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## **Morrow County Hospital and Affiliate**

**Financial Report  
with Additional Information  
December 31, 2009 and 2008**





# Mary Taylor, CPA

Auditor of State

Board of Trustees  
Morrow County Hospital and Affiliate  
651 W. Marion Rd.  
Mt. Gilead, Ohio 43338

We have reviewed the *Independent Auditor's Report* of the Morrow County Hospital and Affiliate, Morrow County, prepared by Rea & Associates, Inc., for the audit period January 1, 2009 through December 31, 2009. 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 Morrow County Hospital and Affiliate is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

May 10, 2010

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# **Morrow County Hospital and Affiliate**

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April 21, 2010

The Board of Trustees  
Morrow County Hospital and Affiliate  
651 W. Marion Rd.  
Mt. Gilead, Ohio 43338

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying balance sheet of Morrow County Hospital and Affiliate (the Hospital), a business-type activity of Morrow County, Ohio, as of December 31, 2009, and the changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Hospital for the year ended December 31, 2008, were audited by other auditors whose report, dated April 6, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the basic financial statements present only the Hospital, a business-type activity of Morrow County, Ohio and are not intended to present fairly the financial position of Morrow County, Ohio and the changes in financial position and cash flows of its business-type activities in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital, as of December 31, 2009, and the respective changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2010 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 are not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Rea & Associates, Inc.*

# **Morrow County Hospital and Affiliate**

## **Management's Discussion and Analysis**

Morrow County Hospital, located in Mount Gilead, Ohio, is a county-owned, tax-exempt entity that operates an acute-care hospital facility providing quality inpatient, outpatient, skilled nursing, and home health services to residents of Morrow County and surrounding areas. The reporting entity (the "Hospital") is comprised of Morrow County Hospital and the Morrow County Hospital Foundation, which provides services exclusively for the benefit of Morrow County Hospital. The Hospital is reported as an enterprise fund of Morrow County, Ohio. Morrow County Hospital is operated under Section 339 of the Ohio Revised Code.

This section of the Hospital's annual financial report presents management's discussion and analysis of the Hospital's financial performance and provides an overall review of the Hospital's financial position and activities as of and for the years ended December 31, 2009, 2008, and 2007. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this management's discussion and analysis are the responsibility of the Hospital's management.

### **Financial and Operating Highlights for 2009**

- Days cash on hand improved from 65.3 at December 31, 2008 to 76.08 as of December 31, 2009.
- Net Assets increased by \$318,342 in 2009, as compared to a decrease of \$256 in 2008.
- The hospital once again achieved full accreditation with the Joint Commission as a result of its survey in October 2009.
- Customer and physician satisfaction scores remained extremely positive, and in some areas, rank among the top 10 percent in the nation.

### **Overview of the Financial Statements**

This annual report consists of financial statements prepared in accordance with the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These standards establish comprehensive financial reporting standards for all state and local governments and related entities.

The balance sheet, statement of revenues, expenses, and changes in net assets, and statement of cash flows provide an indication of the Hospital's financial health. The balance sheet includes the Hospital's assets and liabilities, using the accrual basis of accounting as well as an indication about which assets can be utilized for general purposes and which are restricted for other purposes. The statement of revenues, expenses, and changes in net assets reports the revenues and expenses during the time periods indicated. The statement of cash flows reports the cash provided and used by operating activities, as well as other cash sources, such as investment income, and cash payments for repayment of debt and capital asset acquisitions.



# Morrow County Hospital and Affiliate

## Management's Discussion and Analysis (Continued)

### Financial Analysis of the Hospital at December 31, 2009

Total assets decreased by 3.9 percent to \$21.2 million, and total liabilities decreased 16.6 percent to \$6.9 million. The Hospital's total net assets increased from \$14.0 million to \$14.4 million, a 2.2 percent increase from a year ago as shown in the following table:

	2007	2008	2009	2008 to 2009 Change	
				Amount	Percentage
<b>Assets</b>					
Current assets	\$ 8,000,165	\$ 7,682,843	\$ 6,991,321	\$ (691,522)	-9.0%
Noncurrent assets	4,460,364	4,629,013	5,311,984	682,971	14.8%
Property and equipment	10,432,063	9,742,426	8,938,588	(803,838)	-8.3%
Total assets	22,892,592	22,054,282	21,241,893	(812,389)	-3.7%
<b>Liabilities</b>					
Current liabilities	6,215,839	6,163,275	5,664,126	(499,149)	-8.1%
Noncurrent liabilities	2,616,385	1,830,895	1,199,313	(631,582)	-34.5%
Total liabilities	8,832,224	7,994,170	6,863,439	(1,130,731)	-14.1%
<b>Net Assets</b>					
Invested in capital assets - net of related debt	7,033,974	7,130,484	7,098,311	(32,173)	-0.5%
Unrestricted	7,026,394	6,929,628	7,280,144	350,516	5.1%
Total net assets	<b>\$ 14,060,368</b>	<b>\$ 14,060,112</b>	<b>\$ 14,378,455</b>	<b>\$ 318,343</b>	2.3%

### Current Assets

Total current assets decreased by \$698,600 from the previous year. Cash and cash equivalents decreased \$540,471 due to increases in limited use investments. Estimated third-party payor settlements receivable decreased \$100,392 as a result of interim settlements made on the 2009 Medicare cost report. A decrease also resulted in a third party payor settlement payable on the balance sheet.

### Noncurrent Assets

Noncurrent assets, which consist primarily of limited use investments, general long-term investments, and physician advances receivable, increased by \$682,971, or 12.9 percent. Limited use investments increased by \$686,567. The increase was due to the transfer of additional amounts to funded depreciation, a fund used to save for future capital purchases, and accumulated interest earned on the debt service fund.

### Property and Equipment

Property and equipment decreased by \$803,838 or 9.0 percent. The decrease was due to depreciation expense of \$1,294,818 offset by net additions and retirements of \$8,646.

# Morrow County Hospital and Affiliate

## Management's Discussion and Analysis (Continued)

### Current Liabilities

Current liabilities decreased \$506,227 over the prior year. Accounts payable decreased by \$195,951 due to the timing of payments to vendors. Accrued compensation decreased \$414,104 due to the timing of the year end payroll accrual and a \$183,150 reduction in the reserve for claims incurred but not received for the hospital's employee health insurance program. Other accrued liabilities increased by \$235,951, primarily due to an increase in estimate for deferred income related to the government's Healthcare Assurance Program (HCAP) and Upper Payment Limit Program (UPL).

### Long-term Liabilities

Long-term liabilities decreased by \$631,582 primarily due to principal payments on long-term debt of \$781,048. Additional detail regarding the Hospital's long-term debt can be found in Note 7 of the financial statements.

### Net Assets

Total net assets increased by 2.2 percent, due entirely to excess revenue over expenses.

### Operating Revenues and Expenses

The following table shows the changes in revenues and expenses for 2009 compared to 2008 and 2007:

	2007	2008	2009	2008 to 2009 Change	
				Amount	Percentage
<b>Operating Revenues</b>					
Total patient service revenue	\$ 27,019,470	\$ 28,070,475	\$ 25,839,573	\$ (2,230,902)	-7.9%
Other	730,468	653,353	891,366	238,013	36.4%
Total Operating revenues	27,749,938	28,723,828	26,730,940	(1,992,888)	-6.9%
<b>Operating Expenses</b>					
Salaries and benefits	14,253,489	14,618,353	12,761,204	(1,857,149)	-12.7%
Operating Supplies and expenses	5,473,785	5,704,586	5,373,989	(330,597)	-5.8%
Purchased services	5,829,136	6,543,817	6,845,950	302,133	4.6%
Insurance	196,180	255,628	191,411	(64,217)	-25.1%
Utilities	626,453	673,711	596,586	(77,125)	-11.4%
Rental	703,150	801,676	606,499	(195,177)	-24.3%
Depreciation and amortization	1,388,381	1,377,261	1,294,818	(82,443)	-6.0%
Total operating expenses	28,470,574	29,975,032	27,670,456	(2,304,576)	-7.7%
<b>Operating Income Loss</b>	(720,636)	(1,251,204)	(939,516)	(311,688)	24.9%
<b>Nonoperating Income (Expenses)</b>					
Investment income	241,853	172,201	56,367	(115,834)	-67.3%
Property taxes	1,284,130	1,297,177	1,342,656	45,479	3.5%
Loss on sale of property	-	(17,750)	4,000	21,750	-122.5%
Interest expense	(245,689)	(200,680)	(145,165)	55,515	-27.7%
Total nonoperating income	1,280,294	1,250,948	1,257,858	(6,910)	-0.6%
<b>Increase in Net Assets</b>	559,658	(256)	318,343	<b>\$ (318,599)</b>	
<b>Net Assets - Beginning of year</b>	13,500,710	14,060,368	14,060,112		
<b>Net Assets - End of year</b>	<b>\$ 14,060,368</b>	<b>\$ 14,060,112</b>	<b>\$ 14,378,455</b>		

# **Morrow County Hospital and Affiliate**

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

### **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, and the cafeteria. In addition, certain federal, state, and private grants are considered operating if they are not utilized for capital purposes and are considered a contract for services. Operating revenue changes were a result of the following factors:

- Net patient service revenue decreased \$2,230,902, or 7.9 percent, from 2008. Gross patient revenue decreased by \$2,056,105 or 4.0 percent. The Hospital board of trustees approved a 6.5 percent rate increase effective January 1, 2009. The favorable impact of the rate increase was offset by decreases in the number of surgeries, outpatient registrations, emergency department visits and inpatient days. Gross patient revenue is reduced by revenue deductions. These deductions are the amounts that are not paid to the Hospital under contractual arrangements with Medicare, Medicaid, and other payors. These revenue deductions increased from 43.8 percent to 45.6 percent as a percentage of gross revenue. This unfavorable increase was due to a greater portion of the Hospital's revenue coming from Medicare and Medicaid rather than patients covered by commercial insurance.

### **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:

- Salaries and benefits decreased 12.7 percent due to a significant decrease in employee health insurance costs and a reduction of 13.7 full-time equivalent employees compared to 2008.
- Operating supplies and expenses decreased 5.8 percent due to decreased patient volumes, particularly in surgery.
- Purchased services increased 4.6 percent due to the use of information technology consulting services and a full year of contracted anesthesia services used instead of an employed nurse anesthetist.
- Rental Expense decreased by \$195,177 due to the reduced use of operating leases for clinical equipment.

The following is a summary of 2009 operating expenses by type:

<b>Operating Expenses</b>	<b>Percentage</b>	<b>Amount</b>
Salaries and benefits	46.12%	\$ 12,761,204
Operating supplies and expenses	19.42%	5,373,989
Purchased services	24.74%	6,845,950
Insurance	0.69%	191,411
Utilities	2.16%	596,586
Rental	2.19%	606,499
Depreciation and amortization	4.68%	1,294,818
	<u>100.00%</u>	<u>\$ 27,670,456</u>

# **Morrow County Hospital and Affiliate**

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

### **Nonoperating Revenues (Expenses)**

Nonoperating revenues and expenses are all sources and uses that are primarily nonexchange in nature. At Morrow County Hospital, these consist primarily of property tax levy funds and interest expense.

Significant changes to nonoperating income (loss) were the result of the following factors:

- Investment income decreased by \$115,834 or 67.3 percent. Due to the economic environment of 2008, the Hospital's investments in government-backed securities were called early and replaced with lower yielding investments. Interest rates were lower in 2009 than in 2008.
- Interest expense decreased by \$55,515 or 27.7 percent, due to the payoff of capital leases during 2008 and 2009 and the normal paydown of the Hospital's master lease and purchase agreement.

### **Statement of Cash Flows**

The statement of cash flows provides relevant information about the entity's cash receipts and cash payments. 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

The following table shows condensed cash flow information for the years 2009, 2008, and 2007:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Increase (Decrease)</u>
<b>Cash Provided (Used) by:</b>				
Operating activities	\$ 46,248	\$ 641,265	\$ 35,949	\$ (605,316)
Investing activities	706,744	(855,341)	(31,529)	823,812
Capital and related financing activities	<u>(899,558)</u>	<u>(398,275)</u>	<u>(73,210)</u>	<u>325,065</u>
<b>Net increase (Decrease) in Cash</b>	(146,566)	(612,351)	(68,790)	543,560
<b>Cash - Beginning of year</b>	<u>2,737,637</u>	<u>2,591,071</u>	<u>1,978,720</u>	<u>(612,351)</u>
<b>Cash - End of year</b>	<u><u>\$ 2,591,071</u></u>	<u><u>\$ 1,978,720</u></u>	<u><u>\$ 1,909,930</u></u>	<u><u>\$ (68,791)</u></u>

# **Morrow County Hospital and Affiliate**

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

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

- Net cash provided by operating activities decreased \$605,316 over the prior year due to a decrease of \$2,445,576 in payments received from our patients and third-party payors offset by \$1,493,222 decrease in amounts paid to employees for wages and benefits.
- Net cash used in capital and related financing activities decreased from 2008 primarily due to a \$218,395 decrease in the acquisition and construction of capital assets.
- Investing activities used \$823,812 less cash in 2009 than in 2008. This was due to a \$2,036,994 increase in proceeds from the net purchase/sale of investments compared to 2008. This was offset by a \$1,097,349 larger increase in limited use assets as compared to 2008.

### **Economic Factors and Next Year's Budget**

The board of trustees and the Morrow County Commissioners approved the 2010 operating budget in October 2009. The budget calls for gross revenue of \$53 million, total operating expenses of \$32.5 million, and excess revenue over expense of \$371,000. The board of trustees approved an average increase of 6 percent in the patient charge structure for the upcoming fiscal year.

There are several factors and uncertainties that may affect the Hospital during 2010 and future years including:

- On March 23, 2010, President Obama signed the Patient Protection and Affordable Care Act (H.R. 3590). This healthcare reform legislation will impact the hospital, both as a provider and as an employer. Due to the size and complexity of the legislation, the hospital has not yet determined whether the legislation's overall impact will be positive or negative.
- The Medicare program has initiated a Recovery Audit Contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The RAC program for Ohio hospitals started in early 2010. The hospital is unable to determine if it will be audited and if so, the extent of liability for overpayments, if any. If selected for audit, the potential exists for significant overpayment of claims liability for the Hospital at a future date.
- The American Recovery and Reinvestment Act (ARRA) requires hospitals to demonstrate "meaningful use" of an electronic medical record system by 2015. There are financial incentives for meeting federal guidelines before 2015. After 2015, the hospital will incur financial penalties if it has not attained meaningful use. The cost of an electronic medical record system meeting meaningful use criteria is estimated to be between \$2 million and \$4 million. Given the uncertainty of the final definition of "meaningful use" and the high cost of these systems, the hospital is unable to determine if it will meet the federal guidelines by 2015.

# **Morrow County Hospital and Affiliate**

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

- In 2009, the State of Ohio implemented a new tax on hospitals and increased its existing franchise tax on nursing homes. These changes are anticipated to have a combined negative impact of \$307,000 on the hospital during 2009 – 2010. Given the current economic environment, ongoing state budget challenges and the potential impact of national healthcare reform on Ohio's Medicaid budget, the future impact of the hospital tax remains uncertain. Ohio's budget difficulties could also have a negative effect on the rate of Medicaid reimbursement the facility receives for both its hospital and its nursing home services.
- The economic position of the Hospital is influenced by the local economy. Compared to other Ohio counties, Morrow County has higher than average unemployment and below average per capita income. The poor economic climate of 2010 may lead to increased bad debt expense, charity care, and Medicaid utilization.
- Due to its rural location, the Hospital must occasionally address physician shortages including family practitioners and specialists.
- The Hospital's strategic plan calls for the expansion and renovation of its facility. The project has been placed on hold until the hospital's operating results improve.

### **Contacting the Authority's Financial Management**

This financial report is intended to provide the people of Morrow County, state and federal governments, and our debt holders with a general overview of the Hospital's finances. In addition, this report discloses the uses of the money received from services provided and county property taxes. If you have questions about this report or need additional information, please contact me.

Joseph Schueler  
Chief Financial Officer

# Morrow County Hospital and Affiliate

## Balance Sheet

	December 31, 2009	December 31, 2008
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	\$ 15,750	\$ 556,221
Short-term investments (Note 4)	500,000	500,000
Accounts receivable (Note 3)	4,229,637	4,302,106
Levied taxes receivable	1,250,000	1,250,000
Estimated third-party payor settlements (Note 6)	-	93,315
Prepaid expenses and other	465,121	420,332
Inventory	469,133	506,815
Other current asset - Physician advances	61,680	54,054
Total current assets	6,991,321	7,682,843
<b>Assets Limited as to Use</b> (Note 4)	4,963,194	4,276,627
<b>General Long-term Investments</b> (Note 4)	334,013	329,687
<b>Property and Equipment - Net</b> (Note 5)	8,938,588	9,742,426
<b>Other Assets - Physician advances</b>	14,777	22,699
Total assets	<u><u>\$ 21,241,893</u></u>	<u><u>\$ 22,054,282</u></u>

See Notes to Financial Statements.

# **Morrow County Hospital and Affiliate**

## **Balance Sheet (Continued)**

	December 31, 2009	December 31, 2008
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt (Note 7)	\$ 631,582	\$ 781,047
Accounts payable	1,753,808	1,949,759
Third-party payor settlements payable (Note 6)	7,077	-
Accrued liabilities and other:		
Accrued compensation	1,011,596	1,425,710
Accrued compensated absences	484,245	464,218
Accrued interest	9,380	12,055
Deferred revenue for levied taxes	1,250,000	1,250,000
Other accrued liabilities	516,437	280,486
Total current liabilities	5,664,125	6,163,275
<b>Long-term Debt - Net of current portion (Note 7)</b>	1,199,313	1,830,895
Total liabilities	6,863,438	7,994,170
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	7,098,313	7,130,484
Unrestricted	7,280,142	6,929,628
Total net assets	14,378,455	14,060,112
Total liabilities and net assets	<b>\$ 21,241,893</b>	<b>\$ 22,054,282</b>

See Notes to Financial Statements.



# **Morrow County Hospital and Affiliate**

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

	Year Ended	
	December 31, 2009	December 31, 2008
<b>Operating Revenues</b>		
Net patient service revenue	\$ 25,839,573	\$ 28,070,475
Other	891,366	653,353
Total operating revenues	26,730,940	28,723,828
<b>Operating Expenses</b>		
Salaries and wages	9,175,590	9,818,636
Employee benefits and payroll taxes	3,585,614	4,799,717
Operating supplies and expenses	5,373,989	5,704,586
Purchased services	6,845,950	6,543,817
Insurance	191,411	255,628
Utilities	596,586	673,711
Rental	606,499	801,676
Depreciation and amortization	1,294,818	1,377,261
Total operating expenses	27,670,456	29,975,032
<b>Operating Loss</b>	(939,516)	(1,251,204)
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	56,368	172,201
Gain (Loss) on sale of property	4,000	(17,750)
Property taxes	1,342,656	1,297,177
Interest expense	(145,165)	(200,680)
Total nonoperating revenue (expenses)	1,257,859	1,250,948
<b>(Decrease) Increase in Net Assets</b>	318,343	(256)
<b>Net Assets - Beginning of year</b>	14,060,112	14,060,368
<b>Net Assets - End of year</b>	<b>\$ 14,378,455</b>	<b>\$ 14,060,112</b>

See Notes to Financial Statements.

# Morrow County Hospital and Affiliate

## Statement of Cash Flows

	Year Ended	
	December 31, 2009	December 31, 2008
<b>Cash flows from Operating Activities</b>		
Cash received from patients and third-party payors	\$ 25,867,497	\$ 28,313,072
Cash payments to supplies for services and goods	(13,567,622)	(13,676,647)
Cash payments to employees for services	(13,155,291)	(14,648,513)
Other receipts from operation	891,365	653,353
Net cash provided by operating activities	35,949	641,265
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	4,985,859	2,349,017
Investment income	56,367	172,201
Decrease in assets limited as to use	(1,325,033)	(227,684)
Purchase of investments	(3,748,723)	(3,148,875)
Net cash used in investing activities	(31,529)	(855,341)
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(490,980)	(709,375)
Proceeds from sale of capital assets	4,000	4,000
Property tax levy	1,342,654	1,297,177
Interest paid on long-term debt	(147,840)	(203,930)
Principal payments on long-term debt	(781,046)	(786,147)
Net cash used in capital and related financing activities	(73,210)	(398,275)
<b>Net Decrease in Cash and Cash Equivalents</b>	(68,790)	(612,351)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,978,720	2,591,071
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,909,930</b>	<b>\$ 1,978,720</b>
<b>Supplemental Cash Flow Information</b>		
Included in current assets	\$ 15,750	\$ 556,221
Included in assets limited as to use	1,811,821	1,396,889
Included in general long-term investments	82,358	25,610
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,909,930</b>	<b>\$ 1,978,720</b>

See Notes to Financial Statements.

# **Morrow County Hospital and Affiliate**

## **Statement of Cash Flows (Continued)**

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

	Year Ended	
	December 31, 2009	December 31, 2008
<b>Cash flows from Operating Activities</b>		
Operating loss	\$ (939,516)	\$ (1,251,204)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	1,294,817	1,377,261
Provision for bad debts	2,742,450	2,917,343
Forgiveness of physician advances	(296)	49,587
(Increase) decrease in assets:		
Patient accounts receivable	(2,814,919)	(2,264,654)
Third-party settlement receivables	93,315	(93,315)
Inventories	(37,682)	(106,067)
Other current assets	44,789	60,971
Increase (decrease) in liabilities:		
Accounts payable	(195,951)	329,000
Accrued expenses	(158,136)	(60,880)
Third-party settlement payables	7,077	(316,777)
Net cash provided by operating activities	<u>\$ 35,949</u>	<u>\$ 641,265</u>

See Notes to Financial Statements.

# **Morrow County Hospital and Affiliate**

**Notes to Financial Statements  
December 31, 2009 and 2008**

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

**Organization** - The accompanying financial statements include the accounts of Morrow County Hospital and Morrow County Hospital Foundation (collectively, the "Hospital").

Morrow County Hospital is an acute and extended-care facility owned by, and is a part of, Morrow County, Ohio and operated by a board of trustees. Members of the board of trustees are appointed by the County Commissioners. The Hospital is a political subdivision of the State of Ohio and is therefore exempt from federal income taxes under Section 115 of the Internal Revenue Code. The Hospital was formed under the provisions of the Ohio Revised Code.

During 1997, the Hospital formed Morrow County Hospital Foundation (the "Foundation"). The purpose of the Foundation is to support the Hospital and community programs to improve the health and well-being of the people served by the Hospital. The Foundation is exempt under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code. Total assets and net assets of the Foundation are \$449,758, with assets consisting primarily of cash and cash equivalents and investments. Net revenue of the Foundation was approximately \$77,000 and consisted primarily of investment income. The basic financial statements do not provide separate columns to reflect the Foundation because such amounts are not significant compared to the total amounts reflected for the Hospital.

**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 provide a comprehensive look at the Hospital's financial activities. The Foundation is required to be reported in the Hospital's 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 not 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 include cash and investments in highly liquid investments purchased with an original maturity of three months or less. Cash and cash equivalents included in assets limited as to use and general long-term investments are considered cash and cash equivalents for the purpose of the statement of cash flows.

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

**Investments** - Investments include certificates of deposit and government securities and are recorded at fair value in the balance sheet. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in nonoperating revenue when earned.

**Patient 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.

**Inventories** - Inventories, which consist of medical and office supplies and pharmaceutical products, are stated at cost, determined on a first-in, first-out basis or market, whichever is lower.

**Assets Limited as to Use** - Investments set aside for board-designated purposes for future capital improvements (funded depreciation), or for debt service, and are considered to be noncurrent assets limited as to use.

**Capital Assets** - Property and equipment amounts are recorded at cost, or if donated, at fair value at the date of receipt. Depreciation is computed principally on the straightline basis over the estimated useful lives of the assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Costs of maintenance and repairs are charged to expense when incurred.

**Compensated Absences** - Paid time-off is charged to operations when earned. Unused and earned benefits are recorded as a liability in the financial statements. Employees accumulate vacation days and sick leave benefits 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-fourth of the accumulated balance, up to a maximum of 240 hours, calculated at the employee's base pay rate as of the retirement date.

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

**Classification of Net Assets** - Net assets of the Hospital are classified in two 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. *Unrestricted net assets* are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

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

**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 for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted 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 exclusions from the Medicare and Medicaid programs.

# **Morrow County Hospital and Affiliate**

## **Notes to Financial Statements December 31, 2009 and 2008**

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

The Medicare program has initiated a Recovery Audit Contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The RAC program is scheduled for Ohio hospitals in 2010. The hospital is unable to determine if it will be audited and if so, the extent of liability for overpayments, if any. If selected for audit, the potential exists for significant overpayment of claims liability for the Hospital at a future date.

**Contributions** - The Hospital reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Hospital reports the expiration of donor restrictions when the assets are placed in service.

**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 - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and 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.

**Property Taxes** - The Hospital received approximately 5.0 percent in 2009 and 4.5 in 2008 of its financial support from property taxes. The total funds received were used to support operations, \$1,342,656 and \$1,297,177 as of December 31, 2009 and 2008, respectively.

Property taxes are levied by the County on the Hospital's behalf on January 1 and are intended to finance the Hospital's activities of the same calendar year. Amounts levied are based on assessed property values as of the preceding July 1. The property tax calendar includes these dates:

Levy date	January 1
Lien date	January 1
Tax bill mailed	January 21
First installment payment due	February 16
Second installment payment due	July 13

Property taxes are considered delinquent on the day following each payment due date.

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

**Risk Management** - The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**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 revenue. During 2009 and 2008, the Hospital provided charity care of approximately \$931,000 and \$727,000, respectively.

**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.

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

Chapter 135 of the Ohio Uniform Depository 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. Section 135.14 of the Ohio Revised Code allows the local governmental to invest in United States Treasury bills, notes, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States of America and bonds and other obligations of the State of Ohio. Investments in no-load money market mutual funds, repurchase agreements, commercial paper, and bankers' acceptances are permitted subject to certain limitations that include completion of additional training, approved by the auditor of state, by the treasurer or governing board investing in these instruments.

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

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

**Active Funds** - Active funds are 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.



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

**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 not later than the end of the current period of designated depositories or as savings or deposit accounts, including, but not limited to, passbook accounts.

**Interim Funds** - Interim funds are 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 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)
7. Commercial paper and bankers' acceptances which meet the requirements established by Ohio Revised Code, SEC 135.142
8. Under limited circumstances, corporate debt included 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.

# **Morrow County Hospital and Affiliate**

**Notes to Financial Statements  
December 31, 2009 and 2008**

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

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

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

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

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. 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. At year end, all Hospital bank deposits (certificates of deposit, checking, and savings accounts) were fully collateralized.

### **Custodial Credit Risk of Investments**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Hospital does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Hospital's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
2009 U.S. government bonds	\$ 3,403,027	Counterparty
2008 U.S. government bonds	3,183,815	Counterparty

### **Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Hospital does not have an investment policy that addresses interest rate risk. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
2009 U.S. government bonds	\$ 3,403,027	1.50 years
2008 U.S. government bonds	3,183,815	1.55 years

# Morrow County Hospital and Affiliate

## Notes to Financial Statements December 31, 2009 and 2008

### Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	<u>2009</u>	<u>2008</u>
Patient accounts receivable	\$ 9,151,564	\$ 9,201,106
Less:		
Allowance for uncollectible accounts	(1,679,030)	(1,866,000)
Allowance for contractual adjustments	<u>(3,242,897)</u>	<u>(3,033,000)</u>
Net accounts receivable	<u><u>\$ 4,229,637</u></u>	<u><u>\$ 4,302,106</u></u>

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

	<u>Percent</u>	
	<u>2009</u>	<u>2008</u>
Medicare	34%	31%
Medicaid	15	11
Commercial insurance and HMO's	33	35
Self-pay	18	23
	<u>100%</u>	<u>100%</u>

### Note 4 - Assets Limited as to Use and Investments

Cash deposits, assets whose use is limited, and investments of the Hospital are composed of the following:

	<u>Fair Value</u>	
	<u>2009</u>	<u>2008</u>
Demand deposits and money market accounts	\$ 1,909,930	\$ 1,978,720
Certificate of deposits	500,000	500,000
U.S. government obligations	<u>3,403,027</u>	<u>3,183,815</u>
Total	<u><u>\$ 5,812,957</u></u>	<u><u>\$ 5,662,535</u></u>

# Morrow County Hospital and Affiliate

## Notes to Financial Statements December 31, 2009 and 2008

### Note 4 - Assets Limited as to Use and Investments (Continued)

	Fair Value	
	2009	2008
Amounts summarized by fund type -		
General funds:		
Cash and cash equivalents	\$ 15,750	\$ 556,221
Short-term investments	500,000	500,000
Board designated	4,963,194	4,276,627
General long-term investments	334,013	329,687
Total	<u>\$ 5,812,957</u>	<u>\$ 5,662,535</u>

### Note 5 - Capital Assets

Cost of capital assets and related depreciable lives for December 31, 2009 are summarized below:

	2008	Additions	Transfers	Retirements	2009	Depreciable Life-Years
Land and land improvements	\$ 571,677	\$ 16,408	\$ -	\$ -	\$ 588,085	5-25
Building	5,330,480		21,753	(1,756)	5,350,477	10-40
Equipment	15,915,851	169,659	482,885	(480,616)	16,087,779	5-20
Construction in progress	280,886	305,594	(504,638)	(681)	81,161	-
Total	22,098,894	491,661	-	(483,053)	22,107,502	
Less accumulated depreciation:						
Land and land improvements	378,616	26,487	-	-	405,103	
Building	2,807,328	224,044	-	(1,756)	3,029,616	
Equipment	9,170,524	1,044,287	-	(480,616)	9,734,195	
Total	12,356,468	1,294,818	-	(482,372)	13,168,914	
Net carrying amount	<u>\$ 9,742,426</u>	<u>\$(803,157)</u>	<u>\$ -</u>	<u>\$ (681)</u>	<u>\$8,938,588</u>	

Cost of capital assets and related depreciable lives for December 31, 2008 are summarized below:

	2007	Additions	Transfers	Retirements	2008	Depreciable Life-Years
Land and land improvements	\$ 546,059	\$ 25,618	\$ -	\$ -	\$ 571,677	5-25
Building	5,065,624	264,856	-	-	5,330,480	10-40
Equipment	15,511,953	110,960	358,979	(66,041)	15,915,851	5-20
Construction in progress	336,379	307,941	(363,434)		280,886	-
Total	21,460,015	709,375	(4,455)	(66,041)	22,098,894	
Less accumulated depreciation:						
Land and land improvements	354,064	24,552	-	-	378,616	
Building	2,614,582	214,195	(21,449)	-	2,807,328	
Equipment	8,059,306	1,138,514	16,994	(44,290)	9,170,524	
Total	11,027,952	1,377,261	(4,455)	(44,290)	12,356,468	
Net carrying amount	<u>\$10,432,063</u>	<u>\$(667,886)</u>	<u>\$ -</u>	<u>\$ (21,751)</u>	<u>\$9,742,426</u>	

### **Note 6 - Cost Report Settlements**

Approximately 61 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 these 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 these third-party payors follows:

**Medicare** - Effective October 1, 2002, the Hospital received full accreditation from the Center for Medicare and Medicaid Services for the critical access hospital designation. As a critical access hospital, the Hospital receives 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 a 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 change in rates, or the payment system itself, could have a material impact on 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.

# Morrow County Hospital and Affiliate

## Notes to Financial Statements December 31, 2009 and 2008

### Note 7 - Long-term Debt and Other Noncurrent Liabilities

Long-term liability activity for the year ended December 31, 2009 was as follows:

	2008	Current Year Additions	Current Year Reductions	2009	Amounts Due Within One Year
Master lease and purchase agreement	\$2,334,153	\$ -	\$ (572,958)	\$1,761,195	\$ 607,464
Capital lease obligations	277,789	-	(208,090)	69,699	24,118
Total long-term debt	2,611,942	-	(781,048)	1,830,894	631,582
Compensated absences	464,218	859,247	(839,220)	484,245	484,245
Total noncurrent liabilities	<u>\$3,076,160</u>	<u>\$ 859,247</u>	<u>\$ (1,620,268)</u>	<u>\$2,315,139</u>	<u>\$ 1,115,827</u>

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

	2007	Current Year Additions	Current Year Reductions	2008	Amounts Due Within One Year
Master lease and purchase agreement	\$2,874,134	\$ -	\$ (539,981)	\$2,334,153	\$ 572,958
Capital lease obligations	523,955	-	(246,166)	277,789	208,089
Total long-term debt	3,398,089	-	(786,147)	2,611,942	781,047
Compensated absences	462,273	839,219	(837,274)	464,218	464,218
Total noncurrent liabilities	<u>\$3,860,362</u>	<u>\$ 839,219</u>	<u>\$ (1,623,421)</u>	<u>\$3,076,160</u>	<u>\$ 1,245,265</u>

The notes payable are summarized as follows:

- Under a master lease and purchase agreement, the Hospital borrowed \$4,950,000 under an arrangement with a finance company to finance the construction of facilities improvements. The financing was provided by the issuance of a 10-year note maturing August 2012, with interest at 5.89 percent. The debt is collateralized by capital assets purchased with the proceeds. The lease and purchase agreement provides, among other things, for certain covenants and payoff options which allow for early retirement of the debt by the Hospital.

# Morrow County Hospital and Affiliate

## Notes to Financial Statements December 31, 2009 and 2008

### Note 7 - Long-term Debt and Other Noncurrent Liabilities (Continued)

- The Hospital leases medical and office equipment and furniture and fixtures used in its operations under capital leases which generally require the Hospital to pay insurance and maintenance costs. These capital leases are due in monthly installments including interest at rates ranging from 8.53 percent to 9.06 percent annually. These leases expire in 2012 and are collateralized by the leased equipment. Capitalized costs at December 31, 2009 and 2008 were approximately \$1,324,000 and \$1,340,000 less accumulated depreciation of \$1,254,000 and \$1,062,000, respectively.

The following is a schedule by years of principal and interest as of December 31, 2009:

Years Ending December 31	Long-term Debt		Capital Lease Obligation	
	Principal	Interest	Principal	Interest
2010	\$ 607,464	\$ 90,456	\$ 24,118	\$ 5,078
2011	644,049	53,871	26,283	2,912
2012	509,682	15,120	19,299	649
Total Payments	<u>\$ 1,761,195</u>	<u>\$ 159,447</u>	<u>\$ 69,700</u>	<u>\$ 8,639</u>

### Note 8 - Medical Malpractice Claims

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

The Hospital is insured against medical malpractice claims under a claims-based 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 \$4,000,000 of coverage.

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

## **Note 8 - Medical Malpractice Claims (Continued)**

The Hospital is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. No claims have been settled during the past three years that have exceeded policy coverage limits. The cost of this insurance policy represents the Hospital's cost for such claims for the past three years, and it has been charged to operations as a current expense.

## **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, and survivor benefits, as well as postemployment healthcare coverage to qualifying members of both the TP and CO plans. Members of the MD do not qualify for ancillary benefits, including postemployment healthcare coverage.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

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 614-222-5601 or 1-800-222-PERS (7377).

**Funding Policy** - The Ohio Revised Code provides statutory authority requiring public employers to fund retirement and postretirement benefits through their contributions to OPERS for member and employer contributions. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement benefits.

For 2009, member and employer contribution rates were consistent across all three plans (TP, MD, and CO), and are actuarially determined. The 2009 and 2008 member contribution rate for members of local government units was 10.00 and 10.00 percent of their annual covered salary, respectively. The 2009, 2008, and 2007 employer contribution rate for local government units was 14.00 percent, 14.00 percent, and 13.85 percent, respectively, of covered payroll. The Hospital's contributions to OPERS for the years ended December 31, 2009, 2008, and 2007 were approximately \$1,327,335, \$1,435,000, and \$1,409,000, respectively. Required employer contributions for all plans are equal to 100 percent of employer charges and must be extracted from the employer's records.



## **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. 45. 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 2009 and 2008 employer contribution rates for local government employer units was 14.00 percent and 14.00 percent of covered payroll, respectively. Of these amounts, 7 percent was used to fund health care in 2009 and 2008 and 7 percent and 5.5 percent were used for January 1 through March 31, 2009 and April 1 through December 31, 2009, respectively. The portion of the employer's contribution used to fund postemployment benefits for 2009 and 2008 was \$697,000 and \$717,000 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. Actuarial valuation includes a number of assumptions. The investment return assumption rate for 2008 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 3.00 percent for the next six years. In subsequent years (seven 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, 2008.

The number of active contributing participants in the TP and CO plans at December 31, 2009 was 357,584. The number of active contributing participants for both plans used in the December 31, 2008 actuarial valuation was 356,388. As of December 31, 2008, the actuarial value of the retirement system's net assets available for OPEB was \$10.7 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.6 billion and \$18.9 billion, respectively.

# Morrow County Hospital and Affiliate

## Notes to Financial Statements December 31, 2009 and 2008

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

**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, 2008, and remained unchanged for 2009, which will allow additional funds to be allocated to the healthcare plan.

### Note 10 - Affiliation

The Hospital contracts with OhioHealth for management, information technology, and other support services. OhioHealth employs the Hospital's chief executive and chief financial officers and also appoints one nonvoting representative to the Hospital's board of trustees. Fees for services amounted to approximately \$525,000 and \$546,000 for the years ended December 31, 2009 and 2008, respectively. Amounts due to OhioHealth for services amounted to approximately \$68,000 and \$38,000 at December 31, 2009 and 2008, respectively, and have been included in accounts payable on the balance sheet.

### Note 11 - Self-insured Benefits

The Hospital is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$125,000 per employee and provides up to a maximum benefit of \$875,000 per person. Claims, charged to operations when incurred, were approximately \$1,370,000 and \$2,580,000 for the years ended December 31, 2009 and 2008, respectively.

A reconciliation of accrued health insurance at December 31, 2009 and 2008 consists of the following:

Balance at January 1, 2008	\$ 334,531
Health insurance expense	2,578,390
Payments made	<u>(2,409,229)</u>
Balance at December 31, 2008	503,692
Health insurance expense	1,371,505
Payments made	<u>(1,554,655)</u>
Balance at December 31, 2009	<u><u>\$ 320,542</u></u>

**Additional Information**

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April 21, 2010

The Board of Trustees  
Morrow County Hospital and Affiliate

We have audited the financial statements of Morrow County Hospital and Affiliate as of December 31, 2009. Our audit was for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying combining balance sheet and statement of operations information is presented for the purpose of additional analysis of the basic financial statements rather than to present the financial position and results of operations of the individual entities and is not a required part of the basic financial statements. The combining information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Rea & Associates, Inc.*

# Morrow County Hospital and Affiliate

## Combining Balance Sheet December 31, 2009

	<u>Morrow County Hospital</u>	<u>Morrow County Hospital Foundation</u>	<u>Eliminating Entries</u>	<u>Total</u>
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ (27,882)	\$ 43,632	\$ -	\$ 15,750
Short-term investments	500,000	-	-	500,000
Accounts receivable	4,229,637	-	-	4,229,637
Levied taxes receivable	1,250,000	-	-	1,250,000
Estimated third-party payor settlements	-	-	-	-
Prepaid expenses and other	393,008	72,113	-	465,121
Inventory	469,133	-	-	469,133
Other current asset - Physician advances	61,680	-	-	61,680
Total current assets	6,875,576	115,745	-	6,991,321
<b>Assets Limited as to Use</b>	4,963,194	-	-	4,963,194
<b>General Long-term Investments</b>	-	334,013	-	334,013
<b>Property and Equipment - Net</b>	8,938,588	-	-	8,938,588
<b>Other Assets - Physician advances</b>	14,777	-	-	14,777
Total assets	<u>\$ 20,792,135</u>	<u>\$ 449,758</u>	<u>\$ -</u>	<u>\$ 21,241,893</u>

# Morrow County Hospital and Affiliate

## Combining Balance Sheet (Continued) December 31, 2009

	<u>Morrow County Hospital</u>	<u>Morrow County Hospital Foundation</u>	<u>Eliminating Entries</u>	<u>Total</u>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Current portion of long-term debt	\$ 631,582	\$ -	\$ -	\$ 631,582
Accounts payable	1,753,808	-	-	1,753,808
Third-party payor settlements payable	7,077	-	-	7,077
Accrued liabilities and other:	-	-	-	-
Accrued compensation	1,011,596	-	-	1,011,596
Accrued compensated absences	484,245	-	-	484,245
Accrued interest	9,380	-	-	9,380
Deferred revenue for levied taxes	1,250,000	-	-	1,250,000
Other accrued liabilities	516,437	-	-	516,437
Total current liabilities	5,664,125	-	-	5,664,125
<b>Long-term Debt - Net of current portion</b>	<u>1,199,313</u>	<u>-</u>	<u>-</u>	<u>1,199,313</u>
Total liabilities	6,863,438	-	-	6,863,438
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	7,098,313	-	-	7,098,313
Unrestricted	<u>6,830,384</u>	<u>449,758</u>	<u>-</u>	<u>7,280,142</u>
Total liabilities and net assets	<u>\$ 20,792,135</u>	<u>\$ 449,758</u>	<u>\$ -</u>	<u>\$ 21,241,893</u>

# Morrow County Hospital and Affiliate

## Combining Statement of Revenues, Expenses, and Changes in Net Assets Year Ended December 31, 2009

	Morrow County Hospital	Morrow County Hospital Foundation	Eliminating Entries	Total
<b>Operating Revenues</b>				
Total patient service revenue	\$ 48,970,521	\$ -	\$ -	\$ 48,970,521
Revenue deductions	(23,130,947)	-	-	(23,130,947)
Net patient service revenue	25,839,574	-	-	25,839,574
Other	814,445	76,921	-	891,366
Total operating revenues	26,654,019	76,921	-	26,730,940
<b>Operating Expenses</b>				
Salaries and wages	9,175,590	-	-	9,175,590
Employee benefits and payroll taxes	3,585,614	-	-	3,585,614
Operating supplies and expenses	5,370,868	3,121	-	5,373,989
Purchased services	6,845,950	-	-	6,845,950
Insurance	191,411	-	-	191,411
Utilities	596,586	-	-	596,586
Rental	606,499	-	-	606,499
Depreciation and amortization	1,294,818	-	-	1,294,818
Total operating expenses	27,667,335	3,121	-	27,670,456
<b>Operating (Loss) Income</b>	(1,013,316)	73,800	-	(939,516)
<b>Nonoperating Revenues (Expenses)</b>				
Investment income	56,367	-	-	56,367
Loss on sale of property	4,000	-	-	4,000
Property taxes	1,342,656	-	-	1,342,656
Interest expense	(145,165)	-	-	(145,165)
Total nonoperating income	1,257,858	-	-	1,257,858
<b>(Decrease) Increase in Net Assets</b>	<b>\$ 244,542</b>	<b>\$ 73,800</b>	<b>\$ -</b>	<b>\$ 318,342</b>



April 21, 2010

To the Board of Trustees  
Morrow County Hospital and Affiliate  
Morrow County, Ohio  
651 W. Marion Rd.  
Mt. Gilead, Ohio 43338

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the accompanying financial statements of the Morrow County Hospital and Affiliate (the Hospital) as of and for the year ended December 31, 2009, and have issued our report thereon dated April 21, 2010. 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 the Hospital's internal control over financial reporting as a basis for designing our audit 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 Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

However, we did note certain matters that we reported to the Hospital's management in a separate letter dated April 21, 2010.



### Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees and Management and is not intended to be and should not be used by anyone other than those specified parties.

*Rea & Associates, Inc.*





**Mary Taylor, CPA**  
Auditor of State

**MORROW COUNTY HOSPITAL AND AFFILIATE**

**MORROW 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 20, 2010**