

Paulding County Hospital

**Financial Report
December 31, 2003 and 2002**



**Auditor of State
Betty Montgomery**

Board of Directors
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 Plante & Moran, PLLC, for the audit period January 1, 2003 through December 31, 2003. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 1, 2004

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Paulding County Hospital

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Independent Auditor's Report

To the Board of Directors
Paulding County Hospital
Paulding, Ohio

We have audited the accompanying financial statements of Paulding County Hospital (a component unit of Paulding County, Ohio) as of December 31, 2003 and 2002, and for the years 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 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 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 audits provide a reasonable basis for our 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, 2003 and 2002, the changes in financial position, including cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Hospital adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as of January 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 5, 2004, 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.

The Management's Discussion and Analysis is presented for purposes of additional analysis and is not a required part of the financial statements of Paulding County Hospital. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and, accordingly, do not express an opinion thereon.

Plante & Moran, PLLC

March 5, 2004

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Paulding County Hospital

Management's Discussion and Analysis

Management's Discussion and Analysis

The discussion and analysis of Paulding County Hospital's consolidated financial statements provides an overview of the Hospital's financial activities for the year ended December 31, 2003. Management is responsible for the completeness and fairness of the financial statements and the related footnote disclosures along with the discussion and analysis.

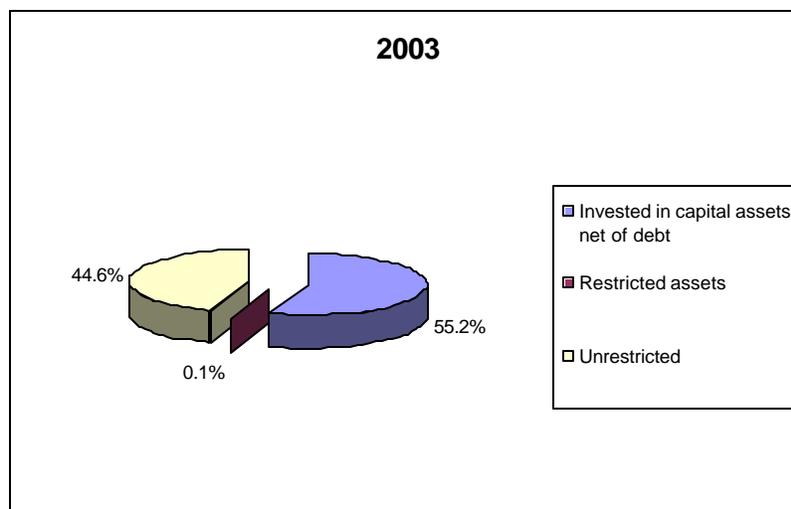
Using this Annual Report

The Hospital's financial statements consists of three statements - Balance Sheet, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purpose by contributors, grantors, or enabling legislation.

Financial Highlights

The Hospital's financial position increased slightly during the year ended December 31, 2003. The current assets increased by \$507,030 or 17.7 percent from the prior year. In total, the Hospital's net assets increased \$200,253 or 1.6 percent from the previous year. The increase in net assets resulted from a slight increase in patient revenue, driven largely by outpatient volumes.

The following chart provides a breakdown of net assets by category for the year ended December 31, 2003:



In the year ended December 31, 2003, the Hospital's revenues and other support exceeded expenses, creating an increase in net assets of \$200,253 (compared to a \$1,027,576 increase in the previous year).

Paulding County Hospital

Management's Discussion and Analysis

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets

One of the most important questions asked about the Hospital's finances is "Is Paulding County Hospital as a whole better off or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the Hospital as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as Paulding County Hospital's operating results.

These two statements report Paulding County Hospital's net assets and changes in them. You can think of Paulding County Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider many other non-financial factors, such as the trend in patient days, outpatient visits, conditions of the buildings, and strength of the medical staff, to assess the overall health of the Hospital.

The statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Paulding County Hospital

Management's Discussion and Analysis

Condensed Financial Information

The following is a comparative analysis of the major components of the Statement of Net Assets of the Hospital as of December 31, 2003:

| | Year Ended December 31 | | Change | |
|---|------------------------|----------------------|-------------------|---------|
| | 2003 | 2002 | Amount | Percent |
| Current assets | \$ 3,368,965 | \$ 2,861,935 | \$ 507,030 | 17.7% |
| Non-current assets | 4,006,487 | 3,983,490 | 22,997 | 0.6% |
| Capital assets | <u>7,432,123</u> | <u>7,505,583</u> | <u>(73,460)</u> | -1.0% |
| Total assets | <u>14,807,575</u> | <u>14,351,008</u> | <u>456,567</u> | 3.2% |
| Current liabilities | 2,114,566 | 1,598,097 | 516,469 | 32.3% |
| Long-term liabilities | <u>329,496</u> | <u>589,651</u> | <u>(260,155)</u> | -44.1% |
| Total liabilities | <u>2,444,062</u> | <u>2,187,748</u> | <u>256,314</u> | 11.7% |
| Net assets: | | | | |
| Invested in capital assets, net of debt | 6,830,653 | 6,661,708 | 168,945 | 2.5% |
| Restricted assets | 13,754 | 13,705 | 49 | 0.4% |
| Unrestricted | <u>5,519,106</u> | <u>5,487,847</u> | <u>31,259</u> | 0.6% |
| Total net assets | <u>\$ 12,363,513</u> | <u>\$ 12,163,260</u> | <u>\$ 200,253</u> | 1.6% |

Current assets increased as a result of the Hospital continuing to improve in converting its accounts receivable into cash (total days in accounts receivable decreased by 4 from the prior year).

Current liabilities increased as a result of timing for expenses received after the end of the fiscal year, substantial increases in self-funded health insurance claims and increased expense from the Bureau of Workers Compensation premiums.

Paulding County Hospital

Management's Discussion and Analysis

Operating Results for the Year

| | 2003 | 2002 | Change | |
|--|----------------------|----------------------|------------------|-----------------|
| | | | Amount | Percent |
| Operating Revenue | | | | |
| Net patient service revenue | \$ 14,514,956 | \$ 14,051,601 | \$ 463,355 | 3.3% |
| Other | <u>170,425</u> | <u>202,393</u> | <u>(31,968)</u> | <u>(15.8%)</u> |
| Total operating revenue | 14,685,381 | 14,253,994 | 431,387 | 3.0% |
| Operating Expenses | | | | |
| Salaries and wages | 6,820,816 | 6,346,524 | 474,292 | 7.5% |
| Employee benefits | 2,189,492 | 1,820,894 | 368,598 | 20.2% |
| Professional fees | 350,056 | 264,595 | 85,461 | 32.3% |
| Supplies and other expenses | 2,936,663 | 2,808,723 | 127,940 | 4.6% |
| Purchased services | 1,175,000 | 1,243,619 | (68,619) | (5.5%) |
| Depreciation | 866,049 | 750,354 | 115,695 | 15.4% |
| Interest | 47,989 | 50,824 | (2,835) | (5.6%) |
| Provision for bad debts | <u>227,136</u> | <u>414,819</u> | <u>(187,683)</u> | <u>(45.2%)</u> |
| Total operating expenses | <u>14,613,201</u> | <u>13,700,352</u> | <u>912,849</u> | <u>6.7%</u> |
| Income from Operations | 72,180 | 553,642 | (481,462) | (87.0%) |
| Non-Operating Gains (Losses) | | | | |
| Investment income | 101,303 | 97,822 | 3,481 | 3.6% |
| Interest earnings on restricted assets | 49 | 128 | (79) | (61.7%) |
| Contributions | 41,622 | 126,647 | (85,025) | (67.1%) |
| Other | <u>(14,901)</u> | <u>249,337</u> | <u>(264,238)</u> | <u>(106.0%)</u> |
| Total net non-operating gains | <u>128,073</u> | <u>473,934</u> | <u>(345,861)</u> | <u>(73.0%)</u> |
| Increase in Net Assets | 200,253 | 1,027,576 | (827,323) | (80.5%) |
| Net Assets - Beginning of year | <u>12,163,260</u> | <u>11,135,684</u> | | |
| Net Assets - End of year | <u>\$ 12,363,513</u> | <u>\$ 12,163,260</u> | | |

Paulding County Hospital

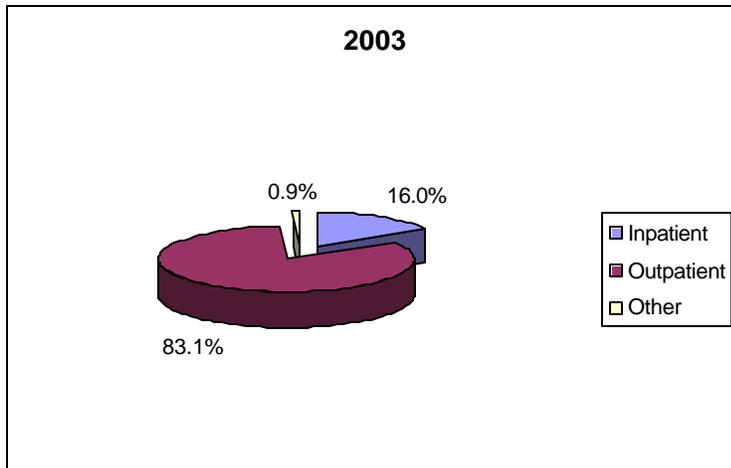
Management's Discussion and Analysis

Operating Revenues

Operating revenues include 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. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased 3.3 percent. This was attributable to a 17.6 percent increase in outpatient revenues that was offset by a dramatic 24.1 percent decrease in inpatient revenues. 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, and Medical Mutual of Ohio. These revenue deductions increased from 19.4 to 22.9 percent as a percentage of gross revenue.
- The following is a graphic illustration of operating revenues by source:



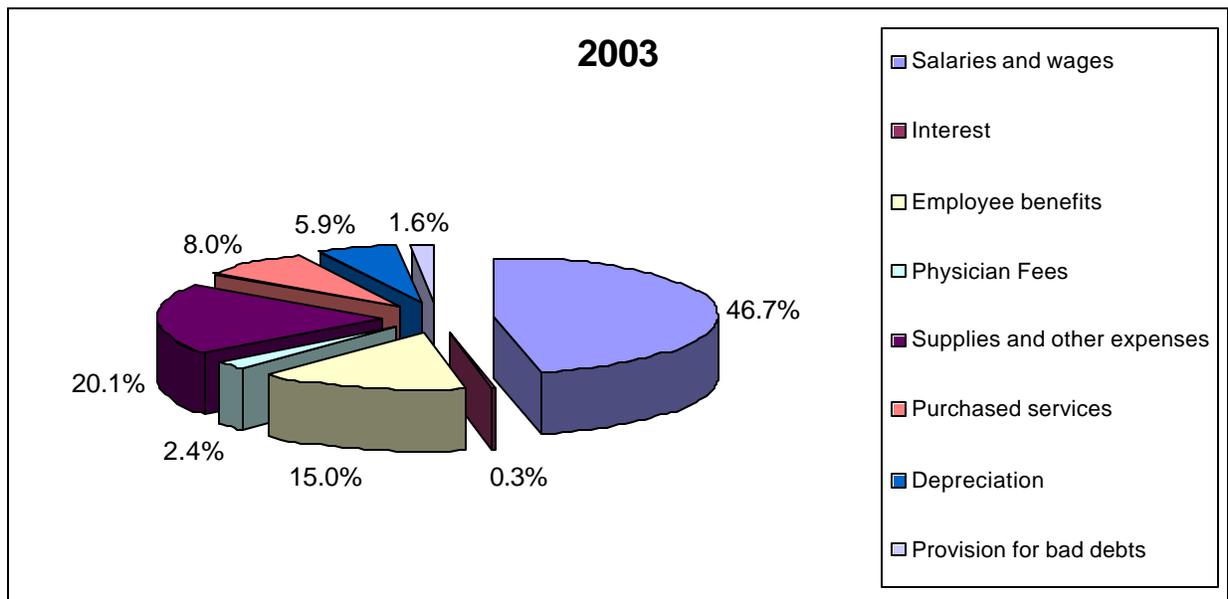
Paulding County Hospital

Management's Discussion and Analysis

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 7 percent due to converting from contract to employed physical therapy labor and increases to our physician base.
- Benefit costs increased 20 percent due to increases in self-funded health insurance claims paid by the Hospital for covered employees and Bureau of Workers Compensation premium increases.
- Bad debt expense decreased 45% due to decreases in the time it takes the Hospital to collect on accounts receivable.
- Physician fees increased by 32% as a result of adding a contracted surgery physician.
- The following is a graphic illustration of operating expenses by type:



Paulding County Hospital

Management's Discussion and Analysis

Non-Operating Gains (Losses)

Non-operating gains and losses are all sources and uses that are primarily non-exchange in nature. They would consist primarily of investment income (including realized and unrealized gains and losses) and grants and contracts that do not require any services to be performed.

The category "Other," within Non-Operating Gains (Losses), consists of items that are typically nonrecurring, extraordinary, or unusual to the Hospital. Examples would be capital grants, additions to permanent endowments, and transfers from related entities.

There were two significant "Other" non-operating transactions. In 2002, there was a \$241,561 recovery of income on our Oakwood Bank losses. In 2003, a non-collectible physician note in the amount of \$254,223 was written off to expense.

Statement of 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

| | 2003 | 2002 | Increase (Decrease) |
|---|----------------------------|----------------------------|--------------------------|
| Cash provided (used) by: | | | |
| Operating and Non-Operating Activities | \$ 962,935 | \$ 1,353,343 | \$ (390,408) |
| Investing Activities | 400,078 | 479,176 | (79,098) |
| Noncapital and Related Financing activities | 41,622 | 126,647 | (85,025) |
| Capital and Related Financing Activities | <u>(1,087,595)</u> | <u>(1,479,506)</u> | <u>391,911</u> |
| Net increase (decrease) in cash | 317,040 | 479,660 | (162,620) |
| Cash - Beginning of the year | <u>4,041,039</u> | <u>3,561,379</u> | <u>479,660</u> |
| Cash - End of year | <u>\$ 4,358,079</u> | <u>\$ 4,041,039</u> | <u>\$ 317,040</u> |

The Hospital's liquidity improved during the year. The following discussion amplifies the overview of cash flows presented above.

Statement of Cash Flows (Cont.)

Paulding County Hospital

Management's Discussion and Analysis

Cash provided by operating and non-operating activities decreased \$390,408 over the prior year. This was largely due to the decrease in reimbursement from the Health Care Assurance Program (HCAP). Capital and related financing activities usage decreased as purchases of capital assets for construction of the planned Medical Office Building were delayed until 2004. Cash received from investing activities decreased as a result of lower interest rates.

Capital Asset and Debt Administration

Capital Assets - At December 31, 2003, the Hospital had \$7.4 million invested in capital assets, net of accumulated depreciation of \$10.8 million. Depreciation and amortization totaled \$866,049 for the current year compared to \$750,354 last year. Details of these assets for the past two years are shown below.

| | 2003 | 2002 | Increase (Decrease) |
|------------------------------------|---------------------|---------------------|------------------------|
| Land | \$ 30,609 | \$ 30,609 | \$ - |
| Land improvements | 71,675 | 80,694 | (9,019) |
| Buildings and improvements | 5,538,735 | 5,784,253 | (245,518) |
| Furniture, fixtures, and equipment | 1,696,517 | 1,610,027 | 86,490 |
| Construction in process | 94,587 | - | 94,587 |
| Total | <u>\$ 7,432,123</u> | <u>\$ 7,505,583</u> | <u>\$ (73,460)</u> |

Debt - At year-end, the Hospital had \$922,118 in debt outstanding as compared to \$1,164,417 the previous year. The table below summarizes these amounts by type of debt instrument:

| | 2003 | 2002 | Increase (Decrease) |
|-----------------------|-------------------|---------------------|------------------------|
| Lease Obligations | 569,238 | 791,673 | (222,435) |
| Note Payable | 32,232 | 52,202 | (19,970) |
| Compensated Absences | 320,648 | 320,542 | 106 |
| Long-Term Liabilities | <u>\$ 922,118</u> | <u>\$ 1,164,417</u> | <u>\$ (242,299)</u> |

In the past, the Hospital has been generally debt averse. In 2004, the Hospital will be incurring debt of \$1,400,000 for construction of a Medical Office Building.

Economic Factors That Will Affect the Future

Paulding County Hospital

Management's Discussion and Analysis

The economic position of Paulding County Hospital is closely tied to that of the local economy. As a result of the new Medicare prescription drug plan recently enacted by Congress, the Hospital will receive a 1.0 percent increase in reimbursement from Medicare next year, along with continued HCAP reimbursement. In addition, the Board of Directors approved an average increase of 3 percent in the charge structure for the upcoming fiscal year.

Contacting the Hospital's 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 money it had received in the past. 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

| | December 31 | |
|--|----------------------------------|----------------------------------|
| | 2003 | 2002 |
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents (Note 2) | \$ 379,014 | \$ 366,248 |
| Patient accounts receivable, net (Note 3) | 1,916,145 | 1,733,233 |
| Notes receivable, current portion | 15,160 | 42,898 |
| Inventories | 380,795 | 328,871 |
| Prepaid expenses | 145,086 | 123,060 |
| Third-party settlements (Note 8) | 447,795 | 220,231 |
| Other receivables | 84,970 | 47,394 |
| | <hr/> | <hr/> |
| Total current assets | 3,368,965 | 2,861,935 |
| Assets Limited as to Use (Note 4) | 4,006,487 | 3,680,479 |
| Capital Assets, Net (Note 5) | 7,432,123 | 7,505,583 |
| Notes Receivable - Net of Current Portion (Note 14) | <hr/> - | <hr/> 303,011 |
| Total assets | <hr/> \$ 14,807,575 <hr/> | <hr/> \$ 14,351,008 <hr/> |

Balance Sheet

| | December 31 | |
|--|-----------------------------|-----------------------------|
| | <u>2003</u> | <u>2002</u> |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Current portion of long-term debt (Note 6) | \$ 271,974 | \$ 254,224 |
| Accounts payable | 676,779 | 452,482 |
| Accrued liabilities (Note 7) | <u>1,165,813</u> | <u>891,391</u> |
| Total current liabilities | 2,114,566 | 1,598,097 |
| Long-Term Debt, Net of Current Portion (Note 6) | 329,496 | 589,651 |
| Net Assets | | |
| Invested in capital assets - net of related debt | 6,830,653 | 6,661,708 |
| Restricted: | | |
| Expendable for education and other purposes | 13,754 | 13,705 |
| Unrestricted | <u>5,519,106</u> | <u>5,487,847</u> |
| Total net assets | <u>12,363,513</u> | <u>12,163,260</u> |
| Total liabilities and net assets | <u>\$ 14,807,575</u> | <u>\$ 14,351,008</u> |

Paulding County Hospital

Statement of Revenue, Expenses, and Changes in Net Assets

| | Year Ended December 31 | |
|--|------------------------|----------------------|
| | 2003 | 2002 |
| Operating Revenue | | |
| Net patient service revenue (Note 9) | \$ 14,514,956 | \$ 14,051,601 |
| Other operating revenue | 170,425 | 202,393 |
| Total operating revenue | 14,685,381 | 14,253,994 |
| Operating Expenses | | |
| Salaries and wages | 6,820,816 | 6,346,524 |
| Employee benefits | 2,189,492 | 1,820,894 |
| Professional fees | 350,056 | 264,595 |
| Supplies and other expenses | 2,936,663 | 2,808,723 |
| Purchased services | 1,175,000 | 1,243,619 |
| Depreciation (Note 5) | 866,049 | 750,354 |
| Interest | 47,989 | 50,824 |
| Provision for bad debts | 227,136 | 414,819 |
| Total operating expenses | 14,613,201 | 13,700,352 |
| Income from Operations | 72,180 | 553,642 |
| Non-Operating Gains (Losses) | | |
| Investment income | 101,303 | 97,822 |
| Interest earnings on restricted assets | 49 | 128 |
| Contributions | 41,622 | 126,647 |
| Other (Note 14) | (14,901) | 249,337 |
| Total net non-operating gains | 128,073 | 473,934 |
| Increase in Net Assets | 200,253 | 1,027,576 |
| Net Assets - Beginning of year | 12,163,260 | 11,135,684 |
| Net Assets - End of year | <u>\$ 12,363,513</u> | <u>\$ 12,163,260</u> |

Paulding County Hospital

Statement of Cash Flows

| | Year Ended December 31 | |
|---|------------------------|---------------------|
| | 2003 | 2002 |
| Cash Flows from Operating and Non-Operating Activities | | |
| Cash received from patients and third-party payors | \$ 13,877,344 | \$ 13,642,666 |
| Cash payments to suppliers for services and goods | (4,063,097) | (4,319,198) |
| Cash payments to employees for services | (8,984,161) | (8,131,941) |
| Other operating revenue received | 132,849 | 161,816 |
| Net cash provided by operating and non-operating activities | 962,935 | 1,353,343 |
| Cash Flows from Investing Activities | | |
| Investment income | 79,618 | 225,090 |
| Recovery on uninsured investments | 243,934 | 249,337 |
| Advances to physicians - net of forgiveness | 76,526 | 4,749 |
| Net cash provided by investing activities | 400,078 | 479,176 |
| Cash Flows from Non-Capital and Related Financing Activities | | |
| Unrestricted contributions received | 41,622 | 126,647 |
| Cash Flows from Capital and Related Financing Activities | | |
| Purchase of capital assets | (837,701) | (1,201,207) |
| Proceeds from sale of capital assets | 56,260 | - |
| Interest paid on long-term debt | (47,989) | (50,824) |
| Principal payments on notes payable | (19,970) | (18,690) |
| Principal payments on capital leases | (238,195) | (208,785) |
| Net cash used in capital and related financing activities | (1,087,595) | (1,479,506) |
| Net Increase in Cash and Cash Equivalents | 317,040 | 479,660 |
| Cash and Cash Equivalents - Beginning of year | 4,041,039 | 3,561,379 |
| Cash and Cash Equivalents - End of year | \$ 4,358,079 | \$ 4,041,039 |
| Balance Sheet Classification of Cash and Cash Equivalents | | |
| Current assets - cash and cash equivalents | \$ 379,014 | \$ 366,248 |
| Restricted cash and cash equivalents | 3,979,065 | 3,674,791 |
| Total cash and cash equivalents | \$ 4,358,079 | \$ 4,041,039 |
| Equipment obtained through capital lease | \$ 15,760 | 225,000 |

Paulding County Hospital

Statement of Cash Flows (Continued)

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

| | Year Ended December 31 | |
|---|------------------------|---------------------|
| | 2003 | 2002 |
| Cash Flows from Operating Activities and Non-Operating Gains | | |
| Income (loss) from operations | \$ 72,180 | \$ 553,642 |
| Interest expense considered capital financing activities | 47,989 | 50,824 |
| Adjustments to reconcile revenue and gains in excess of expenses to net cash provided by operating activities and non-operating gains | | |
| Depreciation | 866,049 | 750,354 |
| Provision for bad debts | 227,136 | 414,819 |
| Increase in patient accounts receivable | (410,048) | (233,355) |
| Increase in inventories | (51,924) | (42,313) |
| Increase in prepaid expenses and other receivables | (59,602) | (6,451) |
| Decrease in third-party settlements | (227,564) | (175,580) |
| Increase (decrease) in accounts payable | 224,297 | (157,993) |
| Increase in other accrued expenses | 274,422 | 199,396 |
| Net cash provided by operating activities and non-operating gains | <u>\$ 962,935</u> | <u>\$ 1,353,343</u> |

Paulding County Hospital

Notes to Financial Statements December 31, 2003 and 2002

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 prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basis Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 1999. The Hospital now follows the “business-type” activities reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the Hospital's financial activities. There was no impact to the net assets of the Hospital in adopting GASB No. 34. No component units are required to be reported in the Hospital's financial statements.

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 considered cash and cash equivalents for purposes of the statement of cash flows.

Accounts Receivable – Accounts receivable for 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 loss 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 uncollectible accounts in the period they are deemed to be uncollectible. The 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.

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.

Paulding County Hospital

Notes to Financial Statements December 31, 2003 and 2002

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

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. Assets limited as to use also include assets restricted by contributors for education and other purposes of the home health department.

Capital Assets – Capital assets 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.

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. The unused and earned benefits are recorded as a current liability in the financial statements. Employees accumulate vacation days at varying rates depending on years of service. Employees also earn sick leave benefits at a Hospital determined rate for all employees. 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.

Restricted Resources – When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use unrestricted resources before restricted resources.

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

Classification of Net Assets – Net assets of the Hospital are classified in four components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are non-capital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted*.

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.

Investment Income – Investment income on board-designated funds (funded depreciation) and general funds are recorded as non-operating gains. Interest earnings on funds restricted by contributors are also recorded as non-operating gains.

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.

Paulding County Hospital

Notes to Financial Statements December 31, 2003 and 2002

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

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 Ohio Public Employees Retirement System (OPERS). The Hospital funds pension costs accrued based on contribution rates determined by OPERS.

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

Reclassification - Certain prior year amounts have been reclassified to conform to current year presentation.

Paulding County Hospital

Notes to Financial Statements December 31, 2003 and 2002

Note 2 – Deposits and Investments

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

| <u>2003</u> | <u>Cash and Cash Equivalents</u> | <u>Assets Limited as to Use</u> |
|--|--------------------------------------|-------------------------------------|
| Deposits | \$ 379,014 | \$ - |
| Certificates of Deposit | <u>-</u> | <u>3,979,065</u> |
| Total | <u>\$ 379,014</u> | <u>\$ 3,979,065</u> |
| | | |
| <u>2002</u> | | |
| Deposits | \$ 366,248 | \$ - |
| Certificates of Deposit | <u>-</u> | <u>3,674,791</u> |
| Total | <u>\$ 366,248</u> | <u>\$ 3,674,791</u> |
| | | |
| <u>Deposits</u> | <u>2003</u> | <u>2002</u> |
| Amount of deposits reflected on the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) | \$ 4,014,462 | \$ 3,919,660 |
| Amount of deposits covered by federal depository insurance | <u>613,754</u> | <u>400,000</u> |
| Amount of deposits uninsured | <u>\$ 3,400,708</u> | <u>\$ 3,519,660</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.

Paulding County Hospital

Notes to Financial Statements December 31, 2003 and 2002

Note 3 – Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

| | <u>2003</u> | <u>2002</u> |
|-----------------------------------|----------------------------|----------------------------|
| Gross patient accounts receivable | \$ 3,214,471 | \$ 3,280,062 |
| Less allowance for: | | |
| Uncollectible accounts | (631,019) | (883,321) |
| Contractual adjustments | <u>(667,307)</u> | <u>(663,508)</u> |
| Net patient accounts receivable | <u>\$ 1,916,145</u> | <u>\$ 1,733,233</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>2003</u> | <u>2002</u> |
|--------------------------|--------------------|--------------------|
| Medicare | 32% | 38% |
| Medicaid | 11% | 12% |
| Medical Mutual of Ohio | 10% | 9% |
| Patient pay | 19% | 17% |
| Other third-party payors | <u>28%</u> | <u>24%</u> |
| Total | <u>100%</u> | <u>100%</u> |

Paulding County Hospital

Notes to Financial Statements December 31, 2003 and 2002

Note 4 – Assets Limited as to Use

The composition of these assets is described in Note 2. The classifications and limited uses of these assets are described below:

| | 2003 | 2002 |
|--|---------------------|---------------------|
| Restricted by contributors for education and other purposes: | | |
| Deposits in financial institutions | \$ 13,754 | \$ 13,705 |
| Designated by Board for capital improvements: | | |
| Deposits in financial institutions | 3,965,311 | 3,661,086 |
| Accrued interest receivable | 27,422 | 5,688 |
| Total assets limited as to use | <u>\$ 4,006,487</u> | <u>\$ 3,680,479</u> |

Note 5 – Capital Assets

Capital asset activity for the year ended December 31, 2003 was as follows:

| | 2002 | Additions | Retirements | 2003 | Depreciable Life - Years |
|-------------------------------------|---------------------|--------------------|--------------------|---------------------|-----------------------------|
| Land | \$ 30,609 | \$ - | \$ - | \$ 30,609 | |
| Land improvements | 163,553 | - | - | 163,553 | 5-25 |
| Building and improvements | 9,462,106 | 203,408 | (9,751) | 9,655,763 | 5-50 |
| Fixed equipment | 1,455,292 | - | - | 1,455,292 | 5-20 |
| Moveable equipment | 4,418,002 | 539,706 | (145,041) | 4,812,667 | 5-20 |
| Moveable equipment - capital leases | 1,961,188 | 15,760 | - | 1,976,948 | 5 |
| Construction in process | - | 94,587 | - | 94,587 | |
| Total | 17,490,750 | 853,461 | (154,792) | 18,189,419 | |
| Less accumulated depreciation | | | | | |
| Land | - | - | - | - | |
| Land improvements | 82,859 | 9,019 | - | 91,878 | |
| Building and improvements | 3,677,853 | 446,650 | (7,475) | 4,117,028 | |
| Fixed equipment | 1,449,660 | 1,198 | - | 1,450,858 | |
| Moveable equipment | 4,004,870 | 245,285 | (86,445) | 4,163,710 | |
| Moveable equipment - capital leases | 769,925 | 163,897 | - | 933,822 | |
| Construction in process | - | - | - | - | |
| Total | 9,985,167 | 866,049 | (93,920) | 10,757,296 | |
| Net carrying amount | <u>\$ 7,505,583</u> | <u>\$ (12,588)</u> | <u>\$ (60,872)</u> | <u>\$ 7,432,123</u> | |

Construction in progress as of December 31, 2003 consisted of architect fees associated with the future construction of a medical office building.

Notes to Financial Statements

Paulding County Hospital

December 31, 2003 and 2002

Note 6 – Long-Term Debt

Long-term debt activity for the year ended December 31, 2003, was as follows:

| | Beginning Balance | Current Year Additions | Current Year Reductions | Ending Balance | Current Portion |
|----------------------------------|----------------------|---------------------------|----------------------------|-------------------|--------------------|
| Leases and note payable: | | | | | |
| Lease obligations | \$ 791,673 | \$ 15,760 | \$ (238,195) | \$ 569,238 | \$ 250,769 |
| Note payable | <u>52,202</u> | <u>-</u> | <u>(19,970)</u> | <u>32,232</u> | <u>21,205</u> |
| Total leases and note payable | 843,875 | 15,760 | (258,165) | 601,470 | 271,974 |
| Other liabilities: | | | | | |
| Compensated absences | <u>320,542</u> | <u>416,262</u> | <u>(416,156)</u> | <u>320,648</u> | <u>320,648</u> |
| Total long-term liabilities | <u>\$ 1,164,417</u> | <u>\$ 432,022</u> | <u>\$ (674,321)</u> | <u>\$ 922,118</u> | <u>\$ 592,622</u> |

The lease obligations consist of three amounts summarized as follows:

- Capital lease payable over 60 months with monthly payments of \$4,324, including interest at 5.75%, collateralized by equipment.
- Capital lease payable over 120 months with monthly payments of \$18,385, including interest at 5.52%, collateralized by HVAC system.
- Capital lease payable over 60 months with monthly payments of \$262.67, at 0% interest, collateralized by automobile.

The note payable is summarized below:

- Note payable over 60 months with monthly payments of \$1,881, including interest at 5.94%, collateralized by roof.

**Notes to Financial Statements
December 31, 2003 and 2002**

Paulding County Hospital

Note 6 – Long-Term Debt (Cont.)

The following is a schedule by years of note principal and interest, and future minimum lease payments as of December 31, 2003:

| | Note Payable | Note Interest | Leases Payable |
|--------------------------------------|-------------------------|------------------------|--------------------------|
| 2004 | \$ 21,205 | \$ 1,361 | \$ 275,651 |
| 2005 | 11,027 | 193 | 257,269 |
| 2006 | - | - | 55,037 |
| 2007 | - | - | 19,658 |
| 2008 | - | - | - |
| 2009-2013 | - | - | - |
| 2014-2018 | - | - | - |
| 2019-2023 | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total payments | <u>\$ 32,232</u> | <u>\$ 1,554</u> | 607,615 |
| Less amount representing interest | | | <u>38,377</u> |
| Net present value | | | <u>\$ 569,238</u> |

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

| | 2003 | 2002 |
|---------------------------------------|----------------------------|----------------------------|
| Cost of equipment under capital lease | \$ 1,976,948 | \$ 1,961,188 |
| Less accumulated amortization | <u>933,822</u> | <u>769,925</u> |
| Net carrying amount | <u>\$ 1,043,126</u> | <u>\$ 1,191,263</u> |

Notes to Financial Statements December 31, 2003 and 2002

Note 7 – Accrued Liabilities

Paulding County Hospital

The details of accrued liabilities as of December 31, 2003 and 2002 are as follows:

| | <u>2003</u> | <u>2002</u> |
|-----------------------------------|----------------------------|--------------------------|
| Payroll and related amounts | \$ 369,260 | \$ 343,219 |
| Compensated absences (Note 6) | 320,648 | 320,542 |
| Workers compensation premiums | 193,487 | 68,369 |
| Health insurance claims (Note 13) | 174,213 | 90,557 |
| Other | <u>108,205</u> | <u>68,704</u> |
| Total accrued liabilities | <u><u>\$ 1,165,813</u></u> | <u><u>\$ 891,391</u></u> |

Note 8 – Cost Report Settlements

Approximately 51 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.

Medicaid - Inpatient, acute-care services rendered to Medicaid program beneficiaries are 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.

The Medicaid payment system in Ohio is a prospective one, whereby rates for the following state fiscal year beginning July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant changes in rates, or the payment system itself, could have a material impact on the future Medicaid funding to providers.

Notes to Financial Statements December 31, 2003 and 2002

Note 8 – Cost Report Settlements (Cont.)

Paulding County Hospital

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.

Note 9 – Net Patient Service Revenue

Net patient service revenue consists of the following:

| | <u>2003</u> | <u>2002</u> |
|--|-----------------------------|-----------------------------|
| Revenue: | | |
| Inpatient services: | | |
| Routine services | \$ 652,706 | \$ 861,556 |
| Ancillary services | 2,393,090 | 3,150,167 |
| Outpatient ancillary services | <u>15,777,347</u> | <u>13,414,862</u> |
| Total patient revenue | 18,823,143 | 17,426,585 |
| Less contractual adjustments under third-party reimbursement programs | <u>4,308,187</u> | <u>3,374,984</u> |
| Total net patient service revenue | <u>\$ 14,514,956</u> | <u>\$ 14,051,601</u> |

Paulding County Hospital

Notes to Financial Statements December 31, 2003 and 2002

Note 10 – Defined Benefit Pension Plan

Plan Description - The Hospital contributes to the Ohio Public Employees Retirement System of Ohio (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and death benefits, annual cost of living adjustments, and post-retirement healthcare benefits to qualifying members of both the Traditional and the Combined Plans; however, healthcare benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS Board of Trustees. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-6705 or 1-800-222-PERS (7377).

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For 2003, member and employer contribution rates were consistent across all three plans (TP, MD, and CO), and are actuarially determined. The 2003 member contribution rate for members of local government units was 8.50 percent of their annual covered salary. The 2003 employer contribution rate for local government units was 13.55% percent of covered payroll. The Hospital's contributions to OPERS for the years ended December 31, 2003, 2002, and 2001, were \$924,584, \$855,337, and \$801,587, respectively. Required employer contributions for all plans are equal to 100% of employer charges and must be extracted from the employer's records.

Post-Retirement Benefits – In order to qualify for post-retirement health care coverage, age and service retirees must have 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 OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 and 2002 employer contribution rate for local government employer units was 13.55 percent of covered payroll. Of this amount, 5.0 percent was the portion that was used to fund health care during 2003 and 2002, respectively. The portion of the employer's contribution used to fund post-employment benefits for 2003 and 2002 was \$341,171 and \$315,619, respectively.

Note 10 – Defined Benefit Pension Plan (Cont.)

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

An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment return assumption rate for 2002 was 8.00%. An annual increase of 4.00 compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase 4.00% annually. These assumptions and calculations are based on the System's latest Actuarial Review performed as of December 31, 2002.

The number of active contributing participants in the Traditional and Combined Plans during 2003 was 364,881. As of December 31, 2002, the actuarial value of the Retirement System's net assets available for OPEB was \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

Health Care Plan – In December 2002, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choice Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit.

The plan will also offer a spending account feature, enabling the benefit recipient to apply his or her allowance toward specific medical expenses, much like a Medical Spending Account.

Paulding County Hospital

Notes to Financial Statements December 31, 2003 and 2002

Note 10 – Defined Benefit Pension Plan (Cont.)

In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending “Choices” type cost cutting measures to all active members and benefit recipients. As of December 31, 2003, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

Note 11 - Risk Management

The Hospital was insured against medical malpractice claims under an occurrence-based policy. The policy covers claims resulting from incidents that occurred during the policy terms, regardless of when the claims are reported to the insurance carrier. 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. These policies expired May 23, 2003, and were replaced by a claims-made policy, whereby only the claims reported during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding \$1,000,000 or aggregate claims exceeding \$3,000,000 for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional \$5,000,000 of coverage.

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

While there is pending litigation against the Hospital, management is not aware of any such medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. The cost of 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 that have exceeded insured limits.

Paulding County Hospital

Notes to Financial Statements December 31, 2003 and 2002

Note 12 – 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 13 – 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 \$35,000 per employee or total claims in excess of \$760,515. The plan policy year ends on December 31. Claims, charged to operations when incurred, were approximately \$876,000 and \$580,000 for the years ended December 31, 2003 and 2002, respectively.

Reconciliation of accrued health insurance at December 31, 2003 and 2002, consists of the following:

| | |
|------------------------------|--------------------------|
| Balance at January 1, 2002 | \$ 44,909 |
| Health insurance expense | 580,000 |
| Payments made | <u>(534,352)</u> |
| Balance at December 31, 2002 | 90,557 |
| Health insurance expense | 875,000 |
| Payments made | <u>(791,344)</u> |
| Balance at December 31, 2003 | <u>\$ 174,213</u> |

Paulding County Hospital

Notes to Financial Statements December 31, 2003 and 2002

Note 14 – Loss on Investments

At December 31, 2001, 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 amounts 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 at December 31, 2001. The Hospital has recovered the insured and collateralized amounts as of December 31, 2003, as well as an additional \$491,338 of uninsured amounts, which were previously written down at December 31, 2001.

During 2003, the Hospital wrote-off the remaining portion of the long-term physician receivable, as these funds were determined to be uncollectible.

The details of other non-operating gains (losses) at December 31, 2003 and 2002 are as follows:

| | <u>2003</u> | <u>2002</u> |
|--|---------------------------|--------------------------|
| Recovery on uninsured investments | 241,561 | 249,777 |
| Write-off of physician receivable | (254,223) | - |
| Other | <u>(2,239)</u> | <u>(440)</u> |
| Total other non-operating gains (losses) | <u>\$ (14,901)</u> | <u>\$ 249,337</u> |

Note 15 – Subsequent Event

In January 2004, the Hospital entered into a loan agreement with The State Bank and Trust Company (Lender) for the purpose of constructing a medical office building. The Hospital is borrowing \$1,400,000. As of the report date, the Hospital has not drawn any funds on the loan.

Repayment of the loan will occur in 120 equal monthly installments of principal and interest beginning at the end of the construction period, which begins in April 2004 and ends in October 2004. Interest-only payments are due monthly during the construction period. The loan bears interest at a fixed rate of 3.13%.

Total cost of the project will be approximately \$1,835,000, which will be funded by the loan, board-designated assets, and operating funds. In January 2004, the Hospital signed an agreement with the general contractor for the construction of the medical office building.



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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, 2003, and have issued our report thereon dated March 5, 2004. 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Condition

We noted a potential weakness in the Hospital's internal controls over cash receipts due to a lack of segregation of duties. The cashier who receives payments at the business office window also posts these payments to the accounts receivable subsidiary ledgers for patient accounts.

Criteria

During our testing of Ohio Compliance Supplement, Chapter 7, Part 4, Compliance Requirement 7-36, we noted the above conditions. These compliance sections relate to Ohio Revised Code Section 9.38.

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Recommendation

We recommend the Hospital designate an individual, other than the cashier, to post receipts received at the business office window to the accounts receivable subsidiary ledgers for patient accounts.

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, PLLC

March 5, 2004





**Auditor of State
Betty Montgomery**

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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 15, 2004**