



**Morrow County
Hospital**
OhioHealth

Associated with OhioHealth

Morrow County Hospital and Affiliate

**Financial Report
with Supplementary Information
December 31, 2013 and 2012**



Dave Yost • Auditor of State

Board of Trustees
Morrow County Hospital and Affiliate
651 West Marion Road
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, 2013 through December 31, 2013. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 15, 2014

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Morrow County Hospital and Affiliate

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May 21, 2014

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

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of Morrow County Hospital and Affiliate, Morrow County, Ohio (the Hospital), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Morrow County Hospital and Affiliate, Morrow County, Ohio as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the basic financial statements of the Hospital are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of Morrow County that is attributable to the transactions of the Hospital. They do not purport to, and do not, present fairly the financial position of Morrow County, Ohio as of December 31, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The December 31, 2013 combining statement of net position, statement of revenues, expenses, and changes in net position and cash flows are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining balance sheet, statement of revenues, expenses, and changes in net position and cash flows are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining balance sheet and statement of revenues, expenses, and changes in net position is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2014 on our consideration of the Hospital's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hospital's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Medina, Ohio

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, swing bed 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, 2013, 2012, and 2011. 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 2013

- The Hospital had operating loss of \$690,086 compared to a loss of \$2,116,680 in 2012, an improvement of \$1,426,594.
- The Hospital's Net Position improved by \$ 1,061,866, or 8.2% compared to 2012.
- The Hospital's Total Operating Revenues increased by \$2,180,366, or 8.7%, compared to 2012.
- Implemented the final modules of the Meditech system and successfully attested to Stage 1 requirements for the meaningful use of an electronic medical record.
- Broke ground on a 14,000 square foot physician office/outpatient facility at the intersection of State Route 61 and 1-71 in southern Morrow County. The facility is expected to open in June 2014.
- Hired a full time orthopedic surgeon and increased the availability of our group of general surgeons.
- Acquired one additional primary care practice in Mt. Gilead and hired an additional full time primary care physician at our existing physician office in Mt. Gilead.
- Completed the sale of its 38 nursing home bed licenses, in the process freeing up 11,000 square feet of space for use by physician specialists including cardiology and orthopedics, as well as outpatient services.
- Opened an Urgent Care facility at the main hospital campus, providing after hours coverage 5 days a week.

Morrow County Hospital and Affiliate

Management's Discussion and Analysis (Continued)

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*, as amended by GASB Statement No. 63. 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 position, 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 position 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.

Financial Analysis of the Hospital at December 31, 2013

Total assets increased 1.4% to \$22.4 million, and total liabilities decreased 11.0% to \$6.7 million. The Hospital's total net position increased from \$12.9 million to \$13.9 million, a 8.2% increase from a year ago as shown in the following table:

	2011	2012	2013	2012 to 2013 Change	
				Amount	Percentage
Assets					
Current assets	\$ 6,978,954	\$ 8,548,722	\$ 10,119,891	\$ 1,571,169	18.4%
Noncurrent assets	4,408,727	2,515,469	1,520,111	(995,358)	-39.6%
Property and equipment	10,317,471	11,052,652	10,786,911	(265,741)	-2.4%
Total assets	21,705,151	22,116,843	22,426,913	310,070	1.4%
Liabilities					
Current liabilities	4,522,192	5,925,763	5,487,854	(437,909)	-7.4%
Noncurrent liabilities	1,622,998	1,600,628	1,212,292	(388,336)	-24.3%
Total liabilities	6,145,190	7,526,391	6,700,146	(826,245)	-11.0%
Deferred Inflow of Resources	1,861,327	1,719,348	1,793,795	74,447	4.3%
Net Position					
Net investment in capital assets	8,087,496	8,370,920	9,191,445	820,525	9.8%
Unrestricted	5,611,138	4,500,186	4,741,527	241,341	5.4%
Total net position	\$ 13,698,634	\$ 12,871,106	\$ 13,932,972	\$ 1,061,866	8.2%

Morrow County Hospital and Affiliate

Management's Discussion and Analysis (Continued)

Current Assets

Total current assets increased by \$1,571,169 from the previous year. Cash and cash equivalents increased \$1,188,029 due to the receipt of Meaningful Use funds. Accounts Receivable increased by \$414,031 due to the hospital's conversion to a new billing system.

Noncurrent Assets

Noncurrent assets, consisting primarily of limited use investments and general long-term investments decreased by \$995,358, or 40%. The decrease was primarily due to the balloon payment made on the Meditech loan of \$1,466,337.

Property and Equipment

Property and equipment decreased by \$265,741 or 2.4%. The decrease was due to net additions and retirements of \$1,154,860, offset by depreciation expense of \$1,420,603. The most significant change was the capitalization of the Meditech Project of \$3,871,784.

Current Liabilities

Current liabilities decreased \$437,909 over the prior year. Current portion of long term debt decreased by \$698,033, primarily due to making the initial payment on the Meditech loan.

Long-term Liabilities

Long-term liabilities decreased by \$388,336 primarily due to the issuance of new debt of \$499,439 offset by principal payments on long-term debt and capital lease obligations of \$1,585,810. Additional detail regarding the Hospital's long-term debt can be found in Note 7 of the financial statements.

Net Position

Total net assets increased by 8.2%, primarily due to receiving \$456,000 for the sale of bed licenses for the Extended Care Facility and recognizing \$2,471,125 for successful attestation for Stage 1 of Meaningful Use.

Morrow County Hospital and Affiliate

Management's Discussion and Analysis (Continued)

Operating Revenues and Expenses

The following table shows the changes in revenues and expenses for 2013 compared to 2012 and 2011:

	2011	2012	2013	2012 to 2013 Change	
				Amount	Percentage
Operating Revenues					
Net patient service revenue	\$ 24,109,843	\$ 24,219,266	\$ 23,782,338	\$ (436,928)	-1.8%
Other	632,646	887,463	3,504,757	2,617,294	294.9%
Total Operating revenues	24,742,489	25,106,729	27,287,095	2,180,366	8.7%
Operating Expenses					
Salaries and benefits	13,231,046	13,488,191	13,967,502	479,311	3.6%
Operating Supplies and expenses	4,284,503	4,161,990	3,543,775	(618,215)	-14.9%
Purchased services	6,861,417	7,072,588	7,518,666	446,078	6.3%
Insurance	200,124	196,825	197,959	1,134	0.6%
Utilities	511,608	498,293	537,107	38,814	7.8%
Rental	640,831	698,872	792,169	93,297	13.3%
Depreciation and amortization	1,210,855	1,106,650	1,420,603	313,953	28.4%
Total operating expenses	26,940,384	27,223,410	27,977,781	754,372	2.8%
Operating Income (Loss)	(2,197,895)	(2,116,680)	(690,686)	1,425,994	-67.4%
Nonoperating Income (Expenses)					
Other non operating revenue	-	-	456,000	456,000	100.0%
Investment income	28,536	33,715	(4,692)	(38,407)	-113.9%
Property taxes	1,112,593	1,123,825	1,148,346	24,521	2.2%
Intergovernmental Revenue	203,617	165,822	168,182	2,360	1.4%
Interest expense	(72,580)	(34,210)	(15,284)	18,926	-55.3%
Total nonoperating income	1,272,166	1,289,152	1,752,552	463,400	35.9%
Increase (Decrease) in Net Position	(925,729)	(827,528)	1,061,866	\$ 1,889,394	
Net Position - Beginning of year	14,624,363	13,698,634	12,871,106		
Net Position - End of year	\$ 13,698,634	\$ 12,871,106	\$ 13,932,972		

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:

Morrow County Hospital and Affiliate

Management's Discussion and Analysis (Continued)

- Net patient service revenue decreased \$436,928, or 1.8%, from 2012. Gross patient revenue increased by \$955,515 or 2.0%. The Hospital board of trustees approved a 5.0% rate increase effective January 1, 2013. The favorable impact of the rate increase was offset by decreases in the number of surgeries, 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 remained about 42.5% of gross revenue.
- Other operating revenue increased \$2,617,294 from the Meaningful Use Incentive Payment for implementation of electronic health record technology.

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:

- Purchased Services increased by \$446,078 or 6.3% due to the outsourcing of billing services for our primary care practices. Outsourced services for Patient Accounting were higher than normal due to switching collection agencies and having overlap in expenses.
- Operating supplies and expenses decreased by \$618,215, or 14.9% due to decreased patient volumes, particularly in surgery.
- Salaries and benefits increased by \$479,311, or 3.6% due to the addition of physician practices in 2013.
- Depreciation and amortization increased by \$313,953, or 28.4% mostly due to the first year of depreciation of the Meditech project.

The following is a summary of 2013 operating expenses by type:

	Percentage	Amount
Operating Expenses		
Salaries and benefits	49.92%	\$ 13,967,502
Operating supplies and expenses	12.67%	3,543,775
Purchased services	26.88%	7,518,666
Insurance	0.71%	197,959
Utilities	1.91%	537,107
Rental	2.83%	792,169
Depreciation and amortization	5.08%	1,420,603
	<u>100.00%</u>	<u>\$ 27,977,781</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 typically consist primarily of property tax levy funds and interest expense.

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

- Nonoperating Income increased by \$463,400, due to the monies collected for the sale of the extended care facility bed licenses.
- Interest expense decreased by \$18,926 or 55.3%, due to the payoff of capital leases during 2012 and 2013.

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 2013, 2012, and 2011:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Cash Provided (Used) by:				
Operating activities	\$ (222,265)	\$ (1,098,308)	\$ 681,352	\$ 1,779,660
Investing activities	28,536	33,715	(4,692)	(38,407)
Non capital financing activities	1,316,210	1,289,647	1,772,528	482,881
Capital and related financing activities	<u>(1,794,858)</u>	<u>(1,424,184)</u>	<u>(2,256,517)</u>	<u>(832,333)</u>
Net increase (Decrease) in Cash	(672,377)	(1,199,130)	192,671	1,391,801
Cash - Beginning of year	<u>5,545,060</u>	<u>4,872,683</u>	<u>3,673,553</u>	<u>(1,199,130)</u>
Cash - End of year	<u>\$ 4,872,683</u>	<u>\$ 3,673,553</u>	<u>\$ 3,866,224</u>	<u>\$ 192,671</u>

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

- Net cash provided by operating activities increased \$1,779,660 from the prior year due to, an increase of other receipts from operations of \$2,617,292 and decrease of \$1,225,550 in payments to suppliers for goods and services. The decrease was offset by a decrease of \$1,353,443 in payments received from our patients and third-party payors and an increase in payments to employees of \$709,742.

Morrow County Hospital and Affiliate

Management's Discussion and Analysis (Continued)

- Net cash used in capital and related financing activities increased by \$832,333 from 2012 primarily due to a \$978,830 increase in principal payments on long term debt.
- Net cash used in non capital financing activities increased by \$482,881 due to increased levy receipts and cash received from the sale of the 38 beds from the extended care facility.

Economic Factors and Next Year's Budget

The board of trustees and the Morrow County Commissioners approved the 2014 operating budget in October 2013. The budget calls for gross revenue of \$55.5 million, total operating expenses of \$31.4 million, and excess revenue over expense of \$1,021,000. The board of trustees approved an average increase of 5.0% in the patient charge structure for the upcoming fiscal year.

There are several factors and uncertainties that may affect the Hospital during 2014 and future years including:

- On March 23, 2010, President Obama signed the Patient Protection and Affordable Care Act (ACA). 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 and the uncertainty over the details of its implementation, the Hospital cannot determine whether the legislation's overall impact will be positive or negative. In addition, budget issues at both the federal and state levels could have a negative impact on the Hospital's Medicare and Medicaid reimbursement rates.
- 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 2009 - 2013 has led to decreased volumes, increased bad debt expense, charity care, and Medicaid utilization and may continue to do so.
- Due to its rural location, the Hospital must occasionally address physician shortages including family practitioners and specialists. The Hospital has employed 8 primary care physicians, 3 certified nurse practitioners and an orthopedic surgeon through its MCHHS subsidiary. The hospital expects to employ additional physicians in 2014 and in future years.
- In 2012, the Governmental Accounting Standards Board passed standards 67 and 68, which require Ohio public employers to recognize on their financial statements their share of the pension liability of Ohio's public retirement systems. For the Hospital, these standards will become effective December 31, 2014 and 2015, respectively. Although the GASB standards are accounting standards, not funding standards, and do not affect the actual liability or required contributions of the Hospital to OPERS, adding such a liability to our balance sheet could impact our future ability to borrow funds.
- 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 and other uncertainties have been resolved.

Morrow County Hospital and Affiliate

Management's Discussion and Analysis (Continued)

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 Sheets

	Year Ended	
	December 31, 2013	December 31, 2012
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 2,346,113	\$ 1,158,084
Accounts receivable (Note 3)	4,634,892	4,220,861
Levied taxes receivable	1,300,000	1,300,000
Prepaid expenses and other	1,157,760	1,135,765
Inventory	665,822	686,957
Other current asset - Physician advances	15,304	47,056
Total current assets	10,119,891	8,548,722
Assets Limited as to Use (Note 4)	1,354,733	2,350,449
General Long-term Investments (Note 4)	165,378	165,020
Property and Equipment - Net (Note 5)	10,786,911	11,052,652
Total assets	<u>\$ 22,426,913</u>	<u>\$ 22,116,843</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	\$ 383,172	\$ 1,081,205
Accounts payable	2,274,176	2,594,115
Estimated third-party payor settlements (Note 6)	589,138	620,755
Accrued liabilities and other:		
Accrued compensation	1,055,408	1,031,418
Accrued compensated absences	583,325	598,134
Accrued interest	-	136
Other accrued liabilities	602,635	-
Total current liabilities	5,487,854	5,925,763
Long-term Debt - Net of current portion (Note 7)	1,212,292	1,600,628
Total liabilities	6,700,146	7,526,391
Deferred Inflows of Resources		
Property taxes levied for next fiscal year	1,300,000	1,300,000
Third party revenues not available	493,795	419,348
Total deferred inflows of resources	1,793,795	1,719,348
Net Position		
Net investment in capital assets	9,191,445	8,370,920
Unrestricted	4,741,527	4,500,186
Total net position	13,932,972	12,871,106
Total liabilities, deferred inflows and net position	<u>\$ 22,426,913</u>	<u>\$ 22,116,843</u>

See Notes to Financial Statements.

Morrow County Hospital and Affiliate

Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended	
	December 31, 2013	December 31, 2012
Operating Revenues		
Net patient service revenue	\$ 23,782,338	\$ 24,219,266
Other	3,504,757	887,463
Total operating revenues	27,287,095	25,106,729
Operating Expenses		
Salaries and wages	10,048,119	8,790,686
Employee benefits and payroll taxes	3,919,383	4,697,505
Operating supplies and expenses	3,543,775	4,161,990
Purchased services	7,518,666	7,072,588
Insurance	197,959	196,825
Utilities	537,107	498,293
Rental	792,169	698,872
Depreciation and amortization	1,420,603	1,106,650
Total operating expenses	27,977,781	27,223,409
Operating Loss	(690,686)	(2,116,680)
Nonoperating Revenues (Expenses)		
Other non operating revenue	456,000	-
Investment income	(4,692)	33,715
Property taxes	1,148,346	1,123,825
Intergovernmental Revenue	168,182	165,822
Interest expense	(15,284)	(34,210)
Total nonoperating revenue (expenses)	1,752,552	1,289,152
Increase (Decrease) in Net Position	1,061,866	(827,528)
Net Position - Beginning of year	12,871,106	13,698,634
Net Position - End of year	\$ 13,932,972	\$ 12,871,106

See Notes to Financial Statements.

Morrow County Hospital and Affiliate

Statements of Cash Flow

	Year Ended	
	December 31, 2013	December 31, 2012
Cash flow from Operating Activities		
Cash received from patients and third-party payors	\$ 23,336,690	\$ 24,690,132
Cash payments to suppliers for services and goods	(12,201,776)	(13,427,326)
Cash payments to employees for services	(13,958,319)	(13,248,577)
Other receipts from operations	3,504,757	887,463
Net cash provided (used) from Operation Activities	681,352	(1,098,308)
Cash Flow from Capital and Related Financing Activities		
Acquisitions and construction of capital assets - net	(655,425)	(782,996)
Principal payments on long term debt	(1,585,808)	(606,978)
Interest paid on capital related debt and capital leases	(15,284)	(34,210)
Net cash used from Capital and Related Financing Activities	(2,256,517)	(1,424,184)
Cash Flow from Noncapital Financing Activities		
Property tax levy/Intergovernmental revenue	1,316,528	1,289,647
Net-operating revenue	456,000	-
Net cash from Noncapital Financing Activities	1,772,528	1,289,647
Cash Flow from Investing Financing		
Interest in investments	(4,692)	33,715
Net cash (used) provided from Investing Financing	(4,692)	33,715
Net Increase (Decrease) in Cash and Investments	192,671	(1,199,130)
Cash and Investments - Beginning of year	3,673,553	4,872,683
Cash and Investments - End of year	\$ 3,866,224	\$ 3,673,553
Supplemental Cash Flow Information		
Cash and Cash Equivalents	\$ 2,346,113	\$ 1,158,084
Board designated funds	165,378	165,020
Hospital improvement funds	1,354,733	2,350,449
Cash and Investments - End of year	\$ 3,866,224	\$ 3,673,553
Non cash transaction:		
Finance revenue bonds for the Meditech EMR Project	\$ 499,439	\$ 973,936
Acquisition of new capital lease	-	84,900
	\$ 499,439	\$ 1,058,836

Morrow County Hospital and Affiliate

Statements of Cash Flows (Continued)

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

	Year Ended	
	December 31, 2013	December 31, 2012
Cash flows from Operating Activities		
Operating loss	\$ (690,686)	\$ (2,116,680)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	1,420,603	1,106,650
(Increase) decrease in assets:		
Patient accounts receivable	(414,031)	(224,733)
Third-party settlement receivables	(31,617)	645,599
Prepaid Expenses and Other Assets	(21,995)	(595,203)
Inventories	21,134	(141,319)
Other current assets	31,752	10,770
Increase (decrease) in liabilities:		
Accounts payable	(319,939)	69,376
Accrued expenses and deferred inflows	686,131	147,232
Net cash provided(used)by operating activities	<u>\$ 681,352</u>	<u>\$ (1,098,308)</u>

See Notes to Financial Statements.

Morrow County Hospital and Affiliate

**Notes to Financial Statements
December 31, 2013 and 2012**

Note 1 - Nature of Business and Significant Accounting Policies

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

Morrow County Hospital is an acute 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 Probate Court Judge and the Common Pleas Judge. 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 \$550,888 with assets consisting primarily of cash and cash equivalents and investments. Net revenue of the Foundation was approximately \$44,689 and consisted primarily of contributions. 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*, including sections amended/superseded by GASB Statement No. 62, codification of Accounting and Financial Reporting Guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements. 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 and Morrow County Hospital Health Services are 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 superseded by GASB Statement No. 62, codification of Accounting and Financial Reporting Guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements. The most significant of the Hospital's accounting policies are described below.

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.

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 from 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 straight-line 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 investment in capital assets* 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.

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 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.

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

Implementation of New Accounting Principles For the year ended December 31, 2013, the Hospital has implemented Governmental Accounting Standards Board (GASB) Statement No. 61, *"The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34,"* GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities,"* and GASB Statement No. 66, *"Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62."*

GASB Statement No. 61 improves guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the Hospital as they have presented the required information as supplementary information to the financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). These changes were incorporated in the Hospital's 2013 financial statements; however, there was no effect on beginning net position. Certain amounts have been reclassified for 2012.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the Hospital.

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 position 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 4.5% in 2013 and 4.9% in 2012 of its financial support from property taxes. Total funds received and used to support operations, including intergovernmental revenue, were \$1,316,528 and \$1,289,647 for the years ended December 31, 2013 and 2012, respectively.

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2013 and 2012

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

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.

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. There has not been a significant reduction in coverage from the prior year.

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 2013 and 2012, the Hospital provided charity care of approximately \$2,033,803 and \$1,189,986, 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 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.

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.

Note 2 - Deposits and Investments (Continued)

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, 2013 and 2012**

Note 2 - Deposits and Investments (Continued)

Investments in stripped principle 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>
2013 U.S. government bonds	\$ 952,470	Counterparty
2012 U.S. government bonds	\$ 2,107,078	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>
2013 U.S. government bonds	\$ 952,470	1.00 year
2012 U.S. government bonds	\$ 2,107,078	1.00 year

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2013 and 2012

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	<u>2013</u>	<u>2012</u>
Patient accounts receivable	\$ 11,440,404	\$ 10,620,315
Less:		
Allowance for uncollectible accounts	(3,896,892)	(3,078,795)
Allowance for contractual adjustments	(2,908,620)	(3,320,659)
Net accounts receivable	<u>\$ 4,634,892</u>	<u>\$ 4,220,861</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>2013</u>	<u>2012</u>
Medicare	29%	31%
Medicaid	3	3
Commercial insurance and HMO's	60	59
Self-pay	8	7
	<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>2013</u>	<u>2012</u>
Demand deposits and money market accounts	\$ 2,913,754	\$ 1,566,475
U.S. government obligations	952,470	2,107,078
Total	<u>\$ 3,866,224</u>	<u>\$ 3,673,553</u>

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2013 and 2012

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

	Fair Value	
	2013	2012
Amounts summarized by fund type -		
General funds:		
Cash and cash equivalents	\$ 2,346,113	\$ 1,158,084
Board designated	1,354,733	2,350,449
General long-term investments	165,378	165,020
Total	<u>\$ 3,866,224</u>	<u>\$ 3,673,553</u>

Note 5 - Capital Assets

Cost of capital assets and related depreciable lives for December 31, 2013 are summarized below:

	2012	Additions	Transfers	Retirements	2013	Depreciable Life-Years
Land and land improvements	\$ 739,034	\$ 58,579	\$ -	\$ -	\$ 797,613	5-25
Building	6,065,772	-	-	-	6,065,772	10-40
Equipment	16,436,448	4,066,440	-	-	20,502,888	5-20
Construction in progress	3,618,358	927,915	(3,898,074)	-	648,199	
Total	<u>26,859,612</u>	<u>5,052,934</u>	<u>(3,898,074)</u>	<u>-</u>	<u>28,014,472</u>	
Less accumulated depreciation:						
Land and land improvements	502,507	34,659	-	-	537,166	
Building	3,672,082	181,850	-	-	3,853,932	
Equipment	11,632,371	1,204,092	-	-	12,836,464	
Total	<u>15,806,960</u>	<u>1,420,601</u>	<u>-</u>	<u>-</u>	<u>17,227,562</u>	
Net carrying amount	<u>\$ 11,052,652</u>	<u>\$ 3,632,333</u>	<u>\$ (3,898,074)</u>	<u>\$ -</u>	<u>\$ 10,786,911</u>	

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2013 and 2012

Cost of capital assets and related depreciable lives for December 31, 2012 are summarized below:

	2011	Additions	Transfers	Retirements	2012	Depreciable Life-Years
Land and land improvements	\$ 736,476	\$ 2,558	\$ -	\$ -	\$ 739,034	5-25
Building	5,972,605	93,167	-	-	6,065,772	10-40
Equipment	15,983,694	452,754	-	-	16,436,448	5-20
Construction in progress	2,325,006	1,587,251	(293,899)	-	3,618,358	
Total	25,017,781	2,135,730	(293,899)	-	26,859,612	
Less accumulated depreciation:						
Land and land improvements	469,366	33,141	-	-	502,507	
Building	3,479,164	192,918	-	-	3,672,082	
Equipment	10,751,780	880,591	-	-	11,632,371	
Total	14,700,310	1,106,650	-	-	15,806,960	
Net carrying amount	\$ 10,317,471	\$ 1,029,080	\$ (293,899)	\$ -	\$ 11,052,652	

Note 6 - Cost Report Settlements

Approximately 36 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.

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2013 and 2012

Note 6 - Cost Report Settlements (Continued)

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.

Note 7 - Long-term Debt and Other Noncurrent Liabilities

Long-term liability activity for the year ended December 31, 2013 was as follows:

	2012	Current Year Additions	Current Year Reductions	2013	Amounts Due Within One Year
Hospital Facilities Revenue					
Bonds, Series 2011	\$ 2,366,898	\$ 499,439	\$ (1,466,337)	\$ 1,400,000	\$ 260,791
Capital lease obligations	314,936	-	(119,473)	195,464	122,381
Total long-term debt	2,681,833	499,439	(1,585,810)	1,595,464	383,172
Compensated absences	598,134	658,828	(653,916)	583,326	583,326
 Total noncurrent liabilities	 <u>\$ 3,279,967</u>	 <u>\$ 1,158,267</u>	 <u>\$ (2,239,726)</u>	 <u>\$ 2,178,790</u>	 <u>\$ 966,498</u>

Long-term liability activity for the year ended December 31, 2012 was as follows:

	2011	Current Year Additions	Current Year Reductions	2012	Amounts Due Within One Year
Master lease and purchase agreement	\$ 509,682	\$ -	\$ (509,682)	\$ -	\$ -
Hospital Facilities Revenue					
Bonds, Series 2011	1,392,962	973,936	-	2,366,898	966,898
Capital lease obligations	327,332	84,900	(97,296)	314,936	114,307
Total long-term debt	2,229,976	1,058,836	(606,978)	2,681,833	1,081,205
Compensated absences	542,639	748,514	(687,390)	598,134	598,134
 Total noncurrent liabilities	 <u>\$ 2,772,615</u>	 <u>\$ 1,807,350</u>	 <u>\$ (1,294,368)</u>	 <u>\$ 3,279,967</u>	 <u>\$ 1,679,339</u>

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2013 and 2012

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

The notes payable are summarized as follows:

- 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 3.63 percent to 5.44 percent annually. These leases expire in 2017 and are collateralized by the leased equipment. Capitalized costs at December 31, 2013 and 2012 were approximately \$613,000 and \$613,000 less accumulated depreciation of \$403,000 and \$298,000, respectively.
- During 2011, the Hospital authorized the issuance of revenue bonds in a principal amount of \$3,200,000 for the purpose of acquiring and installing the Meditech computer system. All debt charges on the bonds are expected to be paid from adjusted annual revenue of the Hospital. The Hospital made interest only payments on a monthly basis, commencing September 24, 2011. A mandatory redemption of \$1,466,337 in principal of the bonds was paid on December 23, 2013. The Hospital will then be required to make monthly principal and interest payments through December 31, 2018. The bonds bear interest at a fixed rate equal to 3.5%. Interest is calculated on the outstanding principal amount of the disbursed bonds from the respective disbursement. As of December 31, 2013, the Hospital had issued \$2,866,337 of the total authorized.

The following is a schedule by years of principal and interest as of December 31, 2013:

Years Ending December 31	Long-term Debt		Capital Lease Obligation	
	Principal	Interest	Principal	Interest
2014	260,791	44,837	122,381	6,570
2015	270,069	35,561	68,248	1,248
2016	279,595	26,037	4,835	-
2017	289,620	16,011	-	-
2018	299,925	5,710	-	-
Total Payments	<u>\$ 1,400,000</u>	<u>\$ 128,156</u>	<u>\$ 195,464</u>	<u>\$ 7,818</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.

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. There has not been a significant reduction in coverage from the prior year. 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).

Note 9 - Defined Benefit Pension Plan (Continued)

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 2010, member and employer contribution rates were consistent across all three plans (TP, MD, and CO), and are actuarially determined. The member contribution rate for members of local government units was 10.0 percent of their annual covered salary. The employer contribution rate for local government units was 14.00 percent of covered payroll. The Hospital's contributions to OPERS for the years ended December 31, 2013, 2012, and 2011 were approximately \$1,329,558, \$1,277,684 and \$1,325,485, respectively. Required employer contributions for all plans are equal to 100 percent of employer charges and must be extracted from the employer's records.

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 2013 and 2012 employer contribution rates for local government employer units were 14.00 percent of covered payroll. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2013 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during the calendar year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

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, 2008, 2009, 2010, 2011 and remained unchanged for 2012 and 2013. The increases allowed additional funds to be allocated to the healthcare plan.

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2013 and 2012

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 \$597,000 and \$540,000 for the years ended December 31, 2013 and 2012, respectively. Amounts due to OhioHealth for services amounted to approximately \$52,000 and \$65,000 at December 31, 2013 and 2012, 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 \$1,935,333 and \$2,533,530 for the years ended December 31, 2013 and 2012, respectively.

A reconciliation of accrued health insurance at December 31, 2013 and 2012 consists of the following:

Balance at January 1, 2012	\$ 205,263
Health insurance expense	2,533,530
Payments made	<u>(2,499,161)</u>
Balance at December 31, 2012	239,632
Health insurance expense	1,935,333
Payments made	<u>(1,989,938)</u>
Balance at December 31, 2013	<u><u>\$ 185,027</u></u>

Note 12 – Meaningful Use Incentive

In 2010, the Hospital signed a letter of intent to purchase an electronic health record system from Medical Information Technology, Inc. (MEDITECH). On November 16, 2010, the Board approved the payment of a deposit of \$179,210 in order to secure a place in MEDITECH's installation queue. On February 4, 2011, the Hospital signed a final purchase agreement with MEDITECH.

Note 12 – Meaningful Use Incentive (Continued)

The system was expected to cost \$3.1 million. As of December 31, 2013, the Hospital had capitalized costs of \$3,871,784 related to the system.

The Electronic Health Records Incentive Program, enacted as part of the American Recovery and Reinvestment Act of 2009, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payment are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue in the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2013, the Hospital successfully implemented the new electronic health record system and has recorded revenue of approximately \$2.5 million which is included in other revenue within operating revenues in the statements of revenues, expenses and changes in net position.

Note 13 – Extended Care Facility Bed Licenses

On October 25, 2011, the Hospital closed its extended care facility. The Hospital completed the sale of its 38 extended care bed licenses to an outside party in October 2013 for \$456,000. This amount was included as other non-operating revenue.

Supplementary Information

Morrow County Hospital and Affiliate

Combining Balance Sheet December 31, 2013

	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
Assets					
Current Assets					
Cash and cash equivalents	\$ 2,190,539	\$ 91,117	\$ 64,457	\$ -	\$ 2,346,113
Accounts receivable	4,425,210	209,682	-	-	4,634,892
Levied taxes receivable	1,300,000	-	-	-	1,300,000
Prepaid expenses and other	1,746,241	-	321,054	(909,535)	1,157,760
Inventory	665,822	-	-	-	665,822
Other current asset - Physician advances	15,304	-	-	-	15,304
Total current assets	10,343,116	300,799	385,511	(909,535)	10,119,891
Assets Limited as to Use	1,354,733	-	-	-	1,354,733
General Long-term Investments	-	-	165,378	-	165,378
Property and Equipment - Net	10,653,567	133,344	-	-	10,786,911
Total assets	<u>\$ 22,351,416</u>	<u>\$ 434,143</u>	<u>\$ 550,889</u>	<u>\$ (909,535)</u>	<u>\$ 22,426,913</u>

Morrow County Hospital and Affiliate

Combining Balance Sheet (Continued) December 31, 2013

	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
Liabilities and Net Assets					
Current Liabilities					
Current portion of long-term debt	\$ 383,172	\$ -	\$ -	\$ -	\$ 383,172
Accounts payable	2,230,142	656,310	-	(612,276)	2,274,176
Estimated third-party payor settlements	589,138	-	-	-	589,138
Accrued liabilities and other:					
Accrued compensation	1,008,091	47,317	-	-	1,055,408
Accrued compensated absences	608,675	(25,350)	-	-	583,325
Accrued interest	-	-	-	-	-
Other accrued liabilities	602,635	-	-	-	602,635
Total current liabilities	5,421,853	678,277	-	(612,276)	5,487,854
Long-term Debt - Net of current portion	1,212,292	250,651	-	(250,651)	1,212,292
Total liabilities	6,634,145	928,928	-	(862,927)	6,700,146
Deferred Inflows of Resources					
Property taxes levied for next fiscal year	1,300,000	-	-	-	1,300,000
Third party revenues not available	493,795	-	-	-	493,795
Total deferred inflows of resources	1,793,795	-	-	-	1,793,795
Net Position					
Net investment in capital assets	9,191,445	-	-	-	9,191,445
Unrestricted	4,732,031	(494,785)	550,889	(46,608)	4,741,527
Total net position	13,923,476	(494,785)	550,889	(46,608)	13,932,972
Total liabilities and net position	<u>\$ 22,351,416</u>	<u>\$ 434,143</u>	<u>\$ 550,889</u>	<u>\$ (909,535)</u>	<u>\$ 22,426,913</u>

Morrow County Hospital and Affiliate

Combining Statement of Revenues, Expenses, and Changes in Net Position Year Ended December 31, 2013

	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
Operating Revenues					
Total patient service revenue	\$ 47,538,621	\$ 2,038,950	\$ -	\$ -	\$ 49,577,571
Revenue deductions	(24,874,456)	(920,777)	-	-	(25,795,233)
Net patient service revenue	22,664,165	1,118,173	-	-	23,782,338
Other	4,087,312	19,475	44,689	(646,719)	3,504,757
Total operating revenues	26,751,477	1,137,648	44,689	(646,719)	27,287,095
Operating Expenses					
Salaries and wages	9,087,995	960,124	-	-	10,048,119
Employee benefits and payroll taxes	3,872,932	46,451	-	-	3,919,383
Operating supplies and expenses	3,371,319	201,947	(29,491)	-	3,543,775
Purchased services	7,871,701	338,907	-	(691,942)	7,518,666
Insurance	197,959	-	-	-	197,959
Utilities	492,278	44,829	-	-	537,107
Rental	654,069	138,100	-	-	792,169
Depreciation and amortization	1,415,111	5,492	-	-	1,420,603
Total operating expenses	26,963,364	1,735,850	(29,491)	(691,942)	27,977,781
Operating (Loss) Income	(211,887)	(598,203)	74,180	45,223	(690,686)
Nonoperating Revenues (Expenses)					
Other non operating revenue	456,000	-	-	-	456,000
Investment income	(5,439)	-	747	-	(4,692)
Property taxes	1,148,346	-	-	-	1,148,346
Intergovernmental Revenue	168,182	-	-	-	168,182
Interest expense	(14,877)	(407)	-	-	(15,284)
Total nonoperating income	1,752,212	(407)	747	-	1,752,552
(Decrease) Increase in Net Position	<u>\$ 1,540,325</u>	<u>\$ (598,609)</u>	<u>\$ 74,927</u>	<u>\$ 45,223</u>	<u>\$ 1,061,866</u>

Morrow County Hospital and Affiliate

Combining Statement of Cash Flows Year Ended December 31, 2013

	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
Cash flow from Operating Activities					
Cash received from patients and third-party payors	22,192,141	1,144,549	-	-	23,336,690
Cash payments to suppliers for services and goods	(12,724,857)	(198,355)	29,491	691,945	(12,201,776)
Cash payments to employees for services	(12,959,381)	(998,938)	-	-	(13,958,319)
Other receipts from operations	4,087,312	19,475	44,689	(646,719)	3,504,757
Net cash provided (used) from Operation Activities	595,215	(33,269)	74,180	45,226	681,352
Cash Flow from Capital and Related Financing Activities					
Acquisitions and construction of capital assets - net	(589,441)	(65,984)	-	-	(655,425)
Principal payments on long term debt	(1,585,808)	-	-	-	(1,585,808)
Interest paid on capital related debt and capital leases	(14,877)	(407)	-	-	(15,284)
Net cash used from Capital and Related Financing Activities	(2,190,126)	(66,391)	-	-	(2,256,517)
Cash Flow from Noncapital Financing Activities					
Property tax levy/Intergovernmental revenue	1,316,528	-	-	-	1,316,528
Net-operating revenue	456,000	-	-	-	456,000
Interfund Services Provided (used)	(92,223)	151,364	(13,915)	(45,226)	-
Net cash from Noncapital Financing Activities	1,680,305	151,364	(13,915)	(45,226)	1,772,528
Cash Flow from Investing Financing					
Interest in investments	(5,439)	-	747	-	(4,692)
Net cash (used) provided from Investing Financing	(5,439)	-	747	-	(4,692)
Net Increase (Decrease) in Cash and Investments	79,955	51,704	61,012	-	192,671
Cash and Investments - Beginning of year	3,465,317	39,413	168,823	-	3,673,553
Cash and Investments - End of year	\$ 3,545,272	\$ 91,117	\$ 229,835	\$ -	\$ 3,866,224
Supplemental Cash Flow Information					
Cash and Cash Equivalents	\$ 2,190,539	\$ 91,117	\$ 64,457	\$ -	\$ 2,346,113
Board designated funds	-	-	165,378	-	165,378
Hospital improvement funds	1,354,733	-	-	-	1,354,733
Cash and Investments - End of year	\$ 3,545,272	\$ 91,117	\$ 229,835	\$ -	\$ 3,866,224

Morrow County Hospital and Affiliate

Combining Statement of Cash Flows (Continued) Year Ended December 31, 2013

	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
Cash flows from Operating Activities					
Operating loss	\$ (211,887)	\$ (598,203)	\$ 74,180	\$ 45,224	\$ (690,686)
Adjustments to reconcile operating loss to net cash from operating activities:					
Depreciation and amortization	1,415,111	5,492	-	-	1,420,603
(Increase) decrease in assets:					
Patient accounts receivable	(440,407)	26,376	-	-	(414,031)
Third-party settlement receivables	(31,617)	-	-	-	(31,617)
Prepaid Expenses and Other Assets	(543,949)	1,478	-	520,476	(21,995)
Inventories	21,134	-	-	-	21,134
Other current assets	31,752	-	-	-	31,752
Increase (decrease) in liabilities:					
Accounts payable	(323,416)	523,951	-	(520,474)	(319,939)
Accrued expenses and deferred inflows	678,494	7,637	-	-	686,131
Net cash provided by operating activities	<u>\$ 595,215</u>	<u>\$ (33,269)</u>	<u>\$ 74,180</u>	<u>\$ 45,226</u>	<u>\$ 681,352</u>

May 21, 2014

To the Board of Trustees
Morrow County Hospital and Affiliate
Morrow County, Ohio
651 West 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, in accordance with the 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, the financial statements of Morrow County Hospital and Affiliate, Morrow County, Ohio (the Hospital) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated May 21, 2014, wherein we noted the basic financial statements of the Hospital present only the portion of the business-type activities of Morrow County, Ohio that is attributable to the transactions of the Hospital.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

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Dave Yost • 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
JULY 29, 2014**