

# **Paulding County Hospital**

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**Financial Report  
with Additional Information  
December 31, 2008**





Mary Taylor, CPA  
Auditor of State

Board of Directors  
Paulding County Hospital  
1035 W. Wayne Street  
Paulding, Ohio 45879-1544

We have reviewed the *Independent Auditor's Report* of Paulding County Hospital prepared by Plante & Moran, PLLC, for the audit period January 1, 2008 through December 31, 2008. 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. Paulding County Hospital is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

April 9, 2009

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# **Paulding County Hospital**

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**Plante & Moran, PLLC**  
Suite 600  
65 E. State St.  
Columbus, OH 43215  
Tel: 614.849.3000  
Fax: 614.221.3535  
plantemoran.com

## Independent Auditor's Report

To the Board of Directors  
Paulding County Hospital

We have audited the accompanying financial statements of the business-type activities of Paulding County Hospital (a component unit of Paulding County) as of and for the years ended December 31, 2008 and 2007, as listed in the table of contents. 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 audits 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 at December 31, 2008 and 2007 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2009 on our consideration of Paulding County Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Plante & Moran, PLLC*

February 12, 2009

# 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, 2008. Management is responsible for the completeness and fairness of the financial statements and the related footnote disclosures along with the discussion and analysis.

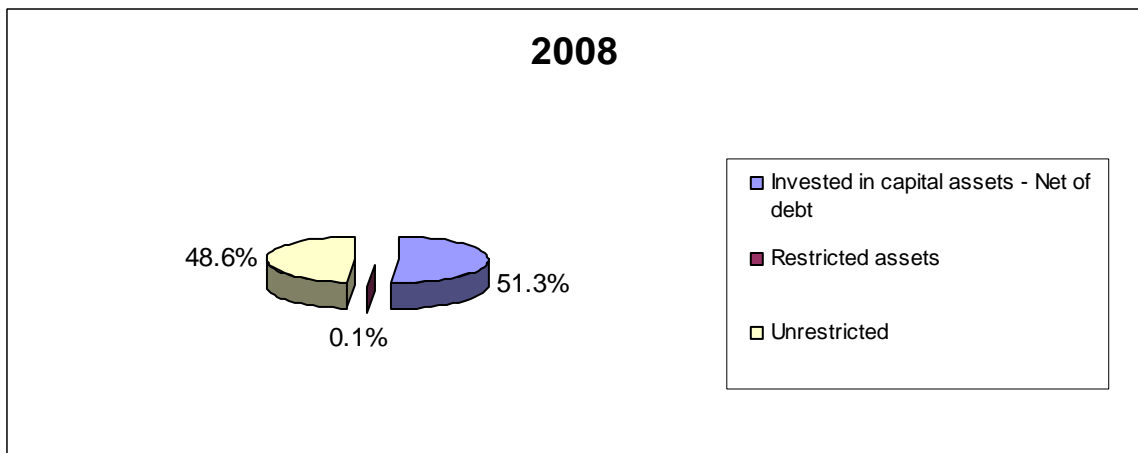
### Using this Annual Report

The Hospital's financial statements consists of three statements - a 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 current assets increased by \$843,729 or 19.4 percent from the prior year compared to a \$178,744 or 4.0 percent decrease last year. In total, the Hospital's net assets increased \$254,316 or 2.0 percent from the previous year compared to a \$293,506 or 2.2 percent decrease last year.

The following chart provides a breakdown of net assets by category for the year ended December 31, 2008:





# **Paulding County Hospital**

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## **Management's Discussion and Analysis (Continued)**

### **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 the 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 nonfinancial 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 financial 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 (Continued)

### 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, 2008, 2007, and 2006:

	Year Ended December 31			Change for 2008	
	2008	2007	2006	Amount	Percent
<b>Assets</b>					
Current assets	\$ 5,188,010	\$ 4,344,281	\$ 4,523,025	\$ 843,729	19.4
Noncurrent assets	4,660,348	3,840,591	3,745,730	819,757	21.3
Capital assets	8,335,696	8,772,154	9,525,023	(436,458)	(5.0)
<b>Total assets</b>	<b>\$ 18,184,054</b>	<b>\$ 16,957,026</b>	<b>\$ 17,793,778</b>	<b>\$ 1,227,028</b>	<b>7.2</b>
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
Current liabilities	\$ 3,717,658	\$ 2,302,614	\$ 2,448,064	\$ 1,415,044	61.5
Long-term liabilities	1,081,983	1,522,552	1,759,982	(440,569)	(28.9)
Other liabilities	201,068	202,831	363,197	(1,763)	(0.9)
<b>Total liabilities</b>	<b>5,000,709</b>	<b>4,027,997</b>	<b>4,571,243</b>	<b>972,712</b>	<b>24.1</b>
<b>Net Assets</b>					
Invested in capital assets - Net of debt	6,765,814	6,788,266	7,345,951	(22,452)	(0.3)
Restricted assets	14,197	13,808	13,799	389	2.8
Unrestricted	6,403,334	6,126,955	5,862,785	276,379	4.5
<b>Total net assets</b>	<b>13,183,345</b>	<b>12,929,029</b>	<b>13,222,535</b>	<b>254,316</b>	<b>2.0</b>
<b>Total liabilities and net assets</b>	<b>\$ 18,184,054</b>	<b>\$ 16,957,026</b>	<b>\$ 17,793,778</b>	<b>\$ 1,227,028</b>	<b>7.2</b>

Both current and noncurrent assets increased due to improved cash flows from last year.

Capital assets decreased resulting from a lesser need for the purchase of equipment.

Current liabilities increased reflecting an increase in third-party payables.

Long-term liabilities changed due to decreases in notes payable/debt obligations.

# Paulding County Hospital

## Management's Discussion and Analysis (Continued)

	Year Ended December 31			Change for 2008	
	2008	2007	2006	Amount	Percent
<b>Operating Revenue</b>					
Net patient service revenue	\$ 17,288,018	\$ 17,248,465	\$ 17,324,345	\$ 39,553	0.2
Other	<u>266,741</u>	<u>254,548</u>	<u>218,667</u>	<u>12,193</u>	4.8
Total operating revenue	17,554,759	17,503,013	17,543,012	51,746	0.3
<b>Operating Expenses</b>					
Salaries and wages	7,801,670	7,998,544	8,093,955	(196,874)	(2.5)
Employee benefits and payroll taxes	2,411,228	2,910,421	2,538,017	(499,193)	(17.2)
Medical supplies and drugs	4,258,097	3,966,890	3,754,375	291,207	7.3
Professional services and consultant fees	341,433	428,205	474,574	(86,772)	(20.3)
Purchased services	1,378,709	1,423,406	1,284,562	(44,697)	(3.1)
Depreciation and amortization	<u>1,258,766</u>	<u>1,248,145</u>	<u>1,227,502</u>	<u>10,621</u>	0.9
Total operating expenses	<u>17,449,903</u>	<u>17,975,611</u>	<u>17,372,985</u>	<u>(525,708)</u>	(2.9)
<b>Operating Income (Loss)</b>	104,856	(472,598)	170,027	577,454	(122.2)
<b>Other Income (Expense)</b>					
Investment income	165,741	185,345	174,744	(19,604)	(10.6)
Contributions	29,090	26,992	29,735	2,098	7.8
Interest earnings on restricted assets	38	9	17	29	322.2
Interest expense	(62,361)	(73,468)	(71,735)	11,107	(15.1)
Other income	<u>16,952</u>	<u>40,214</u>	<u>38,107</u>	<u>(23,262)</u>	(57.8)
Total other income	<u>149,460</u>	<u>179,092</u>	<u>170,868</u>	<u>(29,632)</u>	(16.5)
<b>Increase (Decrease) in Net Assets</b>	254,316	(293,506)	340,895	547,822	(186.6)
<b>Net Assets - Beginning of year</b>	<u>12,929,029</u>	<u>13,222,535</u>	<u>12,881,640</u>		
<b>Net Assets - End of year</b>	<u>\$ 13,183,345</u>	<u>\$ 12,929,029</u>	<u>\$ 13,222,535</u>		

### Operating Revenues

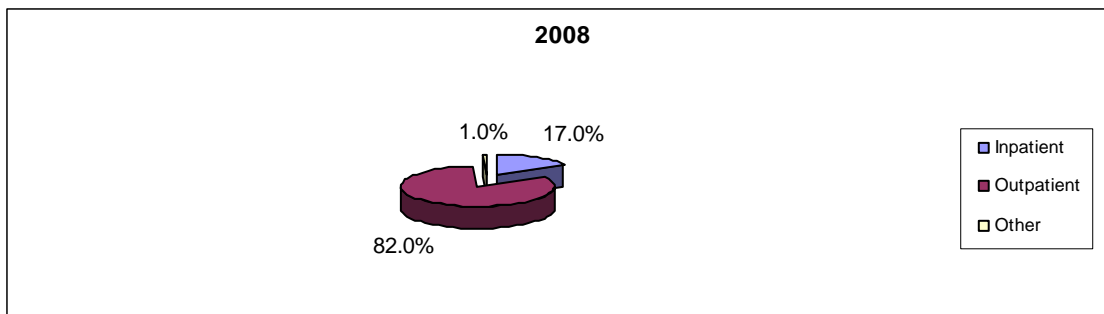
Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as inpatient services, outpatient services, physician offices, and the cafeteria. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

# Paulding County Hospital

## Management's Discussion and Analysis (Continued)

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased 0.2 percent. Gross outpatient revenues increased 9.8 percent but were partially offset by the discontinuation of inpatient obstetrics in August 2007. 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 Anthem. These revenue deductions have varied over the past three years from 28.14 in 2006, 30.09 in 2007, and now 33.63 in 2008 as percentage gross revenue.
- The following is a graphic illustration of operating revenues by source:



### Operating Expenses

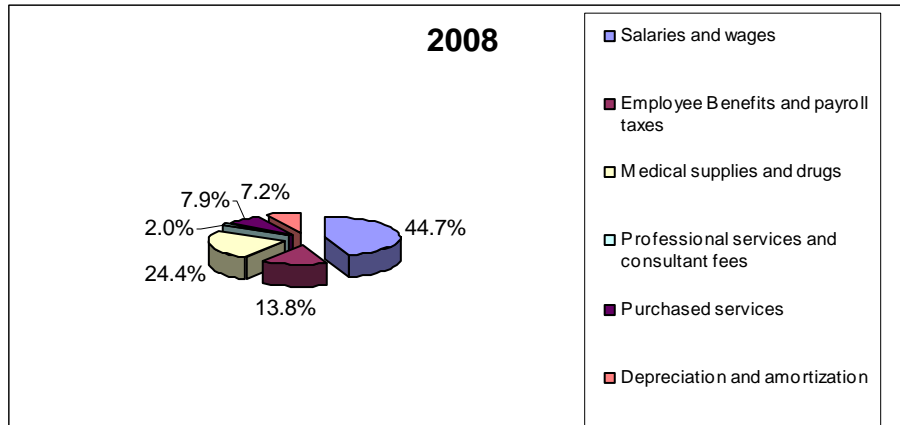
Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Hospital. The operating expense changes were the result of the following factors:

- Salary costs decreased 2.5 percent as a result of cost reduction efforts including the closing of the obstetric unit in August 2007.
- Employee benefits decreased 17.2 percent reflecting decreased self-funded health insurance claims, and decreased Ohio Public Employers Retirement System premiums offset by an increase in Bureau of Workers' Compensation premiums.
- Medical supply and drug expenses increased by 7.3 percent primarily as a result of surgical and pharmaceutical utilization.
- Professional services decreased by 20.3 percent reflecting cost reduction efforts related to the closing of the obstetric unit in August 2007.
- Purchased services decreased by 3.1 percent and were primarily attributable to the purchase of the Sleep Clinic service line.
- Depreciation expense increased 0.9 percent reflecting additions to property, plant, and equipment over the past few years.

# Paulding County Hospital

## Management's Discussion and Analysis (Continued)

- The following is a graphic illustration of operating expenses by type:



### Nonoperating Gains (Losses)

Nonoperating gains and losses are all sources and uses that are primarily nonexchange in nature. They would consist primarily of investment income (including realized and unrealized gains and losses), interest expense, grants, and contracts that do not require any services to be performed.

The category "Other," within nonoperating gains (losses), consists of items that are typically nonrecurring or unusual to the Hospital. Examples would be capital grants, additions to permanent endowments, and transfers from related entities.

### Statement of Cash Flows

Another way to assess the financial health of the 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

# Paulding County Hospital

## Management's Discussion and Analysis (Continued)

	2008	2007	2006	2008 Increase (Decrease)
Net cash from:				
Operating and nonoperating activities	\$ 2,566,028	\$ 1,128,996	\$ 917,268	\$ 1,437,032
Investing activities	(712,223)	23,473	45,558	(735,696)
Noncapital and financing activities	29,090	26,992	29,735	2,098
Capital and related financing activities	(1,306,582)	(782,433)	(1,062,015)	(524,149)
Net increase in cash	576,313	397,028	(69,454)	179,285
Cash - Beginning of year	717,074	320,046	389,500	397,028
Cash - End of year	<u>\$ 1,293,387</u>	<u>\$ 717,074</u>	<u>\$ 320,046</u>	<u>\$ 576,313</u>

The following discussion amplifies the overview of cash flows presented above.

Cash provided by operating and nonoperating activities increased \$1,437,032 from the prior year as a result of increased cash flows. Cash provided by investing activities decreased (\$735,696) due to transferring operating funds to board-designated savings funds. Capital and related financing activities decreased cash flows by \$524,149 reflecting the purchase of capital assets.

### Capital Assets and Debt Administration

**Capital Assets** - At December 31, 2008, the Hospital had \$8.3 million invested in capital assets, net of accumulated depreciation of \$13.0 million. Depreciation and amortization totaled \$1,258,766 on the current year compared to \$1,248,145 and \$1,227,502 for 2007 and 2006, respectively. Details of these assets for the past two years are shown below.

	2008	2007	2006	2008 Increase (Decrease)
Land	\$ 30,609	\$ 30,609	\$ 30,609	\$ -
Land improvements	46,042	58,201	71,202	(12,159)
Buildings and improvements	5,875,166	6,093,898	6,620,160	(218,732)
Furniture, fixtures, and equipment	2,368,345	2,357,103	2,609,064	11,242
Construction in progress	15,534	232,343	193,988	(216,809)
Total	<u>\$ 8,335,696</u>	<u>\$ 8,772,154</u>	<u>\$ 9,525,023</u>	<u>\$ (436,458)</u>

# Paulding County Hospital

## Management's Discussion and Analysis (Continued)

**Debt** - At year end, the Hospital had \$1,995,648 in debt outstanding as compared to \$2,403,349 and \$2,635,415 for 2007 and 2006, respectively. The table below summarizes these amounts by type of debt instrument:

	2008	2007	2006	2008 Increase (Decrease)
Lease obligations	\$ 175,828	\$ 223,907	\$ 19,455	\$ (48,079)
Note payable	1,394,054	1,759,981	2,159,617	(365,927)
Compensated absences	425,766	419,461	456,343	6,305
Long-term liabilities	<u>\$ 1,995,648</u>	<u>\$ 2,403,349</u>	<u>\$ 2,635,415</u>	<u>\$ (407,701)</u>

### Economic Factors that will Affect the Future

Additional orthopedic coverage that began in December 2008, along with the establishment of a physician office practice in the town of Continental in 2009, will expand services and generate additional net income in 2009.

The Supplemental Inpatient Upper Payment Limit and Healthcare Assurance programs have continued to provide valuable relief toward Medicaid shortfalls in prior years. We are anticipating some additional relief from the Healthcare Assurance Program in 2009.

In addition, the board of directors approved an average increase of 5.5 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 has 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.

# Paulding County Hospital

## Balance Sheet

	December 31, 2008	December 31, 2007
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 1,293,387	\$ 717,074
Accounts receivable (Note 3)	2,800,343	2,601,335
Notes receivable	289,114	206,010
Prepaid expenses and other	252,003	284,037
Inventory	553,163	535,825
Total current assets	5,188,010	4,344,281
<b>Assets Limited as to Use</b> (Notes 2 and 4)	4,660,348	3,840,591
<b>Capital Assets - Net</b> (Note 5)	8,335,696	8,772,154
Total assets	<b><u>\$ 18,184,054</u></b>	<b><u>\$ 16,957,026</u></b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt (Note 6)	\$ 487,899	\$ 461,336
Accounts payable	374,291	523,092
Estimated third-party payor settlements	1,739,361	150,827
Accrued liabilities and other (Note 7)	1,116,107	1,167,359
Total current liabilities	3,717,658	2,302,614
<b>Long-term Debt - Net of current portion</b> (Note 6)	1,081,983	1,522,552
<b>Other Liabilities</b> (Note 6)	201,068	202,831
Total liabilities	5,000,709	4,027,997
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	6,765,814	6,788,266
Donor restricted for specific operating activities	14,197	13,808
Unrestricted	6,403,334	6,126,955
Total net assets	13,183,345	12,929,029
Total liabilities and net assets	<b><u>\$ 18,184,054</u></b>	<b><u>\$ 16,957,026</u></b>



# Paulding County Hospital

## Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended	
	December 31, 2008	December 31, 2007
<b>Operating Revenues</b>		
Net patient service revenue	\$ 17,288,018	\$ 17,248,465
Other	266,741	254,548
Total operating revenues	17,554,759	17,503,013
<b>Operating Expenses</b>		
Salaries and wages	7,801,670	7,998,544
Employee benefits and payroll taxes	2,411,228	2,910,421
Medical supplies and drugs	4,258,097	3,966,890
Professional services and consultant fees	341,433	428,205
Purchased services	1,378,709	1,423,406
Depreciation and amortization	1,258,766	1,248,145
Total operating expenses	17,449,903	17,975,611
<b>Income (Loss) from Operations</b>	104,856	(472,598)
<b>Other Income (Expense)</b>		
Investment income	165,741	185,345
Contributions	29,090	26,992
Interest earnings on restricted assets	38	9
Interest expense	(62,361)	(73,468)
Other income	16,952	40,214
Total other income	149,460	179,092
<b>Increase (Decrease) in Net Assets</b>	254,316	(293,506)
<b>Net Assets - Beginning of year</b>	12,929,029	13,222,535
<b>Net Assets - End of year</b>	<u>\$ 13,183,345</u>	<u>\$ 12,929,029</u>

# Paulding County Hospital

## Statement of Cash Flows

	Year Ended	
	December 31, 2008	December 31, 2007
<b>Cash Flows from Operating Activities</b>		
Cash received from patients and third-party payors	\$ 18,677,544	\$ 18,063,111
Cash payments to suppliers for services and goods	(6,098,176)	(6,119,791)
Cash payments to employees for services	(10,279,196)	(11,069,881)
Other operating receipts	265,856	255,557
Net cash provided by operating activities	2,566,028	1,128,996
<b>Cash Flows from Noncapital Financing Activities -</b>		
Unrestricted contributions received	29,090	26,992
<b>Cash Flows from Investing Activities</b>		
Investment income	153,066	221,487
Change in assets limited as to use	(807,044)	(130,994)
Advances to physicians - Net of forgiveness	(83,104)	(125,739)
Other	24,859	58,719
Net cash (used in) provided by investing activities	(712,223)	23,473
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from issuance of debt	53,087	-
Principal payments on notes payable	(419,014)	(399,636)
Interest paid on long-term debt	(62,361)	(73,468)
Purchase of capital assets	(830,215)	(258,937)
Principal payments on capital leases	(48,079)	(50,392)
Net cash used in capital and related financing activities	(1,306,582)	(782,433)
<b>Net Increase in Cash and Cash Equivalents</b>	576,313	397,028
<b>Cash and Cash Equivalents - Beginning of year</b>	717,074	320,046
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,293,387</b>	<b>\$ 717,074</b>
<b>Supplemental Cash Flow Information</b>		
Cash paid for interest	\$ 62,361	\$ 73,468
Equipment obtained via capital lease	-	254,844

# Paulding County Hospital

## Statement of Cash Flows (Continued)

A reconciliation of operating income (loss) to net cash from operating activities is as follows:

	Year Ended	
	December 31, 2008	December 31, 2007
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>		
Income (loss) from operations	\$ 104,856	\$ (472,598)
Adjustments to reconcile income (loss) from operations to net cash from operating activities:		
Depreciation	1,258,766	1,248,145
Provision for bad debts	1,046,951	883,001
Changes in assets and liabilities:		
Increase in patient accounts receivable	(1,245,959)	(437,278)
Increase in inventories	(17,338)	(6,618)
Decrease in prepaid expenses and other receivables	40,034	44,310
Decrease in accounts payable	(156,801)	(202,261)
Decrease in other accrued expenses	(53,015)	(296,628)
Increase in third-party settlement payables	1,588,534	368,923
Net cash provided by operating activities	<u>\$ 2,566,028</u>	<u>\$ 1,128,996</u>

# Paulding County Hospital

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## Notes to Financial Statements December 31, 2008 and 2007

### Note I - Nature of Business and Significant Accounting Policies

**Organization** - Effective January 1, 2001, Paulding County Hospital (the "Hospital") became a 25-bed critical access hospital located in Paulding, Ohio. The Hospital operates under the authority of Section 339, Ohio Revised Code, to provide inpatient, outpatient, and emergency care services for the residents of Paulding County, Ohio. A board of directors appointed by the county commissioners, the probate judge, and the Judge of the Court of Common Pleas of Paulding County governs the Hospital. The Hospital is considered a component unit of Paulding County, Ohio (the "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 accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Hospital follows the business-type activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Hospital's activities. No component units are required to be reported in the financial statements.

**Enterprise Fund Accounting** - The Hospital uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict 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.

**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 write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

# Paulding County Hospital

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## Notes to Financial Statements December 31, 2008 and 2007

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

**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's 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 using the straight-line method. Equipment under capital lease obligations 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.

**Notes Receivable** - Notes receivable represent loans to physicians under various cash flow support and loan arrangements. These loans are to be repaid in varying monthly installments, including varying interest rates ranging from the minimum applicable federal rate to prime plus 1 percent, and are unsecured. A majority of the physician notes receivable are forgiven over time under the terms specified in the physician loan agreement.

**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. Employees accumulate vacation days at varying rates depending on years of service. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the Hospital may convert accumulated sick leave to termination payments equal to one-half of the accumulated balance calculated at the employee's base pay rate as of the retirement date. Employees hired after June 8, 2001 are only eligible to receive termination payments on one-half of the accumulated sick leave balance up to a maximum of 240 hours.

**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.

# Paulding County Hospital

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## Notes to Financial Statements December 31, 2008 and 2007

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

**Classification of Net Assets** - Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and are reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital 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. 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. The Hospital recorded unfavorable adjustments of approximately \$719,000 and \$551,000 in 2008 and 2007, respectively, due to prior year retroactive adjustments in excess of amounts previously estimated.

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 of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

**Income (Loss) from Operations** - The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services. Nonexchange revenues, including contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

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

# Paulding County Hospital

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## Notes to Financial Statements December 31, 2008 and 2007

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

**Charity Care** - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than 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.

Charity care provided, based on charges at established rates, was approximately \$112,000 and \$136,000 in 2008 and 2007, respectively.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 Section 501(c)(3) of the Internal Revenue Code.

### **Note 2 - Deposits and Investments**

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

# Paulding County Hospital

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## Notes to Financial Statements December 31, 2008 and 2007

### Note 2 - Deposits and Investments (Continued)

The Hospital has designated Antwerp Exchange Bank, First Financial Bank, Farmers & Merchants State Bank, First Federal Savings & Loan, Sherwood State Bank, State Bank & Trust, Huntington Bank, and Ottoville Bank Company for the deposit of its funds. An investment policy has not been filed with the auditor of state on behalf of the Hospital. Investment of interim funds is limited to cash and cash equivalents, bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, no-load money market mutual funds, and the Ohio subdivision's fund (STAR Ohio).

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

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

**Inactive Funds** - Inactive funds are those funds not required for use within the current five-year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit, maturing no later than the end of the current period of designated depositories, or as savings or deposit accounts, including but not limited to passbook accounts.

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

1. Bonds, notes, or other obligations that are guaranteed by the United States or those for which the faith of the United States is pledged for the payment of principal and interest
2. Bonds, notes debentures, or other obligations or securities issued by any federal governmental agency
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions
4. Interim deposits in the eligible institutions applying for interim funds to be evidenced by time certificates of deposit maturing not more than one year from date of deposit or by savings or deposit accounts, including but not limited to passbook accounts
5. Bonds and other obligations of the State of Ohio
6. The Ohio state treasurer's investment pool (STAR Ohio)



# Paulding County Hospital

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## Notes to Financial Statements December 31, 2008 and 2007

### Note 2 - Deposits and Investments (Continued)

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

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The Hospital's cash and investments are subject to custodial credit risk, as examined in more detail below:

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

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a specific deposit policy for custodial credit risk. At year end, the Hospital had no bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Hospital believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Paulding County Hospital

## Notes to Financial Statements December 31, 2008 and 2007

### Note 2 - Deposits and Investments (Continued)

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

	<u>2008</u>	<u>2007</u>
Deposits	\$ 1,293,387	\$ 717,074
Certificates of deposit	<u>4,575,300</u>	<u>3,768,256</u>
Total	<u>\$ 5,868,687</u>	<u>\$ 4,485,330</u>
Deposits:		
Amount of deposits reflected on the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit)	\$ 5,985,296	\$ 5,140,120
Amount of deposits covered by federal depository insurance	<u>(1,764,196)</u>	<u>(713,904)</u>
Amount of deposits collateralized	<u>\$ 4,221,100</u>	<u>\$ 4,426,216</u>

Amounts of deposits not insured by federal depository insurance are collateralized by itemized securities pledged by the depository bank and held in the name of the Hospital and respective bank.

### Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	<u>2008</u>	<u>2007</u>
Gross patient accounts receivable	\$ 4,687,607	\$ 4,398,809
Less:		
Uncollectible accounts	(882,465)	(826,638)
Contractual adjustments	<u>(1,004,799)</u>	<u>(970,836)</u>
Net patient accounts receivable	<u>\$ 2,800,343</u>	<u>\$ 2,601,335</u>

# Paulding County Hospital

## Notes to Financial Statements December 31, 2008 and 2007

### Note 3 - Patient Accounts Receivable (Continued)

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

	Percent	
	2008	2007
Medicare	37	34
Medical Mutual of Ohio	20	15
Medicaid	7	8
Other third-party payors	19	24
Patient pay	17	19
Total	100	100

### Note 4 - Assets Limited as to Use

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

	2008	2007
Restricted by contributors for construction, education, and other purposes - Deposits in financial institutions	\$ 14,197	\$ 13,914
Designated by the board for capital improvements:		
Deposits in financial institutions	4,561,103	3,754,342
Accrued interest receivable	85,048	72,335
Total assets limited as to use	\$ 4,660,348	\$ 3,840,591

# Paulding County Hospital

## Notes to Financial Statements December 31, 2008 and 2007

### Note 5 - Capital Assets

Capital asset activity for the year ended December 31, 2008 was as follows:

	<u>2007</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>2008</u>	<u>Depreciable Life - Years</u>
Land	\$ 30,609	\$ -	\$ -	\$ -	\$ 30,609	-
Land improvements	196,212	-	-	(18,336)	177,876	5-25
Building and improvements	12,197,665	22,828	305,898	(260,179)	12,266,212	5-50
Fixed equipment	1,370,706	-	-	(3,749)	1,366,957	5-20
Moveable equipment	4,841,204	718,298	-	(57,751)	5,501,751	5-20
Moveable equipment - Capital leases	1,976,948	-	-	-	1,976,948	5
Construction in progress	232,343	89,089	(305,898)	-	15,534	-
<b>Total</b>	<b>20,845,687</b>	<b>830,215</b>	<b>-</b>	<b>(340,015)</b>	<b>21,335,887</b>	
Capital assets being depreciated:						
Land improvements	138,011	12,159	-	(18,336)	131,834	
Building and improvements	6,119,908	531,317	-	(260,179)	6,391,046	
Fixed equipment	1,370,270	434	-	(3,750)	1,366,954	
Moveable equipment	3,347,623	714,856	-	(49,843)	4,012,636	
Moveable equipment - Capital leases	1,097,721	-	-	-	1,097,721	
<b>Total</b>	<b>12,073,533</b>	<b>1,258,766</b>	<b>-</b>	<b>(332,108)</b>	<b>13,000,191</b>	
<b>Net carrying amount</b>	<b>\$ 8,772,154</b>	<b>\$ (428,551)</b>	<b>\$ -</b>	<b>\$ (7,907)</b>	<b>\$ 8,335,696</b>	

Capital asset activity for the year ended December 31, 2007 was as follows:

	<u>2006</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>2007</u>	<u>Depreciable Life - Years</u>
Land	\$ 30,609	\$ -	\$ -	\$ -	\$ 30,609	-
Land improvements	196,212	-	-	-	196,212	5-25
Building and improvements	12,213,808	-	-	(16,143)	12,197,665	5-50
Fixed equipment	1,378,202	-	-	(7,496)	1,370,706	5-20
Moveable equipment	5,376,440	337,763	137,663	(1,010,662)	4,841,204	5-20
Moveable equipment - Capital leases	1,976,948	-	-	-	1,976,948	5
Construction in progress	193,988	176,018	(137,663)	-	232,343	-
<b>Total</b>	<b>21,366,207</b>	<b>513,781</b>	<b>-</b>	<b>(1,034,301)</b>	<b>20,845,687</b>	
Less accumulated depreciation:						
Land improvements	125,010	13,001	-	-	138,011	
Building and improvements	5,593,646	526,262	-	-	6,119,908	
Fixed equipment	1,377,065	404	-	(7,199)	1,370,270	
Moveable equipment	3,647,742	708,478	-	(1,008,597)	3,347,623	
Moveable equipment - Capital leases	1,097,721	-	-	-	1,097,721	
<b>Total</b>	<b>11,841,184</b>	<b>1,248,145</b>	<b>-</b>	<b>(1,015,796)</b>	<b>12,073,533</b>	
<b>Net carrying amount</b>	<b>\$ 9,525,023</b>	<b>\$ (734,364)</b>	<b>\$ -</b>	<b>\$ (18,505)</b>	<b>\$ 8,772,154</b>	

# Paulding County Hospital

## Notes to Financial Statements December 31, 2008 and 2007

### Note 6 - Long-term Debt

The lease obligations consist of one amount summarized below:

- Capital lease payable over 60 months, with monthly payments of \$4,722, including interest at 4.25 percent, collateralized by equipment

The notes payable are summarized below:

- Notes payable over 60 months, with monthly payments of \$961, including interest at 3.29 percent, collateralized by automobiles
- Notes payable over 120 months, with monthly payments of \$13,631, including interest at 3.13 percent, collateralized by future revenues of the Hospital
- Notes payable over 60 months, with monthly payments of \$18,763, including interest at 3.25 percent, collateralized by CT Scanner
- Notes payable over 60 months, with monthly payments of \$6,444, including interest at 4.25 percent, collateralized by deposits and revenues of the Hospital

Long-term debt activity for the year ended December 31, 2008 was as follows:

	<u>2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>2008</u>	<u>Current Portion</u>
Leases, bonds, and loans payable:					
Leases payable	\$ 223,907	\$ -	\$ (48,079)	\$ 175,828	\$ 50,163
Notes payable	1,759,981	53,087	(419,014)	1,394,054	437,736
Compensated absences	<u>419,461</u>	<u>227,676</u>	<u>(221,371)</u>	<u>425,766</u>	<u>224,698</u>
Total long-term liabilities	<u>\$ 2,403,349</u>	<u>\$ 280,763</u>	<u>\$ (688,464)</u>	<u>\$ 1,995,648</u>	<u>\$ 712,597</u>

Long-term debt activity for the year ended December 31, 2007 was as follows:

	<u>2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>2007</u>	<u>Current Portion</u>
Leases, bonds, and loans payable:					
Lease payable	\$ 19,455	\$ 254,844	\$ (50,392)	\$ 223,907	\$ 48,079
Notes payable	2,159,617	-	(399,636)	1,759,981	413,257
Compensated absences	<u>456,343</u>	<u>198,796</u>	<u>(235,678)</u>	<u>419,461</u>	<u>216,630</u>
Total long-term liabilities	<u>\$ 2,635,415</u>	<u>\$ 453,640</u>	<u>\$ (685,706)</u>	<u>\$ 2,403,349</u>	<u>\$ 677,966</u>

# Paulding County Hospital

## Notes to Financial Statements December 31, 2008 and 2007

### Note 6 - Long-term Debt (Continued)

The following is a schedule by years of note principal and interest and future minimum lease payments as of December 31, 2008:

	Note Principal	Note Interest	Leases Payable
2009	\$ 437,736	\$ 39,853	\$ 56,666
2010	301,260	26,224	56,666
2011	208,932	17,725	56,666
2012	163,262	11,843	18,889
2013	161,790	6,591	-
2014-2018	121,074	1,602	-
Total payments	<u>\$ 1,394,054</u>	<u>\$ 103,838</u>	188,887
Less amount representing interest			<u>(13,059)</u>
Net present value			<u>\$ 175,828</u>

The carrying value of equipment under capital lease obligations at December 31 is as follows:

	2008	2007
Cost of equipment under capital lease	\$ 254,844	\$ 254,844
Less accumulated amortization	<u>(84,948)</u>	<u>(33,979)</u>
Net carrying amount	<u>\$ 169,896</u>	<u>\$ 220,865</u>

### Note 7 - Accrued Liabilities

The details of accrued liabilities at December 31, 2008 and 2007 are as follows:

	2008	2007
Payroll and related items	\$ 602,830	\$ 610,106
Compensated absences	224,698	216,630
Workers' compensation premiums	139,955	133,499
Health insurance claims	120,982	192,765
Other	<u>27,642</u>	<u>14,359</u>
Total accrued liabilities	<u>\$ 1,116,107</u>	<u>\$ 1,167,359</u>

### Note 8 - Cost Report Settlements

Approximately 58 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 also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients 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.

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.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

# Paulding County Hospital

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## Notes to Financial Statements December 31, 2008 and 2007

### Note 9 - 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 postretirement 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 postemployment healthcare 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 the 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 2007, member and employer contribution rates were consistent across all three plans (TP, MD, and CO) and are actuarially determined. The 2007 member contribution rate for members of local government units was 9.50 percent of their annual covered salary. The 2007, 2006, and 2005 employer contribution rate for local government units was 13.85 percent, 13.70 percent, and 13.55 percent, respectively, of covered payroll. The Hospital's contributions to OPERS for the years ended December 31, 2008, 2007, and 2006 were \$1,092,307, \$1,158,594, and \$1,126,007, respectively. Required employer contributions for all plans are equal to 100 percent of employer charges and must be extracted from the employer's records.



# Paulding County Hospital

## Notes to Financial Statements December 31, 2008 and 2007

### Note 9 - Defined Benefit Pension Plan (Continued)

**Postretirement Benefits** - In order to qualify for postretirement healthcare coverage under the TP and CO plans, age and service retirees must have 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an Other Postemployment 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 postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2007 and 2006 employer contribution rate for local government employer units was 13.85 percent and 13.70 percent, respectively, of covered payroll. Of this amount, 5 percent and 6 percent were used for January 1 through June 30, 2007 and July 1 through December 31, 2007, respectively, and 4.50 percent was used to fund health care during 2006. The portion of the employer's contribution used to fund postemployment benefits for 2007 and 2006 was approximately \$465,000 and \$370,000, respectively.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement 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 actuarial valuation includes a number of assumptions. The investment return assumption rate for 2006 was 6.50 percent. An annual increase of 4.00 percent 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 percent base increase, were assumed to range from 0.50 percent to 6.30 percent. Healthcare costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 0.50 percent to 5.00 percent for the next eight years. In subsequent years (nine and beyond), healthcare costs were assumed to increase at 4.00 percent (the projected wage inflation rate) annually. These assumptions and calculations are based on the system's latest actuarial review performed as of December 31, 2006.

The number of active contributing participants in the traditional and combined plans at December 31, 2007 was 374,979. The number of active contributing participants for both plans used in the December 31, 2006 actuarial valuation was 362,130. As of December 31, 2006, the actuarial value of the retirement system's net assets available for OPEB was \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$30.7 billion and \$18.7 billion, respectively.

**Healthcare Plan** - On September 9, 2004, the OPERS retirement board adopted a healthcare preservation plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, 2007 and 2008, which will allow additional funds to be allocated to the healthcare plan.

# Paulding County Hospital

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## Notes to Financial Statements December 31, 2008 and 2007

### Note 10 - Risk Management

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

The Hospital was insured against medical malpractice claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding \$1,000,000 or aggregate claims exceeding \$3,000,000 for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional \$5,000,000 of coverage.

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

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

The Hospital is exposed to various risks of loss related to property and general losses and employee injuries (workers' compensation). The Hospital has purchased commercial insurance for claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years. See Note 12 for discussion of self-insured health programs.

### 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, rights, and all income attributable to those amounts, property, or rights are held in trust at the state level for the benefit of the participants.

# Paulding County Hospital

## Notes to Financial Statements December 31, 2008 and 2007

### 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 \$40,000 per employee or total claims in excess of \$1,147,728. The plan policy year ends on December 31. Claims, charged to operations when incurred, were approximately \$1,046,000 and \$1,536,000 for the years ended December 31, 2008 and 2007, respectively.

A reconciliation of accrued health insurance at December 31, 2008 and 2007 consists of the following:

Balance at January 1, 2007	\$ 166,601
Health insurance expense	1,536,000
Payments made	<u>(1,509,836)</u>
Balance at December 31, 2007	192,765
Health insurance expense	1,046,000
Payments made	<u>(1,117,783)</u>
Balance at December 31, 2008	<u>\$ 120,982</u>

## **Additional Information**

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## Report on Internal Control and Compliance

To the Board of Directors  
Paulding County Hospital

We have audited the financial statements of Paulding County Hospital (a component unit of Paulding County) as of and for the year December 31, 2008 and have issued our report thereon dated February 12, 2009. 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.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Paulding County Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Paulding County Hospital's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors  
Paulding County Hospital

**Compliance and Other Matters**

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

We noted certain matters that we reported to management of Paulding County Hospital in a separate letter dated February 12, 2009.

This report is intended solely for the information and use of the auditor of the State of Ohio, the board of directors of Paulding County Hospital, 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*

February 12, 2009



**Mary Taylor, CPA**  
Auditor of State

**PAULDING COUNTY HOSPITAL**

**PAULDING COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 7, 2009**