,000 in estimated amounts due to third-party payors and an increase of approximately \$2.7 million in the net pension liability.

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 percent of total liabilities and deferred inflows of resources. The net pension liability totaled approximately \$7.6 million or 75 percent of total liabilities.

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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, 2016, totaled approximately \$10.5 million, or 43.28 percent of total assets and deferred outflows of resources. Net position – net investment in capital assets totaled approximately \$6.2 million, or 59 percent, of total net position. Unrestricted net position totaled approximately \$4.2 million, or 43 percent, of total net position.

Total net position increased \$426,411, or 4.25 percent, primarily due to nonoperating revenues in the current year.

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

Total net position increased approximately \$508,000 million, after the adoption of GASB 68 related to the net pension liability as discussed above.

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

The following is a comparative analysis of the major components of the statements of revenue, expenses and changes in net position of the Hospital for the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31			2016/2015 Change	
	2016	2015	2014	Amount	Percent
<b>Operating Revenue</b>					
Net patient service revenue	\$ 20,704,332	\$ 18,670,054	\$ 19,649,797	\$ 2,034,278	10.90%
Other	802,529	1,567,251	797,714	(764,722)	-48.79%
Total operating revenues	<u>21,506,861</u>	<u>20,237,305</u>	<u>20,447,511</u>	<u>1,269,556</u>	6.27%
<b>Operating Expenses</b>					
Salaries and wages	8,782,974	8,476,815	9,254,411	306,159	3.61%
Employee benefits and payroll taxes	2,877,458	2,424,800	2,257,011	452,658	18.67%
Professional services and consultant fees	1,973,563	1,931,610	1,660,207	41,953	2.17%
Medical supplies and other	5,408,205	4,744,874	4,842,245	663,331	13.98%
Purchased services	1,160,664	1,126,747	1,031,749	33,917	3.01%
Depreciation and amortization	947,945	1,135,467	1,147,686	(187,522)	-16.51%
Total operating expenses	<u>21,150,809</u>	<u>19,840,313</u>	<u>20,193,309</u>	<u>1,310,496</u>	6.61%
<b>Operating Income</b>	<u>356,052</u>	<u>396,992</u>	<u>254,202</u>	<u>(40,940)</u>	-10.31%
<b>Nonoperating Revenue</b>					
Investment income	27,486	25,413	20,974	2,073	8.16%
Contributions	3,145	15,615	6,572	(12,470)	-79.86%
Other income	39,728	69,993	6,777	(30,265)	-43.24%
Total other income	<u>70,359</u>	<u>111,021</u>	<u>34,323</u>	<u>(40,662)</u>	-36.63%
<b>Increase in Net Position</b>	<u>426,411</u>	<u>508,013</u>	<u>288,525</u>	<u>(81,602)</u>	-16.06%
<b>Net Position, Beginning of Year, as Previously Reported</b>	10,024,391	15,969,398	15,680,873	(5,945,007)	-37.23%
<b>Cummulative Effect of Change in Accounting Principle</b>	<u>-</u>	<u>(6,453,020)</u>	<u>-</u>	<u>6,453,020</u>	-100.00%
<b>Net Position, Beginning of Year, as Restated</b>	<u>10,024,391</u>	<u>9,516,378</u>	<u>15,680,873</u>	<u>508,013</u>	5.34%
<b>Net Position, End of Year</b>	<u>\$ 10,450,802</u>	<u>\$ 10,024,391</u>	<u>\$ 15,969,398</u>	<u>\$ 426,411</u>	4.25%

# Paulding County Hospital

## A Component Unit of Paulding County, Ohio

### Management's Discussion and Analysis

#### Years Ended December 31, 2016 and 2015

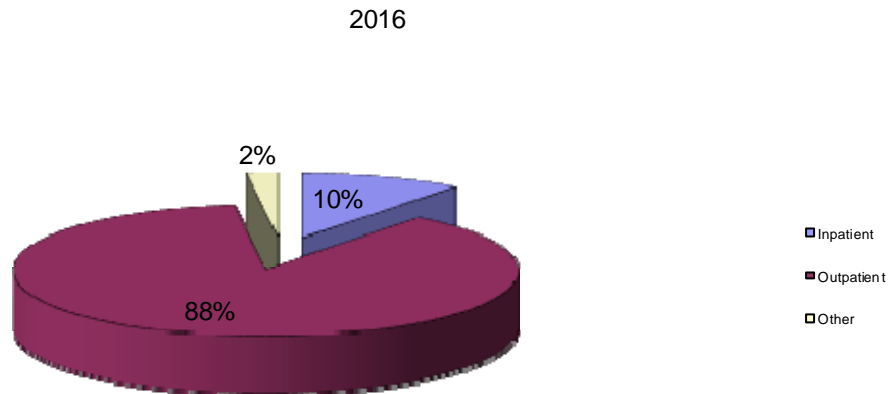
### Operating Revenue

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 3.09 percent, while net patient service revenue increased by 10.90 percent. 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 and were 47.86 percent in 2016, 50.11 percent in 2015 and 44.28 percent 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 decreased 48.79 percent for 2016, which was due primarily to the Hospital receiving no further revenue associated with the Medicare Electronic Health Records Program. In 2015 and 2014, other operating revenue decreased 96.47 percent and 9.85 percent, respectively.

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



# Paulding County Hospital

## A Component Unit of Paulding County, Ohio

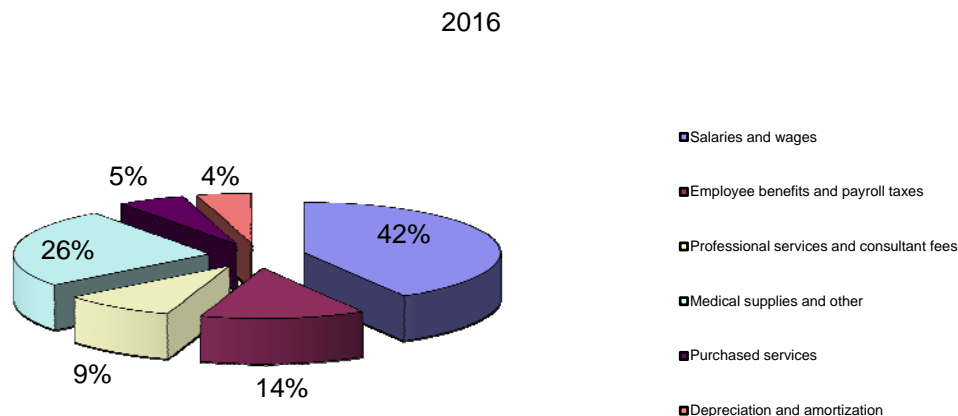
### Management's Discussion and Analysis

#### Years Ended December 31, 2016 and 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 increased 3.61 percent, due primarily to continued management of staffing levels in the current year. Salary costs decreased 8.40 percent for 2015 and increase 0.64 percent in 2014.
- Benefit costs increased 18.67 percent, due primarily to higher health insurance costs in the current year and increased pension expense. Benefit costs increased 7.43 percent in 2015 and decreased 13.08 percent in 2014.
- Professional services and consultant fees increased 2.17 percent due primarily to inflationary increases associated with various professional services and consultant fees. Professional services and consultant fees increased 16.35 percent in 2015 and 80.77 percent in 2014 primary due to emergency room physician fees.
- Medical supplies and drugs increased 13.98 percent, due primarily to patient volumes and overhead expenditures. In 2015, medical supplies and drugs decreased 2.01 percent and in 2014 increased 1.83 percent.
- Purchased services increased 3.01 percent, due primarily due to inflationary increases. Purchased services increased 9.21 percent in 2015 and decreased 7.62 percent in 2014.
- The following is a graphic illustration of operating expenses by type:





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***Nonoperating Revenue and Expenses***

Nonoperating revenue and expenses are all sources and uses that are primarily nonexchange in nature. They consist of investment income, other income and contributions.

There was a decrease in nonoperating revenue from the prior year. This was due primarily to a decrease in miscellaneous other income and in contributions 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			2016/2015
	2016	2015	2014	Increase (Decrease)
<b>Cash Provided by (Used in)</b>				
Operating activities	\$ 1,417,900	\$ 1,711,416	\$ 872,895	\$ (293,516)
Noncapital financing activities	42,873	85,608	13,349	(42,735)
Capital and related financing activities	(450,449)	(741,906)	(698,514)	291,457
Investing activities	(621,298)	(490,811)	454,191	(130,487)
<b>Net Increase in Cash and Cash Equivalents</b>	389,026	564,307	641,921	(175,281)
<b>Cash and Cash Equivalents, Beginning of Year</b>	1,662,592	1,098,285	456,364	564,307
<b>Cash and Cash Equivalents, End of Year</b>	\$ 2,051,618	\$ 1,662,592	\$ 1,098,285	\$ 389,026

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 \$293,516 over the prior year. Cash from operating activities increased \$838,521 in 2015 and decreased \$363,206 in 2014.

Capital and related financing activities used cash of \$450,449, which was a decrease of \$291,457 over the prior year. This decrease was a result of the Hospital continuing to not making significant investments in capital assets. Net capital purchases for 2015 and 2014 were \$741,906 and \$698,514, respectively.

Investing activities used cash of \$621,298 in 2016, primarily as a result of the Hospital moving cash and cash equivalents to assets limited as to use. Investing activities used cash of \$490,811 in 2015 and provided cash of \$454,191 in 2014.

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**Capital Assets**

At December 31, 2016, the Hospital had \$25,919,364 invested in capital assets. Capital assets for 2015 and 2014 were \$26,770,257 and \$26,069,140, respectively. Depreciation and amortization expense totaled \$947,945 for the current year compared to \$1,135,467 in 2015 and \$1,147,686 in 2014. Details of these assets for the past three years are shown below:

	Year Ended December 31			2016/2015
	2016	2015	2014	Increase (Decrease)
Land	\$ 30,609	\$ 30,609	\$ 30,609	\$ -
Land improvements	349,009	233,994	220,244	115,015
Buildings and improvements	14,712,248	14,712,248	14,377,367	-
Equipment	10,827,498	11,793,406	10,872,448	(965,908)
Construction in progress	-	-	568,472	-
Total	<u>25,919,364</u>	<u>26,770,257</u>	<u>26,069,140</u>	<u>(850,893)</u>
Accumulated depreciation	<u>(19,765,125)</u>	<u>(20,041,230)</u>	<u>(18,931,695)</u>	<u>276,105</u>
Net carrying amount	<u><u>\$ 6,154,239</u></u>	<u><u>\$ 6,729,027</u></u>	<u><u>\$ 7,137,445</u></u>	<u><u>\$ (574,788)</u></u>

**Other Economic Factors**

The Paulding County Hospital will continue to explore revenue enhancements, cost reductions and productivity improvements 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. 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.

**Contacting the Hospital's Financial Management**

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

Robert L. Goshia, II  
 Chief Financial Officer

**Paulding County Hospital**  
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**Balance Sheets**  
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	<b>2016</b>	<b>2015</b>
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,051,618	\$ 1,662,592
Patient accounts receivable, net of allowance; \$1,823,430 for 2016 and 1,784,775 for 2015	2,741,499	2,335,038
Notes receivable	222,460	299,380
Inventory	735,068	715,092
Prepaid expenses and other	895,224	883,573
Total current assets	6,645,869	5,895,675
<b>Assets Limited as to Use</b>	7,199,769	6,474,065
<b>Capital Assets, Net</b>	6,154,239	6,729,027
<b>Net Pension Asset</b>	68,112	51,839
Total assets	20,067,989	19,150,606
<b>Deferred Outflows of Resources - Pensions</b>	4,076,698	1,286,258
Total assets and deferred outflows of resources	\$ 24,144,687	\$ 20,436,864
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 790,008	\$ 1,098,181
Accrued expenses and other	1,153,708	1,057,956
Estimated amounts due to third-party payers	577,119	164,224
Total current liabilities	2,520,835	2,320,361
<b>Noncurrent Liabilities</b>	319,216	308,953
<b>Net Pension Liability</b>	10,332,305	7,633,240
Total liabilities	13,172,356	10,262,554
<b>Deferred Inflows of Resources - Pensions</b>	521,529	149,919
<b>Net Position</b>		
Net investment in capital assets	6,154,239	6,729,027
Restricted - net pension asset	68,112	51,839
Unrestricted	4,228,451	3,243,525
Total net position	10,450,802	10,024,391
Total liabilities, deferred inflows of resources and net position	\$ 24,144,687	\$ 20,436,864

**Paulding County Hospital**  
**A Component Unit of Paulding County, Ohio**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Operating Revenue</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2016 - \$732,653 and 2015 - \$1,382,840	\$ 20,704,332	\$ 18,670,054
Other	802,529	1,567,251
Total operating revenue	21,506,861	20,237,305
<b>Operating Expenses</b>		
Salaries and wages	8,782,974	8,476,815
Employee benefits and payroll taxes	2,877,458	2,424,800
Medical supplies and other	5,408,205	4,744,874
Professional services and consultant fees	1,973,563	1,931,610
Purchased services	1,160,664	1,126,747
Depreciation and amortization	947,945	1,135,467
Total operating expenses	21,150,809	19,840,313
<b>Operating Income</b>	356,052	396,992
<b>Nonoperating Revenue</b>		
Investment income	27,486	25,413
Contributions	3,145	15,615
Other income	39,728	69,993
Total nonoperating revenue	70,359	111,021
<b>Increase in Net Position</b>	426,411	508,013
<b>Net Position, Beginning of Year</b>	10,024,391	9,516,378
<b>Net Position, End of Year</b>	\$ 10,450,802	\$ 10,024,391

**Paulding County Hospital**  
**A Component Unit of Paulding County, Ohio**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 20,679,139	\$ 18,471,105
Payments to suppliers and contractors	(8,773,313)	(7,415,936)
Payments to employees	(11,290,455)	(10,911,004)
Other receipts, net	802,529	1,567,251
Net cash provided by operating activities	<u>1,417,900</u>	<u>1,711,416</u>
<b>Noncapital Financing Activities</b>		
Noncapital grants, gifts and other	<u>42,873</u>	<u>85,608</u>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	<u>(450,449)</u>	<u>(741,906)</u>
Net cash used in capital and related financing activities	<u>(450,449)</u>	<u>(741,906)</u>
<b>Investing Activities</b>		
Investment income	27,486	25,413
Net change assets limited as to use	(725,704)	(524,122)
Advances to physicians (notes receivable), net of forgiveness	76,920	7,898
Net cash used in investing activities	<u>(621,298)</u>	<u>(490,811)</u>
<b>Increase in Cash and Cash Equivalents</b>	389,026	564,307
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,662,592</u>	<u>1,098,285</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 2,051,618</u>	<u>\$ 1,662,592</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>		
Operating income (loss)	\$ 356,052	\$ 396,992
Depreciation and amortization	947,945	1,135,467
Provision for uncollectible accounts	732,653	1,382,840
Changes in operating assets and liabilities		
Patient accounts receivable	(1,139,114)	(630,393)
Inventory	(19,976)	(108,133)
Prepaid expenses and other	(11,651)	(528,235)
Accounts payable	(230,881)	387,295
Accrued compensated expenses and other	369,977	(9,389)
Estimated amounts due to third-party payers	412,895	(315,028)
Net cash provided by operating activities	<u>\$ 1,417,900</u>	<u>\$ 1,711,416</u>
<b>Noncash Investing, Capital and Financing Activities</b>		
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, 2016 and 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.

**Paulding County Hospital**  
**A Component Unit of Paulding County, Ohio**  
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**December 31, 2016 and 2015**

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

***Deferred Outflows of Resources***

The Organization reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its balance sheets.

**Paulding County Hospital**  
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***Compensated Absences***

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

***Cost-Sharing Multiple-Employer Defined Benefit Pension Plans***

The Hospital participates in two cost-sharing multiple-employer defined benefit pension plans administered by the Ohio Public Employees Retirement System, the Traditional Pension Plan and the Combined Plan (the Plans). For purposes of measuring the net pension (asset) liability and net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plans and additions to deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

***Deferred Inflows of Resources***

The Organizations reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its balance sheets.

***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 the net pension asset of the Hospital. 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 payors 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 payors 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.



**Paulding County Hospital**  
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***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.

***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 percent, limited to 100 percent 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.

**Paulding County Hospital**  
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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. The Hospital did not record any revenues related to the meaningful use program in 2016.

***Reclassifications***

Certain reclassifications have been made to the 2015 audited financial statements to conform to the 2016 financial statement presentation. These reclassifications had no effect on the change in net position.

**Note 2: Net Patient Service Revenue**

The Hospital has agreements with third-party payors 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 percent of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2016 and 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 2016 net patient service revenue decreased approximately \$9,300 and 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.

**Paulding County Hospital**  
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**December 31, 2016 and 2015**

**Note 3: Deposits, Investments and Investment Income**

Chapter 135 of the Ohio Uniform Depositor Act authorizes local governmental units to make deposits in any national bank located in the state, subject to inspection by the superintendent of financial institutions, as eligible to become a public depository. Section 135.14 of the Ohio Revised Code allows the local government to invest in United States Treasury bills, notes, bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States of America and bonds and other obligations of the state of Ohio. Investments in no-load money market mutual funds, repurchase agreements, commercial paper and bankers' acceptances are permitted subject to certain limitations that include completion of additional training, approved by the auditor of state, by the treasurer or governing board investing in these instruments.

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

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

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

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

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

1. Bonds, notes or other obligations guaranteed by the United States or those for which the faith of the United States is pledged for the payment of principal and interest
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)

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7. Commercial paper and bankers' acceptances which meet the requirements established by Ohio Revised Code SEC 135.142
8. Under limited circumstances, corporate debt interest in either of the two highest rating classifications by at least two nationally recognized rating agencies

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

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

The Hospital's cash and investments are subject to several types of risk, which are examined in more detail below:

***Custodial Credit Risk of Bank Deposits***

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a specific deposit policy for custodial credit risk. At December 31, 2016, 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:

	<b>2016</b>	<b>2015</b>
Carrying value		
Cash and cash equivalents	\$ 2,051,618	\$ 1,662,592
Assets whose use is limited		
Money market funds and certificates of deposit	7,080,030	6,360,556
Accrued interest	119,739	113,509
	\$ 9,251,387	\$ 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)	\$ 9,287,727	\$ 8,378,712
Amount of deposits covered by federal depository insurance	(1,974,903)	(1,917,750)
	\$ 7,312,824	\$ 6,460,962
Uninsured but collateralized		

**Paulding County Hospital**  
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**Investment Income**

Investment income for the year ended December 31 consisted of:

	<u>2016</u>	<u>2015</u>
Interest income	\$ 27,486	\$ 25,413

**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>2016</u>	<u>2015</u>
Designated by the Board for capital improvements		
Deposits in financial institutions	\$ 7,080,030	\$ 6,360,556
Accrued interest receivable	119,739	113,509
	<u>\$ 7,199,769</u>	<u>\$ 6,474,065</u>

**Note 4: Patient Accounts Receivable**

Patient accounts receivable at December 31 consisted of:

	<u>2016</u>	<u>2015</u>
Patient accounts receivable	\$ 7,420,713	\$ 6,805,749
Less		
Allowance for uncollectible amounts	1,823,430	1,784,775
Allowance for contractual adjustments	2,855,784	2,685,936
	<u>\$ 2,741,499</u>	<u>\$ 2,335,038</u>

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

	<u>Percent 2016</u>	<u>Percent 2015</u>
Medicare	39%	42%
Medical Mutual of Ohio	11%	10%
Medicaid	12%	12%
Other third-party payors	14%	11%
Patient pay	24%	25%
	<u>100%</u>	<u>100%</u>

**Paulding County Hospital**  
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**Note 5: Capital Assets**

Capital assets activity for the years ended December 31 was:

	<b>2016</b>			
	<b>Beginning Balance</b>	<b>Additions/ Transfers</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 30,609	\$ -	\$ -	\$ 30,609
Land improvements	233,994	115,015	-	349,009
Building and building improvements	14,712,248	-	-	14,712,248
Fixed equipment	1,366,957	-	-	1,366,957
Major moveable equipment	10,426,449	258,142	(1,224,050)	9,460,541
	<u>26,770,257</u>	<u>373,157</u>	<u>(1,224,050)</u>	<u>25,919,364</u>
Less accumulated depreciation				
Land improvements	202,388	8,332	-	210,720
Building and building improvements	9,876,919	404,933	-	10,281,852
Fixed equipment	1,366,957	-	-	1,366,957
Major moveable equipment	8,594,966	534,680	(1,224,050)	7,905,596
	<u>20,041,230</u>	<u>947,945</u>	<u>(1,224,050)</u>	<u>19,765,125</u>
Capital assets, net	<u>\$ 6,729,027</u>	<u>\$ (574,788)</u>	<u>\$ -</u>	<u>\$ 6,154,239</u>
	<b>2015</b>			
	<b>Beginning Balance</b>	<b>Additions/ Transfers</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 30,609	\$ -	\$ -	\$ 30,609
Land improvements	220,244	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>

**Paulding County Hospital**  
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**Note 6: Long-Term Obligations**

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

		<b>2016</b>				
		<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Other long-term obligations	Accrued compensated absences	\$ 558,953	\$ 341,635	\$ (331,372)	\$ 569,216	\$ 250,000
	Net pension liability	7,633,240	2,699,065	-	10,332,305	-
	Total other long-term obligations	\$ 8,192,193	\$ 3,040,700	\$ (331,372)	\$ 10,901,521	\$ 250,000
		<b>2015</b>				
		<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Other long-term obligations	Accrued compensated absences	\$ 633,583	\$ 2,332,950	\$ (307,580)	\$ 558,953	\$ 250,000
	Net pension liability	-	7,633,240	-	7,633,240	-
	Total other long-term obligations	\$ 633,583	\$ 9,966,190	\$ (307,580)	\$ 8,192,193	\$ 250,000

**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.

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Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on the occurrences during the policy term, but reported subsequent to the policy term, will be uninsured.

While there is pending litigation against the Hospital, management is not aware of any such medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. The cost of the insurance policy represents the Hospital's cost for such claims for the year and it has been charged to operations as a current expense.

The Hospital is exposed to various risks of loss related to property and general losses and employee injuries (workers' compensation). The Hospital has purchased commercial insurance for claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years. See Note 9 for discussion of self-insured health programs.

**Note 8: Accrued Liabilities and Other**

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

	<b>2016</b>	<b>2015</b>
Payroll and related items	\$ 819,204	\$ 606,393
Compensated absences	250,000	250,000
Workers' compensation premiums	422	80,439
Health insurance claims	84,082	121,124
	\$ 1,153,708	\$ 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 \$1,206,000 for the year ended December 31, 2016.

A reconciliation of accrued health insurance at December 31, 2016, consists of the following:



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Balance at January 1, 2015	\$	100,211
Health insurance expense		899,079
Payments made		878,166
Balance at December 31, 2015		121,124
Health insurance expense		1,206,096
Payments made		1,243,138
Balance at December 31, 2016	\$	84,082

**Note 10: Multiple-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 two defined benefit pension plans as described below. Both of the options are discussed in greater detail in the following sections:

1. The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan.
2. 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, a defined contribution pension plan discussed in greater detail under “Defined Contribution Plan” in this footnote.

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](http://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. State and local members of Group C are 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 percent of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5 percent for years of service in excess of 30 years. For group C, the annual benefit applies a factor of 2.2 percent for the first 35 years and a factor of 2.5 percent 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 percent to the member's final average salary for the first 30 years of service. A factor of 1.25 percent is applied to years of service in excess of 30. The benefit formula for transition group C applies a factor of 1.0 percent to the member's final average salary and the first 35 years of service and a factor of 1.25 percent 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 percent 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 percent.

Only active employees of the Hospital participate and are covered by the plan. At December 31, 2016 and 2015, approximately 200 and 211 employees participated and were covered by the OPERS Pension Plans, respectively.

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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 employees and the Hospital are as follows for the year ended December 31, 2016:

	<b>OPERS</b>
Employees	10%
Hospital	14%

Hospital contributions for the years ended December 31, 2016 and 2015, were as follows:

	<b>OPERS</b>	
	<b>2016</b>	<b>2015</b>
Traditional Plan	\$ 961,636	\$ 818,826
Combined Plan	48,602	56,981
Total	\$ 1,010,238	\$ 875,807

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

The net pension asset and liability were measured as of December 31, 2015 and 2014, and the total pension liability used to calculate the net pension asset or liability were determined by actuarial valuations as of those dates. The Hospital reported an asset and a liability for OPERS of \$68,112 and \$10,332,305 as of December 31, 2016, and \$51,839 and \$7,633,240, for 2015, respectively, for its proportionate share of the net pension asset and liability. The Hospital's proportion of the net pension asset and liability was based on the Hospital's contributions to the Plans relative to the contributions of all participating employers to the Plans for the respective measurement periods. At December 31, 2015, the Hospital's proportion was 0.059651 percent for OPERS Traditional Pension Plan and 0.139970 percent for OPERS Combined Plan. At December 31, 2014, the Hospital's proportion was 0.063288 percent for OPERS Traditional Pension Plan and 0.134639 percent for OPERS Combined Plan. The Hospital's changes in proportion between the two years were (.003637) percent and .005331 percent for the OPERS Traditional Pension Plan and OPERS Combined Plan, respectively.

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For the years ended December 31, 2016 and 2015, the Hospital recognized pension expense of \$1,353,988 and \$867,849, respectively. At December 31, 2016 and 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016					
	Traditional Plan		Combined Plan		Total Defined Benefit Plans	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 199,640	\$ -	\$ 31,080	\$ -	\$ 230,720
Net difference between projected and actual earnings on pension plan investments	3,037,052	-	29,408	-	3,066,460	-
Change in the Hospital's proportion	-	289,423	-	1,386	-	290,809
Hospital's contributions subsequent to the measurement date	961,636	-	48,602	-	1,010,238	-
	<u>\$ 3,998,688</u>	<u>\$ 489,063</u>	<u>\$ 78,010</u>	<u>\$ 32,466</u>	<u>\$ 4,076,698</u>	<u>\$ 521,529</u>

	2015					
	Traditional Plan		Combined Plan		Total Defined Benefit Plans	
	Deferred Outflows of Resources	Deferred Inflows of Resources	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	\$ -	\$ 149,919
Net difference between projected and actual earnings on pension plan investments	407,287	-	3,164	-	410,451	-
Change in the Hospital's proportion	-	-	-	-	-	-
Hospital's contributions subsequent to the measurement date	818,826	-	56,981	-	875,807	-
	<u>\$ 1,226,113</u>	<u>\$ 134,101</u>	<u>\$ 60,145</u>	<u>\$ 15,818</u>	<u>\$ 1,286,258</u>	<u>\$ 149,919</u>

At December 31, 2016, the Hospital reported \$961,636 and \$48,602 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 decrease (increase) to the net pension liability (asset) in the year ending December 31, 2017.

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 were recognized as a decrease (increase) to the net pension liability (asset) during the year ended December 31, 2016.

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Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2016, related to pensions will be recognized in pension expense as follows:

	<b>Traditional</b>	<b>Combined</b>	<b>Total</b>
2017	\$ 530,692	\$ 3,464	\$ 534,156
2018	579,254	3,464	582,718
2019	750,758	3,464	754,222
2020	687,285	2,641	689,926
2021	-	(4,094)	(4,094)
Thereafter	-	(11,997)	(11,997)
	<u>\$ 2,547,989</u>	<u>\$ (3,058)</u>	<u>\$ 2,544,931</u>

**Actuarial Assumptions**

The total pension liability in the December 31, 2015, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

<b>OPERS</b>	<b>Traditional Plan</b>	<b>Combined Plan</b>
Valuation date	December 31, 2015	December 31, 2015
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	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.8% simple	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.8% simple

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:

<b>OPERS</b>	<b>Traditional Plan</b>	<b>Combined Plan</b>
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 percent of the combined healthy male mortality rates were used. For females, 100 percent 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>OPERS</b>	
	<b>Allocation</b>	<b>Long-Term Expected Rate of Return</b>
Domestic equities	20.70%	5.84%
International equities	18.30%	7.40%
Fixed income	23.00%	2.31%
Real estate	10.00%	4.25%
Private equity	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 percent for the years ended December 31, 2016 and 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).

**Paulding County Hospital**  
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***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) as of December 31, 2016, has been calculated using a discount rate of 8 percent. The following presents the Hospital's proportionate share of the net pension liability (asset) calculated using a discount rate 1 percent higher and 1 percent lower than the current rate:

	<b>1% Decrease</b>	<b>2016 Discount Rate</b>	<b>1% Increase</b>
	<b>7.0%</b>	<b>8.0%</b>	<b>9.0%</b>
Hospital's proportionate share of the net pension liability - Traditional	\$ 16,461,886	\$ 10,332,305	\$ 5,162,198
Hospital's proportionate share of the net pension liability (asset) - Combined	1,400	(68,112)	(121,774)

***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. There was no amount outstanding at December 31, 2016.

***Defined Contribution Plan***

OPERS also offers a defined contribution plan, 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 percent 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. 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.

Pension expense recorded for the years ended December 31, 2016 and 2015, for employer contributions to the Member-Directed Plan was approximately \$75,000 and \$38,000, respectively.

**Paulding County Hospital**  
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***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, 2016 and 2015, OPERS allocated 2.0 percent 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 percent 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 the years ended December 31, 2016 and 2015 approximated 2.0 percent, or approximately \$168,000 and \$146,000, respectively.

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 percent of the employer contributions toward the health care fund after the end of the transition period.

***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 (Asset) Liability**  
**Ohio Public Employees Retirement System (OPERS)**

<b>Traditional</b>	<b>2016</b>	<b>2015</b>
Hospital's proportion of the net pension liability	0.059651%	0.063288%
Hospital's proportionate share of the net pension liability	\$ 10,332,305	\$ 7,633,240
Hospital's covered-employee payroll	8,013,632	7,759,123
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	128.93%	98.38%
Plan fiduciary net position as a percentage of the total pension liability	81.08%	86.45%
<b>Combined</b>		
Hospital's proportion of the net pension asset	0.139970%	0.134639%
Hospital's proportionate share of the net pension asset	\$ (68,112)	\$ (51,839)
Hospital's covered-employee payroll	405,014	470,444
Hospital's proportionate share of the net pension asset as a percentage of its covered-employee payroll	-16.82%	-11.02%
Plan fiduciary net position as a percentage of the total pension asset	116.90%	114.83%

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

<b>Traditional</b>	<b>2016</b>	<b>2015</b>
Statutorily required contribution	\$ 961,636	\$ 818,826
Contributions in relation to the statutorily required contributions	(961,636)	(818,826)
Contributions deficiency (excess)	\$ -	\$ -
Hospital's covered-employee payroll	\$ 8,013,633	\$ 6,823,550
Contributions as a percentage of covered-employee payroll	12.00%	12.00%
<b>Combined</b>		
Statutorily required contribution	\$ 48,602	\$ 56,981
Contributions in relation to the statutorily required contributions	(48,602)	(56,981)
Contributions deficiency (excess)	\$ -	\$ -
Hospital's covered-employee payroll	\$ 405,017	\$ 474,843
Contributions as a percentage of covered-employee payroll	12.00%	12.00%

The amounts presented in the Schedule of Hospital's Proportionate Share of the Net Pension Liability are presented as of the measurement date for the respective reporting periods. The amounts presented in the Schedule of Hospital's Contributions are presented as of the end of the respective reporting periods.

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, 2016, 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 April 11, 2017.

### ***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 of the financial statements, 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 or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. 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  
April 11, 2017



# 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 6, 2017**