

# **Paulding County Hospital**

---

**Financial Report  
December 31, 2001 and 2000**





STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street  
Columbus, Ohio 43215  
Telephone 614-466-3402  
800-443-9275  
Facsimile 614-728-7199  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Board of Directors  
Paulding County Hospital

We have reviewed the Independent Auditor's Report of the Paulding County Hospital, Paulding County, prepared by Plante & Moran, LLP for the audit period January 1, 2001 through December 31, 2001. 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, appearing to read "Jim Petro".

JIM PETRO  
Auditor of State

June 5, 2002

**This Page is Intentionally Left Blank.**

# Paulding County Hospital

---

## Contents

|  |       |
|--|-------|
| <b>Report Letter</b>   | 1     |
| <b>Financial Statements</b>  |       |
| Balance Sheet  | 2-3   |
| Statement of Revenue and Expenses of General Fund  | 4     |
| Statement of Changes in Fund Balances  | 5     |
| Statement of Cash Flows of General Fund  | 6-7   |
| Notes to Financial Statements  | 8-20  |
| <b>Report Letter on Compliance with Laws and Regulations and Internal Control - General Purpose Financial Statements</b> | 21-22 |



**Plante & Moran, LLP**  
110 East Main Street  
P.O. Box 765  
Lancaster, Ohio 43130-0765  
Tel: 740.683.7144  
Fax: 740.683.2847  
[www.planteandmoran.com](http://www.planteandmoran.com)

## Independent Auditor's Report

To the Board of Directors  
Paulding County Hospital  
Paulding, Ohio

We have audited the accompanying balance sheet of Paulding County Hospital as of December 31, 2001, and the related statement of revenue and expenses of General Fund, changes in fund balances and cash flows of General Fund for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Paulding County Hospital as of December 31, 2000, were audited by other auditors, whose report dated March 9, 2001, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2001 financial statements referred to above present fairly, in all material respects, the financial position of Paulding County Hospital as of December 31, 2001, and the results of its operations, changes in its fund balance, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 12, 2002, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Plante & Moran, LLP*

April 12, 2002

# Paulding County Hospital

|  | December 31                 |                             |
|--|-----------------------------|-----------------------------|
|  | 2001                        | 2000                        |
| <b>Assets</b>                                    |                             |                             |
| <b>General Funds</b>                             |                             |                             |
| <b>Current Assets</b>                            |                             |                             |
| Cash and cash equivalents (Note 2)               | \$ 437,345                  | \$ 68,851                   |
| Patient accounts receivable, net (Note 3)        | 1,914,697                   | 1,605,403                   |
| Notes receivable, current portion                | 82,164                      | -                           |
| Inventories                                      | 286,558                     | 283,277                     |
| Prepaid expenses                                 | 157,186                     | 91,670                      |
| Third party settlements (Note 7)                 | 44,651                      | 14,887                      |
| Other receivables                                | 6,817                       | 121,968                     |
|  | <u>2,929,418</u>            | <u>2,186,056</u>            |
| Total current assets                             | 2,929,418                   | 2,186,056                   |
| <b>Assets Limited as to Use (Note 2)</b>         |                             |                             |
| Investments                                      | 2,489,194                   | 4,464,334                   |
| Accrued interest receivable                      | 107,135                     | 153,232                     |
|  | <u>2,596,329</u>            | <u>4,617,566</u>            |
| Total assets limited as to use                   | 2,596,329                   | 4,617,566                   |
| <b>Property &amp; Equipment, Net (Note 4)</b>    | 7,090,894                   | 5,835,760                   |
| <b>Notes Receivable - Net of Current Portion</b> | <u>268,494</u>              | <u>305,971</u>              |
| Total assets                                     | <u><b>\$ 12,885,135</b></u> | <u><b>\$ 12,945,353</b></u> |
| <b>Donor Restricted Funds</b>                    |                             |                             |
| <b>Investments (Note 2)</b>                      | \$ 634,840                  | \$ 600,621                  |
| <b>Accrued Interest Receivable (Note 2)</b>      | 25,693                      | 24,393                      |
| Total donor restricted funds                     | <u><b>\$ 660,533</b></u>    | <u><b>\$ 625,014</b></u>    |

---

**Balance Sheet**

December 31

20012000**Liabilities and Fund Balances  
General Fund****Current Liabilities**

|  |            |            |
|--|------------|------------|
| Current portion of long-term debt (Note 5) | \$ 201,185 | \$ 247,786 |
| Accounts payable                           | 610,475    | 437,434    |
| Construction payable                       | 261,164    | -          |
| Accrued expenses                           |            |            |
| Payroll and taxes                          | 314,907    | 192,697    |
| Vacation and sick pay                      | 313,377    | 266,212    |
| Other                                      | 63,711     | 162,184    |

Total current liabilities 1,764,819 1,306,313

**Long-Term Debt, Net of Current Portion (Note 5)** 645,165 846,507

**Fund Balance, General Fund**

|                                  |                   |                   |
|----------------------------------|-------------------|-------------------|
| Contributed capital (Note 6)     | 1,900,000         | 1,900,000         |
| Unrestricted fund balance        | 8,575,151         | 8,892,533         |
| Total fund balance, general fund | <u>10,475,151</u> | <u>10,792,533</u> |

Total liabilities and fund balance **\$ 12,885,135** **\$ 12,945,353**

**Donor Restricted Funds**

|                               |                |                |
|-------------------------------|----------------|----------------|
| <b>Specific Purpose Funds</b> | \$ 13,577      | \$ 13,385      |
| <b>Endowment Funds</b>        | <u>646,956</u> | <u>611,629</u> |

Total donor restricted funds **\$ 660,533** **\$ 625,014**

# Paulding County Hospital

## Statement of Revenue and Expenses of General Fund

|   | Year Ended December 31     |                          |
|---|----------------------------|--------------------------|
|   | 2001                       | 2000                     |
| <b>Operating Revenue</b>  |                            |                          |
| Net patient service revenue (Note 8)  | \$ 12,765,735              | \$ 10,701,669            |
| Other operating revenue   | <u>185,993</u>             | <u>221,464</u>           |
| Total operating revenue   | 12,951,728                 | 10,923,133               |
| <b>Operating Expenses</b>   |                            |                          |
| Salaries and wages  | 5,906,193                  | 5,066,779                |
| Employee benefits   | 1,625,774                  | 1,262,335                |
| Professional fees   | 259,057                    | 390,409                  |
| Supplies and other expenses   | 2,664,132                  | 2,378,099                |
| Purchased services  | 972,685                    | 1,066,064                |
| Depreciation  | 723,246                    | 775,594                  |
| Interest  | 53,384                     | 67,836                   |
| Provision for bad debt  | <u>205,342</u>             | <u>363,432</u>           |
| Total operating expenses  | <u>12,409,813</u>          | <u>11,370,548</u>        |
| <b>Income (Loss) from Operations</b>  | 541,915                    | (447,415)                |
| <b>Non-Operating Gains (Losses)</b>   |                            |                          |
| Investment income   | 253,403                    | 360,157                  |
| Loss on sale of assets  | -                          | (1,902)                  |
| Contributions   | 156,523                    | 198,225                  |
| Other (Note 13)   | <u>(1,269,223)</u>         | <u>10,114</u>            |
| Total net non-operating gains (losses)  | <u>(859,297)</u>           | <u>566,594</u>           |
| <b>Revenue and Gains in Excess of Expenses<br/>(Expenses in Excess of Revenues and Gains)</b> | <u><b>\$ (317,382)</b></u> | <u><b>\$ 119,179</b></u> |

# Paulding County Hospital

## Statement of Changes in Fund Balances

|   | Unrestricted               | Donor Restricted Funds  |                          | Total                      |
|---|----------------------------|-------------------------|--------------------------|----------------------------|
|   | General Fund               | Specific Purpose Funds  | Endowment Funds          |                            |
| <b>Balances - December 31, 1999</b>     | \$ 8,773,354               | \$ 13,142               | \$ 573,870               | \$ 9,360,366               |
| Revenue and gains in excess of expenses | 119,179                    | -                       | -                        | 119,179                    |
| Investment income                       | <u>-</u>                   | <u>243</u>              | <u>37,759</u>            | <u>38,002</u>              |
| <b>Balances - December 31, 2000</b>     | <b>8,892,533</b>           | <b>13,385</b>           | <b>611,629</b>           | <b>9,517,547</b>           |
| Expenses in excess of revenue and gains | (317,382)                  | -                       | -                        | (317,382)                  |
| Investment income                       | <u>-</u>                   | <u>192</u>              | <u>35,327</u>            | <u>35,519</u>              |
| <b>Balances - December 31, 2001</b>     | <b><u>\$ 8,575,151</u></b> | <b><u>\$ 13,577</u></b> | <b><u>\$ 646,956</u></b> | <b><u>\$ 9,235,684</u></b> |

# Paulding County Hospital

## Statement of Cash Flows of General Fund

|  | Year Ended December 31 |                  |
|--|------------------------|------------------|
|  | 2001                   | 2000             |
| <b>Cash Flows from Operating and Non-operating Activities</b>      |                        |                  |
| Cash received from patients and third-party payors                 | 12,221,335             | 10,314,640       |
| Cash payments to suppliers for services and goods                  | (3,890,103)            | (3,801,896)      |
| Cash payments to employees for services                            | (7,362,592)            | (6,225,169)      |
| Other operating revenue (loss) received                            | 301,144                | 219,562          |
| Net cash provided by operating and non-operating activities        | 1,269,784              | 507,137          |
| <b>Cash Flows from Investing Activities</b>                        |                        |                  |
| Investment income  | 253,403                | 370,271          |
| Loss on uninsured investments                                      | (1,269,223)            | -                |
| Advances to physicians - net of forgiveness                        | (44,687)               | -                |
| Decrease in assets limited to use                                  | 2,021,237              | 1,131,285        |
| Disbursements - restricted funds                                   | -                      | (38,002)         |
| Net cash provided by investing activities                          | 960,730                | 1,463,554        |
| <b>Cash Flows from Noncapital and Related Financing Activities</b> |                        |                  |
| Unrestricted contributions received                                | 156,523                | 198,225          |
| <b>Cash Flows from Capital and Related Financing Activities</b>    |                        |                  |
| Purchase of property and equipment                                 | (1,717,216)            | (1,705,600)      |
| Interest paid on long-term debt                                    | (53,384)               | (67,836)         |
| Principal payments on notes payable                                | (75,339)               | (390,099)        |
| Principal payments on capital leases                               | (172,604)              | -                |
| Net cash used in capital and related financing activities          | (2,018,543)            | (2,163,535)      |
| <b>Net Increase in Cash and Cash Equivalents</b>                   | 368,494                | 5,381            |
| <b>Cash and Cash Equivalents - Beginning of year</b>               | 68,851                 | 63,470           |
| <b>Cash and Cash Equivalents - End of year</b>                     | <b>\$ 437,345</b>      | <b>\$ 68,851</b> |

# Paulding County Hospital

## Statement of Cash Flows of General Fund (Continued)

A reconciliation of income from operations to net cash from operating and non-operating activities is as follows:

|  | Year Ended December 31 |                   |
|--|------------------------|-------------------|
|  | 2001                   | 2000              |
| <b>Cash Flows from Operating Activities and Non-Operating Gains</b>  |                        |                   |
| Income from operations   | \$ 541,915             | \$ (447,415)      |
| Interest expense considered capital financing activities   | 53,384                 | 67,836            |
| Adjustments to reconcile revenue and gains in excess of expenses to net cash provided by operating activities and nonoperating gains |                        |                   |
| Depreciation   | 723,246                | 775,594           |
| Provision for bad debts  | 205,342                | 363,432           |
| Loss on sale of assets   | -                      | (1,902)           |
| Decrease (increase) in patient accounts receivable   | (514,636)              | (440,732)         |
| Decrease (increase) in inventories   | (3,281)                | (29,557)          |
| Decrease (increase) in prepaid expenses and other receivables  | 49,635                 | 30,803            |
| Increase (decrease) in third-party settlements   | (29,764)               | 53,703            |
| Increase (decrease) in accounts payable  | 173,041                | (82,009)          |
| Increase (decrease) in other accrued expenses  | 70,902                 | 217,384           |
| Net cash provided by operating activities and nonoperating gains   | <b>\$ 1,269,784</b>    | <b>\$ 507,137</b> |

# Paulding County Hospital

---

## Notes to Financial Statements December 31, 2001 and 2000

### Note 1 - Organization and Summary of Significant Accounting Policies

**Organization** – Effective January 1, 2001, Paulding County Hospital (the Hospital) became a 15-bed critical access hospital located in Paulding, Ohio. The Hospital operates under the authority of Section 339, Ohio Revised Code, to provide inpatient, outpatient, and emergency care services for the residents of Paulding County, Ohio. A Board of Directors appointed by the County Commissioners, the Probate Judge, and the Judge of the Court of Common Pleas of Paulding County governs the Hospital. The Hospital is considered a component unit of Paulding County, Ohio (County), and is included as a component unit in the general-purpose financial statements of the County.

**Basis of Presentation** – The financial statements have been presented in conformity with accounting principles generally accepted in the United States of America as recommended in the Audit Guide (Audits of Providers of Health Care Services) published by the American Institute of Certified Public Accountants. The significant accounting policies conform to accounting principles for governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Hospital also applies the Financial Accounting Standards Board Statements and Interpretations issued to the extent that they do not contradict or conflict with GASB pronouncements.

**Cash and Cash Equivalents** – Cash and cash equivalents are defined as short-term highly-liquid investments purchased with initial maturities of three months or less. Cash and cash equivalents included in assets limited as to use are not considered cash and cash equivalents for purposes of the statements of cash flows of general funds.

**Inventories** – Inventories, consisting primarily of medical supplies, food, and drugs, are valued at the lower of cost or market determined on a first-in, first-out (FIFO) basis.

**Assets Limited as to Use** - Assets limited as to use include assets set aside by the Hospital Board of Directors for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes.

**Property and Equipment** – Property and equipment are recorded at cost, or if donated, at fair value at the date of receipt. Depreciation is provided over the estimated useful life and is computed principally on the straight-line method. Equipment under capital leases is amortized on the straight-line method over the useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Cost of maintenance and repairs are charged to expense when incurred.

# Paulding County Hospital

---

## Notes to Financial Statements December 31, 2001 and 2000

### Note 1 - Organization and Summary of Significant Accounting Policies (Cont.)

**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 8 percent 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. Unused and earned benefits are recorded as a current liability in the financial statements.

**Unrestricted and Restricted Funds** – Restricted funds represent contributions and bequests whose use is specified by the donor. Restricted gifts and other restricted resources are initially recognized as revenue of the restricted fund and are recognized by the Hospital as direct additions to the general fund in the period in which the expenditures are made for the purpose intended by the donor.

Unrestricted gifts represent contributions and bequests upon which donors place no restrictions or that arise as a result of the operation of the Hospital for its stated purpose. Assets limited as to use are not considered to be restricted funds. Unrestricted contributions are included in nonoperating revenue in the statements of revenue and expenses in the period received by the Hospital.

**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. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others. Retroactive adjustments to these estimated amounts are recorded in future periods as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

**Income from Operations** - For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as non-operating gains and losses.

# Paulding County Hospital

---

## Notes to Financial Statements December 31, 2001 and 2000

### Note 1 - Organization and Summary of Significant Accounting Policies (Cont.)

**Investment Income** – Investment income on board-designated funds (funded depreciation) and general funds are recorded as non-operating gains. All investment income from donor-restricted funds is added to the restricted fund balance.

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

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**Pension Plan** - Substantially all of the Hospital's employees are eligible to participate in a defined benefit pension plan sponsored by the Public Employees Retirement System of Ohio (PERS). The Hospital funds pension costs accrued, based on contribution rates determined by PERS.

**Federal Income Tax** – As a political subdivision, the Hospital is exempt from taxation under the Internal Revenue Code.

**Reclassification** – Certain reclassifications of 2000 information have been made to conform to the 2001 presentation.

# Paulding County Hospital

## Notes to Financial Statements December 31, 2001 and 2000

### Note 2 – Deposits and Investments

The Hospital's deposits and investments are comprised of the following:

| 2001   | Cash and Cash<br>Equivalents | Assets Limited<br>as to Use | Restricted Cash<br>and Cash<br>Equivalents |
|--|------------------------------|-----------------------------|--|
| Deposits   | \$ 437,345                   | \$ -                        | \$ -                                       |
| Certificates of Deposit  | <u>-</u>                     | <u>2,596,329</u>            | <u>660,533</u>                             |
| Total  | <u><b>\$ 437,345</b></u>     | <u><b>\$ 2,596,329</b></u>  | <u><b>\$ 660,533</b></u>                   |
| <hr/>  |                              |                             |  |
| 2000   |                              |                             |  |
| Deposits   | \$ 68,851                    | \$ -                        | \$ -                                       |
| Certificates of Deposit  | <u>-</u>                     | <u>4,617,566</u>            | <u>625,014</u>                             |
| Total  | <u><b>\$ 68,851</b></u>      | <u><b>\$ 4,617,566</b></u>  | <u><b>\$ 625,014</b></u>                   |
| <hr/>  |                              |                             |  |
| Deposits   |                              | 2001                        | 2000                                       |
| Amount of deposits reflected on the accounts of the bank<br>(without recognition of checks written but not yet cleared or<br>of deposits in transit) |                              | \$ 3,919,660                | \$ 6,580,990                               |
| Amount of deposits covered by federal depository insurance   |                              | <u>400,000</u>              | <u>500,000</u>                             |
| Amount of deposits uninsured   |                              | <u><b>\$ 3,519,660</b></u>  | <u><b>\$ 6,080,990</b></u>                 |

Amounts of deposits not insured by federal depository insurance are collateralized by pools of securities pledged by the depository banks and held in the name of the respective bank. See Note 13 in regards to subsequent events regarding the Hospital's investments.

# Paulding County Hospital

## Notes to Financial Statements December 31, 2001 and 2000

### Note 3 – Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

|                                   | <u>2001</u>                | <u>2000</u>                |
|-----------------------------------|----------------------------|----------------------------|
| Gross patient accounts receivable | \$ 2,862,615               | \$ 2,708,639               |
| Less allowance for:               |                            |                            |
| Uncollectible accounts            | (540,416)                  | (656,991)                  |
| Contractual adjustments           | (407,502)                  | (446,245)                  |
| Net patient accounts receivable   | <u><b>\$ 1,914,697</b></u> | <u><b>\$ 1,605,403</b></u> |

The Hospital provides services without collateral to its patients, most of whom are local residents and insured under third-party payor arrangements. The mix of receivables from patients and third-party payors is as follows:

|                          | <u>2001</u>        | <u>2000</u>        |
|--------------------------|--------------------|--------------------|
| Medicare                 | 28%                | 28%                |
| Medicaid                 | 8%                 | 3%                 |
| Blue Cross               | 13%                | 10%                |
| Patient pay              | 21%                | 27%                |
| Other third-party payors | <u>30%</u>         | <u>32%</u>         |
| Total                    | <u><u>100%</u></u> | <u><u>100%</u></u> |

# Paulding County Hospital

## Notes to Financial Statements December 31, 2001 and 2000

### Note 4 - Property and Equipment

Property and equipment is summarized at December 31, 2001, as follows:

|                                     | 2001                       | 2000                       | Depreciable<br>Life-Years |
|-------------------------------------|----------------------------|----------------------------|---------------------------|
| Land                                | \$ 30,609                  | \$ 30,609                  |                           |
| Land improvements                   | 124,444                    | 124,444                    | 5-25                      |
| Building and improvements           | 6,234,931                  | 5,680,658                  | 5-50                      |
| Fixed equipment                     | 1,455,292                  | 1,455,292                  | 5-20                      |
| Moveable equipment                  | 4,154,843                  | 3,845,124                  | 5-20                      |
| Moveable equipment - capital leases | 1,736,188                  | 1,736,188                  | 5                         |
| Construction in process             | <u>2,667,595</u>           | <u>1,567,713</u>           |                           |
| Total                               | 16,403,902                 | 14,440,028                 |                           |
| Less accumulated depreciation       | <u>9,313,008</u>           | <u>8,604,268</u>           |                           |
| Property and equipment-net          | <u><b>\$ 7,090,894</b></u> | <u><b>\$ 5,835,760</b></u> |                           |

Construction in progress at December 31, 2001, consists of renovations to the Hospital's facilities. The estimated costs to complete the project approximate \$500,000 at December 31, 2001, and are expected to be funded via operations, contributed capital and existing cash funds.

# Paulding County Hospital

## Notes to Financial Statements December 31, 2001 and 2000

### Note 5 – Long – Term Debt

Notes payable and equipment under capital leases are summarized at December 31, 2001, as follows.

|  | <u>2001</u>              | <u>2000</u>              |
|--|--------------------------|--------------------------|
| Note payable to State Bank, payable over 24 months, with monthly payments of \$8,701, including interest at 4.69%, secured by equipment.                   | \$ -                     | \$ 17,119                |
| Note payable to State Bank, payable over 60 months, with monthly payments of \$10,275 including interest of 5.49%, secured by equipment.                   | -                        | 40,360                   |
| Note payable to First Federal Bank, payable over 60 months with monthly payments of \$1,881 including interest at 5.94%, secured by roof.                  | 70,892                   | 88,752                   |
| Capital lease payable to Fifth Third Bank, payable over 120 months, with monthly payments of \$18,385 including interest at 5.52%, secured by HVAC system. | <u>115,458</u>           | <u>948,062</u>           |
| Total  | 846,350                  | 1,094,293                |
| Less current portion   | <u>201,185</u>           | <u>247,786</u>           |
| Long-term portion  | <u><b>\$ 645,165</b></u> | <u><b>\$ 846,507</b></u> |

# Paulding County Hospital

## Notes to Financial Statements December 31, 2001 and 2000

### Note 5 - Long -Term Debt (Cont.)

At December 31, 2001, future minimum payments on the note payable and capital lease payable are as follows.

|                                   | <u>Note Payable</u>     | <u>Lease Payable</u>     |
|-----------------------------------|-------------------------|--------------------------|
| 2002                              | \$ 18,805               | \$ 220,615               |
| 2003                              | 19,970                  | 220,615                  |
| 2004                              | 21,205                  | 220,615                  |
| 2005                              | <u>10,912</u>           | <u>202,231</u>           |
| Total payments                    | <u><b>\$ 70,892</b></u> | 864,076                  |
| Less amount representing interest |                         | <u>(88,618)</u>          |
| Net lease payments                |                         | <u><b>\$ 775,458</b></u> |

The carrying value of equipment under capital lease obligations is as follows:

|                                       |                            |
|---------------------------------------|----------------------------|
| Cost of equipment under capital lease | \$ 1,736,188               |
| Less accumulated amortization         | <u>624,179</u>             |
| Net carrying amount                   | <u><b>\$ 1,112,009</b></u> |

### Note 6 - Contributed Capital

The Hospital received \$1,900,000 from Paulding County to pay for the costs of renovating, expanding, modernizing, and equipping Paulding County Hospital. The voters of Paulding County passed a levy in November 1999 to approve the levy of ad valorem taxes on all property in the county subject to ad valorem taxes levied by the County, which taxes are unlimited as to amount. Due to the County not collecting property tax revenue on this levy until 2001, the County issued a bond anticipation note. The Hospital received the proceeds of the note from the County, which matured September 14, 2000, with an interest rate of 4.5%. The Hospital has no obligation for the retirement of the notes or the bonds, which are backed by the full faith of Paulding County.

### Note 7 – Cost Report Settlements

Approximately 50 percent of the Hospital's revenues from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with third-party payors follows.

**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 will receive reasonable, cost-based reimbursement for both inpatient and outpatient services provided to Medicare beneficiaries. During the year ended December 31, 2000, inpatient, acute care services rendered to Medicare program beneficiaries were paid at prospectively determined rates per discharge. These rates varied according to a patient classification system based on clinical, diagnostic, and other factors. Inpatient capital costs were paid at prospectively determined rates per discharge. Outpatient services for surgery, radiology, and other diagnostic services were reimbursed on a blend of cost and established fee-for-service methodology, through July 31, 2000, and on the Ambulatory Payment Classification system from August 1, 2000, through December 31, 2000.

**Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid inpatients are paid on a cost-reimbursement method. The Hospital is reimbursed for outpatient services on an established fee-for-service methodology.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

# Paulding County Hospital

## Notes to Financial Statements December 31, 2001 and 2000

### Note 8 – Net Patient Service Revenue

Net patient service revenue consists of the following:

Revenue:

Inpatient services:

|                               |                   |                   |
|-------------------------------|-------------------|-------------------|
| Routine services              | \$ 1,050,239      | \$ 851,000        |
| Ancillary services            | 3,241,623         | 2,691,441         |
| Outpatient ancillary services | <u>12,248,756</u> | <u>11,411,390</u> |

|                       |            |            |
|-----------------------|------------|------------|
| Total patient revenue | 16,540,618 | 14,953,831 |
|-----------------------|------------|------------|

Less contractual adjustments under

|                                    |                  |                  |
|------------------------------------|------------------|------------------|
| third-party reimbursement programs | <u>3,774,883</u> | <u>4,252,162</u> |
|------------------------------------|------------------|------------------|

|                                   |                             |                             |
|-----------------------------------|-----------------------------|-----------------------------|
| Total net patient service revenue | <u><u>\$ 12,765,735</u></u> | <u><u>\$ 10,701,669</u></u> |
|-----------------------------------|-----------------------------|-----------------------------|

### Note 9 – Defined Benefit Pension Plan

**Plan Description** - The Hospital contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Public Employees Retirement System. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the PERS Board of Trustees. PERS issues a stand-alone financial report available to the public that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-466-2085 or 1-800-222-PERS (7377).

**Funding Policy** - Plan members are required to contribute 8.50 percent of their annual covered salary, and the Hospital is required to contribute at an actuarially determined rate of annual covered payroll. The employer rate was 13.55 percent for 2001 and from January 1, 2000, through June 30, 2000, and a rolled-back rate of 8.13 percent from July 1, 2000, to December 31, 2000. The contribution requirement of plan members and the Hospital is established and may be amended by the PERS Board of Trustees. The Hospital's contributions to PERS for the years ended December 31, 2001, 2000 and 1999, were \$801,587, \$536,065, and \$1,054,482, respectively.

### Note 9 – Defined Benefit Pension Plan (Cont.)

**Post-Retirement Benefits** - Public Employees Retirement System of Ohio provides post-retirement health care coverage to age and service retirants with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB), as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2001 employer contribution rate for local government employer units was 13.55 percent of covered payroll for 2001 and from January 1, 2000, through June 30, 2000, and 8.13 percent of covered payroll from July 1, 2000, to December 31, 2000. Of this amount, 4.3 percent was the portion that was used to fund health care throughout the year. The portion of the employer's contribution used to fund post-employment benefits was \$254,344.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to PERS.

OPEBs are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

The number of active contributing participants during 2000 was 411,076. As of December 31, 2000, the actuarial value of the Retirement System's net assets available for OPEB was \$11,736 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,365 million and \$2,629 million, respectively.

# Paulding County Hospital

---

## Notes to Financial Statements December 31, 2001 and 2000

### Note 10 - Risk Management

The Hospital is insured against medical malpractice claims under an occurrence-based policy. The policy covers claims resulting from incidents that occur during the policy terms, regardless of when the claims are reported to the insurance carries. 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 occurrence-based policy not be renewed or replaced with equivalent insurance, claims based on the occurrences 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 this insurance policy represents the Hospital's cost for such claims for the year, and it has been charged to operations as a current expense. There have been no claims settled in the last three years which have exceeded insured limits.

### Note 11 - 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 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.

Compensation assets deferred under a plan, all property, and rights, and all income attributable to those amounts, property, or rights is held in trust at the state level for the benefit of the participants.

### Note 12 - 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 \$25,000 per employee or total claims in excess of \$1,000,000. The plan policy year ends on December 31. Claims, charged to operations when incurred, were approximately \$665,000 and \$618,000 for the years ended December 31, 2001 and 2000, respectively.

# Paulding County Hospital

---

## Notes to Financial Statements December 31, 2001 and 2000

### Note 13 – Subsequent Event

The Hospital maintained \$1.48 million of investments at a local bank. In February 2002, it was discovered the bank was defrauded of most of its assets. The Hospital was only insured for \$100,000 (FDIC) and was collateralized on additional amount totaling \$95,620. Due to the uncertainty of recovering any of the funds beyond insured and collateralized amounts, the Hospital wrote down the uninsured portion of investments totaling \$1.29 million in 2001.



**Plante & Moran, LLP**  
110 East Main Street  
P.O. Box 765  
Lancaster, Ohio 43130-0765  
Tel: 740.683.7144  
Fax: 740.683.2847  
www.planteandmoran.com

## Report Letter on Compliance with Laws and Regulations and Internal Control – General Purpose Financial Statements

To the Board of Directors  
Paulding County Hospital  
Paulding, Ohio

We have audited the financial statements of Paulding County Hospital as of and for the year ended December 31, 2001, and have issued our report thereon dated April 12, 2002. 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.

### **Compliance**

As part of obtaining reasonable assurance about whether Paulding County Hospital financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 two instance of noncompliance that are required to be reported under *Government Auditing Standards*.

**Condition** – During our testing of compliance with certain laws and regulations, we were unable to obtain evidence that the Hospital published notice in local newspapers stating their financial report for 2000 was available for public inspection at the office of the chief fiscal officer.

**Recommendation** – Management should publish such notice in all local newspapers within the county area.

**Condition** – During our testing of compliance with certain laws and regulations, we were unable to obtain appropriate completed and approved leave forms for all departments' employees for vacation and sick time taken in 2001.

**Recommendation** – Following the Hospital's internal policy, department managers should require their employees to complete a Vacation/Sick Request Form for all vacation and sick time taken in 2002 .

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered Paulding County Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, a report was issued to management and the Board of Directors under separate cover regarding internal control issues and operating efficiencies which we did not consider to be material weaknesses.

This report is intended solely for the information and use of the Auditor of the State of Ohio, Board of Directors of Paulding County Hospital, and management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, LLP*

April 12, 2002





STATE OF OHIO  
OFFICE OF THE AUDITOR  

---

JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**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 25, 2002**