

PAULDING COUNTY HOSPITAL

Financial Statements

December 31, 1999 and 1998

PAULDING COUNTY HOSPITAL

Financial Statements

December 31, 1999 and 1998

with

Independent Auditors' Report

PAULDING COUNTY HOSPITAL
PAULDING, OHIO

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Board of Trustees
Paulding County Hospital
Paulding, Ohio

We have reviewed the Independent Auditor's Report of the Paulding County Hospital, Paulding County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 1999 through December 31, 1999. 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.



JIM PETRO
Auditor of State

June 2, 2000

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Independent Auditors' Report

Board of Trustees
Paulding County Hospital
Paulding, Ohio

We have audited the accompanying balance sheets of Paulding County Hospital (a component unit of Paulding County) as of December 31, 1999 and 1998, and the related statements of operations, changes in fund balance, and cash flows for the years then ended. These financial statements are the responsibility of Paulding County Hospital's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards 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, 1999 and 1998, and the results of its operations, changes in fund balance, and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2000 on our consideration of Paulding County Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Clark, Schaefer, Hackett & Co.
March 3, 2000
Springfield, Ohio

PAULDING COUNTY HOSPITAL
Balance Sheets - Unrestricted and Restricted Funds
December 31, 1999 and 1998

	1999	1998
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 63,470	302,908
Patient accounts receivable, net	1,976,627	2,094,652
Other receivables	88,819	17,907
Inventories	253,720	228,468
Prepaid expenses	122,473	154,443
Total current assets	2,505,109	2,798,378
Assets limited as to use:		
Investments	5,633,668	3,545,765
Accrued interest receivable	121,667	136,060
Notes receivable	130,677	85,719
Property and equipment, net	4,738,975	4,900,089
Other assets:		
Physician's practice, net	-	48,750
Donor restricted funds:		
Investments	587,012	556,532
Total assets	\$ 13,717,108	12,071,293
<u>Liabilities, Fund Balance and Equity</u>		
Current liabilities:		
Current maturities of notes and capital lease payable	\$ 381,227	266,023
Accounts payable	519,443	332,501
Accrued Medicare/Medicaid settlement	146,410	150,000
Accrued expenses:		
Payroll and taxes	101,969	285,682
Vacation pay	252,995	260,080
Other	48,745	189,766
Total current liabilities	1,450,789	1,484,052
Notes and capital lease payable, net of current maturities	1,005,953	1,268,700
Total liabilities	2,456,742	2,752,752
Fund balance and equity:		
Contributed capital	1,900,000	-
Unrestricted fund balance	8,773,354	8,762,009
Restricted fund balances:		
Specific purpose funds	13,142	12,879
Endowment funds	573,870	543,653
Total fund balance and equity	11,260,366	9,318,541
Total liabilities, fund balance and equity	\$ 13,717,108	12,071,293

See accompanying notes to the financial statements.

PAULDING COUNTY HOSPITAL

Statements of Operations - Unrestricted Funds

Years Ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Revenue:		
Net patient service revenue	\$ 10,591,728	10,375,891
Other revenue	207,805	120,669
Gain (loss) on sale of operating assets	<u>(795)</u>	<u>(112)</u>
 Total revenue	 <u>10,798,738</u>	 <u>10,496,448</u>
 Expenses:		
Salaries and wages	4,797,459	4,490,616
Employee benefits	1,181,923	896,825
Fees to individuals and organizations	772,933	772,383
Supplies and other expenses	2,114,099	1,907,418
Purchased services	1,062,317	1,073,245
Depreciation	794,848	765,743
Interest	82,985	92,850
Provision for bad debt	<u>241,499</u>	<u>303,497</u>
 Total expenses	 <u>11,048,063</u>	 <u>10,302,577</u>
 Operating income (loss)	 (249,325)	 193,871
 Nonoperating income (loss):		
Investment earnings	233,607	236,903
Gifts	23,867	29,428
Loss on sale of investment	-	(31,531)
Other, net	<u>3,196</u>	<u>1,502</u>
 Excess of revenues and nonoperating gains over expenses and nonoperating losses	 \$ <u>11,345</u>	 <u>430,173</u>

See accompanying notes to the financial statements.

PAULDING COUNTY HOSPITAL
Statements of Changes in Fund Balances
Years Ended December 31, 1999 and 1998

	<u>Unrestricted</u>	<u>Donor Restricted Funds</u>	
	<u>General Funds</u>	<u>Specific Purpose Funds</u>	<u>Endowment Funds</u>
Fund balance, January 1, 1998	\$ 8,715,318	36,749	106,009
Excess of revenues and nonoperating gains over expenses and nonoperating losses	430,173	3,320	26,972
Transfers in/transfers (out)	<u>(383,482)</u>	<u>(27,190)</u>	<u>410,672</u>
Fund balance, December 31, 1998	\$ <u>8,762,009</u>	<u>12,879</u>	<u>543,653</u>
Fund balance, January 1, 1999	\$ 8,762,009	12,879	543,653
Excess of revenues and nonoperating gains over expenses and nonoperating losses	11,345	263	30,217
Transfers in/transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, December 31, 1999	\$ <u>8,773,354</u>	<u>13,142</u>	<u>573,870</u>

See accompanying notes to the financial statements.

PAULDING COUNTY HOSPITAL
Statements of Cash Flows - Unrestricted and Restricted Funds
Years Ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Operating income (loss)	\$ (249,325)	193,871
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	794,848	765,743
Proceeds from sale of operating assets	1,750	1,300
Miscellaneous nonoperating income	32,094	31,906
Effects of changes in operating assets and liabilities:		
Receivables, net	47,113	(312,846)
Inventories	(25,252)	(18,459)
Prepaid expenses	31,970	(41,028)
Accounts payable	186,942	82,269
Accrued Medicare/Medicaid settlement	(3,590)	(200,000)
Accrued expenses	(331,819)	193,014
Net cash provided by operating activities	<u>484,731</u>	<u>695,770</u>
Cash flows from noncapital financing activities:		
Unrestricted gifts received	<u>23,867</u>	<u>29,428</u>
Net cash provided by investing activities	<u>23,867</u>	<u>29,428</u>
Cash flows from capital and related financing activities:		
Payment of debt principal	(147,543)	(269,687)
Contributed capital	1,900,000	-
Purchase of property and equipment	(585,152)	(480,296)
(Increase) in assets limited as to use, net	<u>(2,118,468)</u>	<u>(75,660)</u>
Net cash used by capital and related financing activities	<u>(951,163)</u>	<u>(825,643)</u>
Cash flows from investing activities:		
Decrease in investments, net	-	416,057
(Increase) in donor restricted funds	(30,480)	(413,774)
Loss on sale of investments	-	(31,531)
Investment earnings	<u>233,607</u>	<u>236,903</u>
Net cash provided by investing activities	<u>203,127</u>	<u>207,655</u>
Net increase (decrease) in cash	(239,438)	107,210
Cash and cash equivalents, beginning of year	<u>302,908</u>	<u>195,698</u>
Cash and cash equivalents, end of year	\$ <u>63,470</u>	<u>302,908</u>
<u>Supplemental disclosure of cash flow information</u>		
Cash paid for:		
Interest	\$ <u>82,985</u>	<u>92,850</u>

See accompanying notes to the financial statements.

PAULDING COUNTY HOSPITAL

Notes to Financial Statements

1. Significant Accounting Policies:

Organization

Paulding County Hospital (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. It is governed by a Board of Trustees appointed by the County Commissioners, the Probate Judge and the Judge of the Court of Common Pleas of Paulding County. The Hospital is considered a component unit of Paulding County Ohio, and is included as a discretely presented component unit in the general purpose financial statements of the County.

Cash and cash equivalents

For the statements of cash flows, cash and a cash equivalent include cash on hand and amounts in demand deposits.

Inventories

Inventories are stated at the lower of cost or market determined on a first-in, first-out (FIFO) basis. Inventory consists of goods and supplies used in providing healthcare services.

Assets whose use is limited

Assets whose use is limited include assets set aside by the Hospital Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes, and assets placed in the health education fund, which is used by the Board of Trustees to make loans to students pursuing courses of study in the health care profession.

Property and equipment

Property and equipment are recorded at cost or, if donated, at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Such amortization is included in depreciation expense in the financial statements.

Donor restricted funds

Donor restricted funds are used to differentiate funds, the use of which is specified by donors, from general funds upon which donors place no restriction or that arise as a result of the operation of the Hospital for its stated purposes. Assets whose use is limited are not considered to be restricted funds. Restricted gifts and other restricted resources are recorded as direct additions to the appropriate restricted fund.

Funds restricted by donors for plant replacement and expansion are added to the general fund balance to the extent expended within the period.

Net patient service revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period as final settlements are determined.

Investment income

Investment income on borrowed funds, Board designated funds (funded depreciation) and general funds are recorded as nonoperating gains. All investment income from donor restricted funds is added to the restricted fund balance.

Charity care

The Hospital provides care to patients that 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 charged as an allowance for charity care.

Proprietary fund accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Accounting standards

Pursuant to Government Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, 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.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash and cash equivalents:

Deposits

At year-end, the carrying amount of Paulding County Hospital's deposits was \$6,284,150 and the bank balance was \$6,580,990. Federal depository insurance covered \$500,000 of the bank balance, and all remaining deposits were classified as Category 3, which GASB defines as uncollateralized or collateralized with securities held by the pledging financial institution's trust department of agent but not in the Hospital's name. In accordance with Ohio Revised Code, Section 135.181, the remaining balance was covered by pooled collateral.

Reconciliation of cash and cash equivalents and investments

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth on GASB Statement No. 3.

A reconciliation between classifications of cash and investments are as follows:

	Cash and cash Equivalents	Investments
Per Balance Sheet	\$ 63,470	\$ 6,220,680
Certificates of Deposit (with maturities of more than 3 months)	<u>6,220,680</u>	<u>(6,220,680)</u>
Per GASB Statement No. 3	\$ <u>6,284,150</u>	\$ <u> -</u>

3. Patient Accounts Receivable:

Patient accounts receivable are recorded as services are performed. The allowance for bad debts is increased by 1.75% of patient revenue and the allowance for charity care is increased by .75% of patient revenue. Allowances for third party contractual adjustments are recorded at amounts determined by management upon review of third party billings. All uncollectible accounts are written off against the respective allowance account. Net patient accounts receivable at December 31, 1999 and 1998 are calculated as follows:

	1999	1998
Patient Accounts Receivable	\$ 3,145,047	3,230,929
Total Allowances for Uncollectible Amounts	<u>(1,168,420)</u>	<u>(1,136,277)</u>
Patient Accounts Receivable, net	<u>\$ 1,976,627</u>	<u>2,094,652</u>

4. Assets Whose Use is Limited:

The composition of assets whose use is limited at December 31, 1999 and 1998 is set forth below:

	1999	1998
By Board for Capital Improvements:		
Deposits in financial institutions	\$ 5,633,668	3,545,765
Accrued interest receivable	121,667	136,060
By Board to Fund the Health Education Fund:		
Notes receivable	<u>130,677</u>	<u>85,719</u>
Total Assets Whose Use Is Limited	<u>\$ 5,886,012</u>	<u>3,767,544</u>

5. Property and Equipment:

A summary of property and equipment at December 31, 1999 and 1998 is listed below:

	<u>Estimated Lives</u>	<u>1999</u>	<u>1998</u>
Land	Not applicable	\$ 30,609	30,609
Land improvements	5-25 years	124,444	124,444
Building and improvements	5-50 years	5,388,614	5,357,167
Fixed equipment	5-20 years	1,455,292	1,455,292
Moveable equipment	5-20 years	5,287,020	5,042,641
Construction in process	Not applicable	<u>169,050</u>	<u>-</u>
Total		12,455,029	12,010,153
Less accumulated depreciation		<u>(7,716,054)</u>	<u>(7,110,064)</u>
Property and equipment, net		\$ <u>4,738,975</u>	<u>4,900,089</u>

6. Notes and Capital Lease Payable:

	<u>1999</u>	<u>1998</u>
4.69% commercial note payable to State Bank in 24 months with monthly payments of \$8,701 including interest. Secured by ultrasound machine.	\$ 118,480	-
4.78% commercial note payable to State Bank in 60 months with monthly payments of \$10,166 including interest. Secured by equipment.	157,281	268,700
5.52% capital lease payable to Fifth Third Bank in 120 months with monthly payments of \$18,385 including interest. Secured by HVAC system.	<u>1,111,419</u>	<u>1,266,023</u>
Total	\$ <u>1,387,180</u>	<u>1,534,723</u>

Principal payments are due as follows:

2000	\$ 381,227
2001	230,497
2002	182,378
2003	192,704
2004	203,615
Thereafter	<u>196,759</u>
	\$ <u>1,387,180</u>

Future minimum payments on the capital lease payable are as follows:

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2000	\$ 220,615	163,356	57,259
2001	220,615	172,607	48,010
2002	220,615	182,378	38,237
2003	220,615	192,704	27,911
2004	220,615	203,615	17,000
Thereafter	<u>202,233</u>	<u>196,759</u>	<u>5,472</u>
	<u>\$ 1,305,308</u>	<u>1,111,419</u>	<u>193,889</u>

Assets acquired under capital lease are summarized below:

	<u>Cost</u>	<u>Estimated Life</u>	<u>1999 Depreciation</u>	<u>Accumulated Depreciation</u>
HVAC System	\$ 1,736,188	15 years	115,746	392,687

7. Contributed Capital:

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

8. Patient Service Revenue:

The Hospital has agreements with third-party payors that provide for reimbursements 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. Following is a summary of the Hospital's primary third party payors:

Medicare and Medicaid

Inpatient care services rendered to Medicare and Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Ancillary outpatient services are paid on both a cost reimbursement and prospective basis. Defined capital costs related to Medicare beneficiaries are paid primarily on a prospectively determined method per discharge. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary.

Any adjustments necessary between the tentative cost reimbursement amount and the final settlement is included as a contractual adjustment in the year the adjustment is determined.

9. Public Employees Retirement System:

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. Plan members are required to contribute 8.5% of their annual covered salary and the Hospital's contribution rate for 1999 was 13.55% of covered payroll. The Hospital's contributions, representing 100% of employer contribution's for the periods ended December 31, 1999, 1998 and 1997 were \$ 1,094,264, \$984,603 and \$951,194, respectively.

10. Other Postemployment Benefits:

The Public Employees Retirement System of Ohio provides postretirement health care coverage to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care 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 PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 1999 employer contribution rate for local government employer units was 13.55% of covered payroll; 4.2% was the portion that was used to fund health care for the year 1999.

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

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

Expenditures for OPEB during 1999 were \$ 523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$ 9,870,285,641. The number of benefit recipients eligible for OPEB at December 31, 1999 was 118,062.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

11. Malpractice Costs:

The Hospital has malpractice insurance coverage of \$1,000,000 per each medical incident and \$3,000,000 in the aggregate and \$5,000,000 excess coverage with the Ohio Hospital Insurance Company on an occurrence based policy.

At December 31, 1999, the Hospital is not aware of any claims or asserted claims alleging malpractice.

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Independent Auditors' Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Paulding County Hospital
Paulding, Ohio

We have audited the financial statements of Paulding County Hospital as of and for the year ended December 31, 1999, and have issued our report thereon dated March 3, 2000. We conducted our audit in accordance with generally accepted auditing standards 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's 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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, we noted other matters involving the internal control over financial reporting that we have reported to the management of Paulding County Hospital in a separate letter dated March 3, 2000.

This report is intended solely for the information of the Board of Trustees, Paulding County and management and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
March 3, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

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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.

By: Susan Babbitt

Date: JUNE 20, 2000