



**Morrow County  
Hospital**

**OhioHealth**

*Associated with OhioHealth*

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**Morrow County Hospital and Affiliate**

**Financial Report  
with Supplementary Information  
December 31, 2012 and 2011**





# Dave Yost • Auditor of State

Board of Trustees  
Morrow County Hospital and Affiliate  
651 W. 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, 2012 through December 31, 2012. 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 18, 2013

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# **Morrow County Hospital and Affiliate**

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Rea & associates  
*a brighter way*

May 24, 2013

To the Board of Trustees  
Morrow County Hospital and Affiliate  
651 W. 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), a business-type activity of Morrow County, Ohio, as of and for the years ended December 31, 2012, and 2011, and the related notes to the financial statements, which collectively comprise the Hospital's financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Hospital's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Morrow County Hospital and Affiliate, Morrow County, Ohio, as of December 31, 2012, and 2011, and the respective changes in financial position and cash flows for the years then ended in accordance with the 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 only intended to present the financial position, changes in financial position and cash flows of only that portion of the business-type activities of Morrow County that are attributable to the transactions of the Hospital. They do not purport to, and do not, fairly present the financial position of Morrow County, Ohio as of December 31, 2012, the changes of financial position, or, where applicable, its cash flows for the year 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 this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the financial statements. Although this information is not part of the financial statements, the Governmental Accounting Standards Board considers it essential for placing the financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

### Supplementary 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, 2012 combining balance sheet and statement of operations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining balance sheet and combining statement of operations 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 operations 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 24, 2013, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine 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 the Hospital's internal control over financial reporting and compliance.

*Hea & 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, 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, 2012, 2011, and 2010. 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 2012**

- Formed a new entity, Morrow County Hospital Health Services, Inc., in order to employ physicians. This structure will aid in the recruitment and retention of primary care physicians and specialists.
- Opened a new primary care physician office in Cardington.
- Created MCH cardiology services including a physician clinic, echocardiogram and cardiac stress testing services. Began offering nuclear medicine services for both cardiology and non-cardiology testing.
- Implemented 24 modules of the Meditech electronic medical record system and received the first partial payment of approximately \$100,000 from the Ohio Medicaid Meaningful Use Incentive Program.
- Successfully completed a survey by The Joint Commission, resulting in a three-year accreditation.
- Joined the OhioHealth Stroke Network and launched its new telemedicine cart "Sarena".
- Retired the final \$509,682 of the \$4,950,000 of debt related to the master lease and purchase agreement issued to finance facility improvements in 2002.
- Reduced its Decrease in Net Assets by \$98,201 compared to 2011.

### **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*

# Morrow County Hospital and Affiliate

## Management's Discussion and Analysis (Continued)

- 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 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, 2012

Total assets increased 2 percent to \$22 million, and total liabilities increased 15 percent to \$9 million. The Hospital's total net position decreased from \$13.7 million to \$12.9 million, a 6 percent decrease from a year ago as shown in the following table:

	2010	2011	2012	2011 to 2012 Change	
				Amount	Percentage
<b>Assets</b>					
Current assets	\$ 6,187,164	\$ 6,978,954	\$ 8,548,722	\$ 1,569,768	22.5%
Noncurrent assets	5,276,484	4,408,727	2,515,469	(1,893,258)	-42.9%
Property and equipment	9,154,078	10,317,471	11,052,652	735,181	7.1%
Total assets	20,617,726	21,705,151	22,116,843	411,691	1.9%
<b>Liabilities</b>					
Current liabilities	5,166,842	6,383,519	7,645,109	1,261,590	19.8%
Noncurrent liabilities	826,521	1,622,998	1,600,628	(22,370)	-1.4%
Total liabilities	5,993,362	8,006,517	9,245,737	1,239,220	15.5%
<b>Net Position</b>					
Net investment in capital assets	7,569,931	8,087,496	8,370,920	283,424	3.5%
Unrestricted	7,054,432	5,611,138	4,500,186	(1,110,952)	-19.8%
Total net position	<b>\$ 14,624,363</b>	<b>\$ 13,698,634</b>	<b>\$ 12,871,106</b>	<b>\$ (827,528)</b>	-6.0%

### Current Assets

Total current assets increased by \$1,569,768 from the previous year. Cash and cash equivalents increased \$1,043,976 due to a decrease in limited use investments. Accounts Receivable increased by \$676,353 due to the hospital's conversion to a new billing system.

# **Morrow County Hospital and Affiliate**

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

### **Noncurrent Assets**

Noncurrent assets, consisting primarily of limited use investments and general long-term investments decreased by \$1,893,258, or 43 percent.

Limited use investments decreased by \$1,719,379. The decrease was due to the reduction in transfers to funded depreciation and debt service, funds used to save for future capital purchases and long term debt payments.

### **Property and Equipment**

Property and equipment increased by \$735,181 or 7 percent. The increase was due to net additions and retirements of \$1,841,831, offset by depreciation expense of \$1,106,650. The most significant additions were capitalized costs for the Meditech project of \$1,385,695.

### **Current Liabilities**

Current liabilities increased \$1,261,590 over the prior year. Third party settlement increased by \$595,911 due to the cost report. Accrued compensation increased \$184,119 due to the timing of payroll schedule. Current portion of long term debt increased by \$474,227, primarily due to paying off the master lease, offset by mandatory redemption of revenue bonds related to the Meditech project.

### **Long-term Liabilities**

Long-term liabilities decreased by \$22,370 primarily due to the issuance of new debt of \$1,058,836 offset by principal payments on long-term debt of \$606,978 and reclassification of amounts due in one year of \$966,898 for mandatory redemption in 2013. Additional detail regarding the Hospital's long-term debt can be found in Note 7 of the financial statements.

### **Net Position**

Total net assets decreased by 6 percent, due to excess expenses over revenue.

# 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 2012 compared to 2011 and 2010:

	2010	2011	2012	2011 to 2012 Change	
				Amount	Percentage
<b>Operating Revenues</b>					
Total patient service revenue	\$ 25,782,802	\$ 24,109,843	\$ 24,219,266	\$ 109,423	0.5%
Other	666,182	632,646	887,463	254,817	40.3%
Total Operating revenues	26,448,984	24,742,489	25,106,729	364,240	1.5%
<b>Operating Expenses</b>					
Salaries and benefits	13,186,477	13,231,046	13,488,191	257,145	1.9%
Operating Supplies and expenses	4,577,210	4,284,503	4,161,990	(122,513)	-2.9%
Purchased services	7,058,444	6,861,417	7,072,588	211,171	3.1%
Insurance	200,506	200,124	196,825	(3,299)	-1.6%
Utilities	545,127	511,608	498,293	(13,315)	-2.6%
Rental	756,534	640,831	698,872	58,041	9.1%
Depreciation and amortization	1,197,340	1,210,855	1,106,650	(104,205)	-8.6%
Total operating expenses	27,521,638	26,940,384	27,223,410	283,025	1.1%
<b>Operating Income (Loss)</b>	(1,072,654)	(2,197,895)	(2,116,681)	(81,214)	3.7%
<b>Nonoperating Income (Expenses)</b>					
Investment income	27,373	28,536	33,715	5,179	18.2%
Property taxes	1,131,355	1,112,593	1,123,825	11,232	1.0%
Intergovernmental Revenue	256,044	203,617	165,822	(37,795)	-18.6%
Interest expense	(96,210)	(72,580)	(34,210)	38,370	-52.9%
Total nonoperating income	1,318,562	1,272,166	1,289,152	16,986	1.3%
<b>Increase (Decrease) in Net Position</b>	245,908	(925,729)	(827,528)	<b>\$ 98,201</b>	
<b>Net Position - Beginning of year</b>	14,378,455	14,624,363	13,698,634		
<b>Net Position - End of year</b>	<b>\$ 14,624,363</b>	<b>\$ 13,698,634</b>	<b>\$ 12,871,105</b>		

### 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 increased \$109,423, or less than one percent, from 2011. Gross patient revenue decreased by \$708,562 or 1 percent. The Hospital board of trustees approved a 6 percent rate increase effective January 1, 2012. 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 decreased from 43.4 percent to 42.1 percent as a percentage of gross revenue. This favorable decrease was due to a greater portion of the Hospital's revenue coming from Commercial and Blue Cross insurance plans, and less revenue coming from Medicare and Medicare Managed Care plans.

### **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 \$211,171, or 3 percent primarily due to the increase use of Agency Nursing and the outsourcing of the management of the hospital's supply chain function.
- Operating supplies and expenses decreased by \$122,513, or 3 percent due to decreased patient volumes, particularly in surgery.
- Salaries and benefits increased by \$257,145, or 2% primarily due to merit increases given to the staff in mid-2012, and the addition of employees related to the startup of the hospital's owned physician practices. Offset by a decrease in FTE related to the closure of ECF and increased insurance claims in 2012.

The following is a summary of 2012 operating expenses by type:

	Percentage		Amount
Operating Expenses			
Salaries and benefits	49.55%	\$	13,488,191
Operating supplies and expenses	15.29%		4,161,990
Purchased services	25.97%		7,072,588
Insurance	0.72%		196,825
Utilities	1.82%		498,293
Rental	2.57%		698,872
Depreciation and amortization	4.07%		1,106,650
	<u>100.00%</u>	<u>\$</u>	<u>27,223,409</u>

### **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.

# **Morrow County Hospital and Affiliate**

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

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

- Intergovernmental Revenue and Property taxes decreased by \$26,563, or 2 percent, due to the decrease in the tangible personal property tax reimbursement received in 2012.
- Interest expense decreased by \$38,370 or 53 percent, due to the payoff of capital leases during 2011 and 2012 and the payoff 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 2012, 2011, and 2010:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Increase (Decrease)</u>
<b>Cash Provided (Used) by:</b>				
Operating activities	\$ 82,494	\$ 2,412,013	\$ 1,839,010	\$ (573,003)
Investing activities	2,525,624	(3,713,940)	(2,568,785)	1,145,155
Capital and related financing activities	<u>(377,773)</u>	<u>(478,629)</u>	<u>(134,537)</u>	<u>344,092</u>
<b>Net increase (Decrease) in Cash</b>	2,230,346	(1,780,556)	(864,312)	916,244
<b>Cash - Beginning of year</b>	<u>1,909,930</u>	<u>4,140,276</u>	<u>2,359,720</u>	<u>(1,780,556)</u>
<b>Cash - End of year</b>	<u><b>\$ 4,140,276</b></u>	<u><b>\$ 2,359,720</b></u>	<u><b>\$ 1,495,408</b></u>	<u><b>\$ (864,312)</b></u>

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

- Net cash provided by operating activities decreased \$573,003 from the prior year due to an increase of \$4,339,559 in payments received from our patients and third-party payors, a decrease in payments to employees of \$160,832 and an increase of other receipts from operations of \$254,821. The increase was offset by an increase of \$5,328,215 in payments to suppliers for goods and services.
- Investing activities reduced the amount of cash used by \$1,145,155. This was primarily due to a \$1,041,696 decrease in proceeds from the net purchase/sale of investments compared to 2011.

## **Morrow County Hospital and Affiliate**

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

- Net cash used in capital and related financing activities decreased by \$344,092 from 2011 primarily due to a \$198,283 decrease in the acquisition and construction of capital assets.

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

The board of trustees and the Morrow County Commissioners approved the 2013 operating budget in October 2012. 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 percent in the patient charge structure for the upcoming fiscal year.

There are several factors and uncertainties that may affect the Hospital during 2013 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. In Ohio, Governor Kasich has announced his intention to accept the expanded Medicaid program made available under ACA, but this decision has yet to be approved by the Ohio Legislature.
- The Center for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) initiative, whereby claims are reviewed by contractors for validity, accuracy and proper documentation. A demonstration project completed in several other states resulted in the identification of potentially significant overpayments. The RAC program for Ohio hospitals started in early 2010. The Hospital has had minimal RAC activity thus far, but is unable to determine the extent of future audits, or the extent of liability for overpayments, if any.
- The American Recovery and Reinvestment Act (ARRA) requires hospitals to demonstrate "meaningful use" of an electronic health record (EHR) 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 Hospital began installation of the MEDITECH EHR system in 2011, and implemented numerous modules in 2012, with the final modules expected to be completed in 2013. The cost of the system is estimated at \$3.1 million, but the Hospital expects to receive \$1.8 million of ARRA reimbursement from the federal government.

# **Morrow County Hospital and Affiliate**

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

Given the size and complexity of the MEDITECH installation, the Hospital is unable to determine if it will meet the federal guidelines by 2015, or the exact reimbursement it will receive from the federal government, if any. Federal budget issues could also cause uncertainty over the ARRA program's future funding.

- 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 - 2012 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. In 2011, the hospital employed its first primary care physician, and employed two physicians through its MCHHS subsidiary in 2012. The hospital expects to employ additional physicians in 2013 and in future years.
- 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.

### **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

	December 31, 2012	December 31, 2011
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	\$ 1,158,084	\$ 114,108
Short-term investments (Note 4)	-	349,848
Accounts receivable (Note 3)	4,220,861	3,544,508
Levied taxes receivable	1,300,000	1,350,000
Prepaid expenses and other	1,135,765	992,182
Inventory	686,956	545,637
Other current asset - Physician advances	47,056	57,827
Total current assets	8,548,722	6,978,954
<b>Assets Limited as to Use (Note 4)</b>	2,350,449	4,069,828
<b>General Long-term Investments (Note 4)</b>	165,020	338,899
<b>Property and Equipment - Net (Note 5)</b>	11,052,652	10,317,471
Total assets	<b>\$ 22,116,843</b>	<b>\$ 21,705,151</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt (Note 7)	\$ 1,081,205	\$ 606,978
Accounts payable	2,594,115	2,524,739
Estimated third-party payor settlements (Note 6)	620,755	24,844
Accrued liabilities and other:		
Accrued compensation	1,031,418	847,299
Accrued compensated absences	598,134	542,639
Accrued interest	136	536
Deferred revenue for levied taxes	1,300,000	1,350,000
Other accrued liabilities	419,346	511,327
Total current liabilities	7,645,109	6,383,519
<b>Long-term Debt - Net of current portion (Note 7)</b>	1,600,628	1,622,998
Total liabilities	9,245,737	8,006,516
<b>Net Position</b>		
Net investment in capital assets	8,370,920	8,087,496
Unrestricted	4,500,186	5,611,138
Total net position	12,871,106	13,698,634
Total liabilities and net position	<b>\$ 22,116,843</b>	<b>\$ 21,705,151</b>

# Morrow County Hospital and Affiliate

## Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended	
	December 31, 2012	December 31, 2011
<b>Operating Revenues</b>		
Net patient service revenue	\$ 24,219,266	\$ 24,109,843
Other	887,463	632,646
Total operating revenues	25,106,729	24,742,489
<b>Operating Expenses</b>		
Salaries and wages	8,790,686	9,122,112
Employee benefits and payroll taxes	4,697,505	4,108,934
Operating supplies and expenses	4,161,990	4,284,503
Purchased services	7,072,588	6,861,417
Insurance	196,825	200,124
Utilities	498,293	511,608
Rental	698,872	640,831
Depreciation and amortization	1,106,650	1,210,855
Total operating expenses	27,223,409	26,940,384
<b>Operating Loss</b>	(2,116,680)	(2,197,895)
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	33,715	28,536
Property taxes	1,123,825	1,112,593
Intergovernmental Revenue	165,822	203,617
Interest expense	(34,210)	(72,580)
Total nonoperating revenue (expenses)	1,289,152	1,272,166
<b>(Decrease) Increase in Net Position</b>	(827,528)	(925,729)
<b>Net Position - Beginning of year</b>	13,698,634	14,624,363
<b>Net Position - End of year</b>	<b>\$ 12,871,106</b>	<b>\$ 13,698,634</b>

See Notes to Financial Statements.

# Morrow County Hospital and Affiliate

## Statements of Cash Flows

	Year Ended	
	December 31, 2012	December 31, 2011
<b>Cash flows from Operating Activities</b>		
Cash received from patients and third-party payors	\$ 27,627,450	\$ 23,287,891
Cash payments to suppliers for services and goods	(13,427,326)	(8,099,111)
Cash payments to employees for services	(13,248,577)	(13,409,409)
Other receipts from operation	887,463	632,642
Net cash from operating activities	1,839,010	2,412,013
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	1,450,629	2,400,223
Investment income	33,715	28,536
Increase (Decrease) in assets limited as to use	(3,751,762)	(3,634,910)
Purchase of investments	(301,367)	(2,507,789)
Net cash from investing activities	(2,568,785)	(3,713,940)
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(782,996)	(981,279)
Property tax levy/Intergovernmental revenue	1,289,647	1,316,215
Interest paid on long-term debt	(34,210)	(72,580)
Principal payments on long-term debt	(606,978)	(740,985)
Net cash from capital and related financing activities	(134,537)	(478,629)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(864,312)	(1,780,556)
<b>Cash and Cash Equivalents - Beginning of year</b>	2,359,720	4,140,275
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,495,408</b>	<b>\$ 2,359,720</b>
<b>Supplemental Cash Flow Information</b>		
Cash and Cash Equivalents, Separately stated	\$ 1,158,084	\$ 114,108
Included in Investments	272,864	2,136,703
Included in Board Designated Funds	64,460	108,909
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,495,408</b>	<b>\$ 2,359,720</b>
<b>Non cash transaction:</b>		
Finance revenue bonds for the Meditech EMR Project	\$ 973,936	
Acquisition of new capital lease	84,900	
	<b>\$ 1,058,836</b>	

# **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, 2012	December 31, 2011
<b>Cash flows from Operating Activities</b>		
Operating loss	\$ (2,116,680)	\$ (2,197,895)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	1,106,650	1,210,855
Provision for bad debts	2,937,318	2,634,280
(Increase) decrease in assets:		
Patient accounts receivable	(224,733)	(754,671)
Third-party settlement receivables	645,593	32,719
Prepaid Expenses and Other Assets	(595,203)	140,571
Inventories	(141,320)	70,796
Other current assets	10,770	14,174
Increase (decrease) in liabilities:		
Accounts payable	69,376	1,128,609
Accrued expenses	147,240	132,575
Net cash provided by operating activities	<u><u>\$ 1,839,010</u></u>	<u><u>\$ 2,412,013</u></u>

See Notes to Financial Statements.

# **Morrow County Hospital and Affiliate**

**Notes to Financial Statements  
December 31, 2012 and 2011**

## **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 \$239,225 with assets consisting primarily of cash and cash equivalents and investments. Net revenue of the Foundation was approximately \$50,000 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*, 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. The basic financial statements of the County have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**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 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 assetst* 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, 2012 and 2011**

### **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 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 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 4.8 percent in 2012 and 4.6 in 2011 of its financial support from property taxes. Total funds received and used to support operations, including intergovernmental revenue, were \$1,289,647 and \$1,316,210 for the years ended December 31, 2012 and 2011, 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. 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 2012 and 2011, the Hospital provided charity care of approximately \$1,189,986 and \$1,228,357, 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.

### **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, 2012 and 2011**

## **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>
2012 U.S. government bonds	\$ 2,107,078	Counterparty
2011 U.S. government bonds	\$ 1,583,222	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>
2012 U.S. government bonds	\$ 2,107,078	1.00 year
2011 U.S. government bonds	\$ 1,583,222	1.00 year

# Morrow County Hospital and Affiliate

## Notes to Financial Statements December 31, 2012 and 2011

### Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	<u>2012</u>	<u>2011</u>
Patient accounts receivable	\$ 10,620,315	\$ 8,677,484
Less:		
Allowance for uncollectible accounts	(3,078,795)	(1,554,160)
Allowance for contractual adjustments	<u>(3,320,659)</u>	<u>(3,578,816)</u>
Net accounts receivable	<u>\$ 4,220,861</u>	<u>\$ 3,544,508</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>2012</u>	<u>2011</u>
Medicare	31%	34%
Medicaid	3	3
Commercial insurance and HMO's	59	57
Self-pay	7	6
	<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>2012</u>	<u>2011</u>
Demand deposits and money market accounts	\$ 1,566,475	\$ 2,939,613
Certificate of deposits	-	349,848
U.S. government obligations	<u>2,107,078</u>	<u>1,583,222</u>
Total	<u>\$ 3,673,553</u>	<u>\$ 4,872,683</u>

# Morrow County Hospital and Affiliate

## Notes to Financial Statements December 31, 2012 and 2011

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

	Fair Value	
	2012	2011
Amounts summarized by fund type -		
General funds:		
Cash and cash equivalents	\$ 1,158,084	\$ 114,108
Short-term investments	-	349,848
Board designated	2,350,449	4,069,828
General long-term investments	165,020	338,899
Total	<u>\$ 3,673,553</u>	<u>\$ 4,872,683</u>

### Note 5 - Capital Assets

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	<u>25,017,781</u>	<u>2,135,730</u>	<u>(293,899)</u>	<u>-</u>	<u>26,859,612</u>	
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	<u>14,700,310</u>	<u>1,106,650</u>	<u>-</u>	<u>-</u>	<u>15,806,960</u>	
Net carrying amount	<u>\$10,317,471</u>	<u>\$1,029,080</u>	<u>\$(293,899)</u>	<u>\$ -</u>	<u>\$11,052,652</u>	

# Morrow County Hospital and Affiliate

## Notes to Financial Statements December 31, 2012 and 2011

Cost of capital assets and related depreciable lives for December 31, 2011 are summarized below:

	2010	Additions	Transfers	Retirements	2011	Depreciable Life-Years
Land and land improvements	\$ 691,203	\$ 45,273	\$ -	\$ -	\$ 736,476	5-25
Building	5,950,933	21,672	-	-	5,972,605	10-40
Equipment	15,749,939	245,055	-	(11,300)	15,983,694	5-20
Construction in progress	262,758	2,218,716	(156,470)	-	2,325,005	
Total	<u>22,654,833</u>	<u>2,530,717</u>	<u>(156,470)</u>	<u>(11,300)</u>	<u>25,017,781</u>	
Less accumulated depreciation:						
Land and land improvements	435,165	34,201	-	-	469,366	
Building	3,257,483	221,681	-	-	3,479,164	
Equipment	9,808,107	954,973	-	(11,300)	10,751,780	
Total	<u>13,500,755</u>	<u>1,210,855</u>	<u>-</u>	<u>(11,300)</u>	<u>14,700,310</u>	
Net carrying amount	<u>\$ 9,154,078</u>	<u>\$1,258,645</u>	<u>\$(156,470)</u>	<u>\$ -</u>	<u>\$10,317,470</u>	

### 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, 2012 and 2011

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, 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>

Long-term liability activity for the year ended December 31, 2011 was as follows:

	2010	Current Year Additions	Current Year Reductions	2011	Amounts Due Within One Year
Master lease and purchase agreement	\$ 1,153,731	\$ -	\$ (644,049)	\$ 509,682	\$ 509,682
Hospital Facilities Revenue Bonds, Series 2011	-	1,392,962	-	1,392,962	-
Capital lease obligations	424,269	-	(96,937)	327,332	97,296
Total long-term debt	1,578,000	1,392,962	(740,985)	2,229,976	606,978
Compensated absences	559,972	857,540	(874,872)	542,639	542,639
Total noncurrent liabilities	<u>\$ 2,137,972</u>	<u>\$ 2,250,502</u>	<u>\$ (1,615,858)</u>	<u>\$ 2,772,615</u>	<u>\$ 1,149,617</u>

# Morrow County Hospital and Affiliate

## Notes to Financial Statements December 31, 2012 and 2011

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 that matured 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. The lease was paid in full during 2012.
- 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, 2012 and 2011 were approximately \$613,000 and \$528,000 less accumulated depreciation of \$298,000 and \$201,000, 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 \$1,800,000 in principal of the bonds is due on or before December 24, 2013. The Hospital will then be required to make monthly principal and interest payments through December, 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, 2012, the Hospital had issued \$2,366,898 of the total authorized.

The Hospital is required to segregate in a separate subaccount within the funded depreciation account marketable securities of the nature satisfactory to the original purchaser, with an initial fair market value of \$1,800,000. The Hospital was compliant with this requirement at December 31, 2012.

The following is a schedule by years of principal and interest as of December 31, 2012:

Years Ending December 31	Long-term Debt		Capital Lease Obligation	
	Principal	Interest	Principal	Interest
2013	\$ 966,898	\$ 82,841	\$ 114,307	\$ 12,050
2014	260,791	49,000	122,381	6,570
2015	270,069	39,872	68,248	1,248
2016	279,595	30,420	5,000	-
2017	589,545	20,634	5,000	-
Total Payments	<u>\$ 2,366,898</u>	<u>\$ 222,767</u>	<u>\$ 314,936</u>	<u>\$ 19,868</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, 2012, 2011, and 2010 were approximately \$1,296,345, \$1,325,485, and \$1,372,517 and, 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 2012 and 2011 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, 2012 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, 2007, 2008, 2009, 2010 and remained unchanged for 2011 and 2012. The increases allowed additional funds to be allocated to the healthcare plan.

# **Morrow County Hospital and Affiliate**

## **Notes to Financial Statements December 31, 2012 and 2011**

### **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 \$540,000 and \$507,000 for the years ended December 31, 2012 and 2011, respectively. Amounts due to OhioHealth for services amounted to approximately \$65,000 and \$71,000 at December 31, 2012 and 2011, 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 \$2,533,530 and \$1,991,032 for the years ended December 31, 2012 and 2011, respectively.

A reconciliation of accrued health insurance at December 31, 2012 and 2011 consists of the following:

Balance at January 1, 2011	\$ 317,227
Health insurance expense	1,991,032
Payments made	<u>(2,102,996)</u>
Balance at December 31, 2011	205,263
Health insurance expense	2,533,530
Payments made	<u>(2,499,161)</u>
Balance at December 31, 2012	<u>\$ 239,632</u>

### **Note 12 – Commitment Note**

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 – Commitment Note (continued)**

The system was expected to cost \$3.1 million. As of December 31, 2012, the Hospital had capitalized costs of \$3,325,628 related to the system. The American Recovery and Reinvestment Act (“ARRA”) provides financial incentives to hospitals achieving the “meaningful use” of an electronic health record by 2015. The hospital expects to receive approximately \$1.8 million of ARRA reimbursement after the new electronic health record system is fully implemented in 2013. The Hospital received the initial incentive payment for \$99,800 in 2012.

### **Note 13 – Closure of Extended Care Facility**

On October 25, 2011, the Hospital closed its extended care facility. The Hospital has a written agreement to sell the licenses for its 38 extended care beds to an outside party. The sale is expected to be completed by December 31, 2013.

### **Note 14 – Subsequent Event**

The Hospital has issued an additional \$247,756 of previously authorized revenue bonds for the purpose of acquiring and installing the Meditech computer system. This additional amount will be included in the mandatory redemption of the bonds that will be due on or before December 24, 2013.

**Supplementary Information**

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# Morrow County Hospital and Affiliate

## Combining Balance Sheet December 31, 2012

	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 1,114,755	\$ 39,412	\$ 3,917	\$ -	\$ 1,158,084
Accounts receivable	3,984,803	236,058	-	-	4,220,861
Levied taxes receivable	1,300,000	-	-	-	1,300,000
Prepaid expenses and other	1,202,290	1,478	70,403	(138,406)	1,135,765
Inventory	686,956	-	-	-	686,956
Other current asset - Physician advances	47,056	-	-	-	47,056
Total current assets	8,335,862	276,948	74,320	(138,406)	8,548,722
<b>Assets Limited as to Use</b>	2,350,562	-	(114)	-	2,350,449
<b>General Long-term Investments</b>	-	-	165,020	-	165,020
<b>Property and Equipment - Net</b>	10,979,800	72,852	-	-	11,052,652
Total assets	<u>\$ 21,666,225</u>	<u>\$ 349,800</u>	<u>\$ 239,225</u>	<u>\$ (138,406)</u>	<u>\$ 22,116,843</u>

# Morrow County Hospital and Affiliate

## Combining Balance Sheet (Continued) December 31, 2012

<b>Liabilities and Net Assets</b>	<u>Morrow County Hospital</u>	<u>Morrow County Hospital Health Services</u>	<u>Morrow County Hospital Foundation</u>	<u>Eliminating Entries</u>	<u>Total</u>
<b>Current Liabilities</b>					
Current portion of long-term debt	\$ 1,081,205	\$ -	\$ -	\$ -	\$ 1,081,205
Accounts payable	2,553,558	132,360	-	(91,803)	2,594,115
Estimated third-party payor settlements	620,755	-	-	-	620,755
Accrued liabilities and other:					
Accrued compensation	1,011,458	19,960	-	-	1,031,418
Accrued compensated absences	603,764	(5,630)	-	-	598,134
Accrued interest	136	-	-	-	136
Deferred revenue for levied taxes	1,300,000	-	-	-	1,300,000
Other accrued liabilities	419,346	-	-	-	419,346
Total current liabilities	7,590,222	146,690	-	(91,803)	7,645,109
<b>Long-term Debt - Net of current portion</b>	1,600,628	-	-	-	1,600,628
Total liabilities	9,190,850	146,690	-	(91,803)	9,245,737
<b>Net Position</b>					
Net investment in capital assets	8,370,920		-	-	8,370,920
Unrestricted	4,104,455	203,110	239,225	(46,604)	4,500,186
Total liabilities and net position	<u>\$ 21,666,225</u>	<u>\$ 349,800</u>	<u>\$ 239,225</u>	<u>\$ (138,406)</u>	<u>\$ 22,116,843</u>

# Morrow County Hospital and Affiliate

## Combining Statement of Revenues, Expenses, and Changes in Net Position Year Ended December 31, 2012

	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
<b>Operating Revenues</b>					
Total patient service revenue	\$ 48,131,402	\$ 491,925	\$ -	\$ -	\$ 48,623,327
Revenue deductions	(24,198,262)	(205,799)	-	-	(24,404,061)
Net patient service revenue	23,933,140	286,126	-	-	24,219,266
Other	981,180	-	44,689	(138,406)	887,463
Total operating revenues	24,914,320	286,126	44,689	(138,406)	25,106,729
<b>Operating Expenses</b>					
Salaries and wages	8,618,390	172,297	-	-	8,790,686
Employee benefits and payroll taxes	4,688,043	9,462	-	-	4,697,505
Operating supplies and expenses	3,942,699	125,317	93,974	-	4,161,990
Purchased services	6,998,263	166,123	-	(91,798)	7,072,588
Insurance	196,825	-	-	-	196,825
Utilities	487,108	11,185	-	-	498,293
Rental	679,295	19,577	-	-	698,872
Depreciation and amortization	1,103,555	3,095	-	-	1,106,650
Total operating expenses	26,714,179	507,056	93,974	(91,798)	27,223,409
<b>Operating (Loss) Income</b>	(1,799,859)	(220,930)	(49,285)	(46,608)	(2,116,680)
<b>Nonoperating Revenues (Expenses)</b>					
Investment income	32,946	-	769	-	33,715
Property taxes	1,123,825	-	-	-	1,123,825
Intergovernmental Revenue	165,822	-	-	-	165,822
Interest expense	(34,210)	-	-	-	(34,210)
Total nonoperating income	1,288,384	-	769	-	1,289,152
<b>(Decrease) Increase in Net Position</b>	<b>\$ (511,476)</b>	<b>\$ (220,930)</b>	<b>\$ (48,516)</b>	<b>\$ (46,608)</b>	<b>\$ (827,528)</b>



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

May 24, 2013

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

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Morrow County Hospital & Affiliate, Morrow County, Ohio, (the Hospital) a business-type activity of Morrow County, Ohio, as of and for the year ended December 31, 2012, 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 24, 2013.

**Internal Control over Financial Reporting**

As part of our financial statement audit, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Hospital's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Hospital's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Morrow County Hospital and Affiliate  
Internal Control-Compliance Report

**Compliance and Other Matters**

As part of reasonably assuring whether the Hospital's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

**Purpose of this Report**

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rea & Associates, Inc.*



# 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 30, 2013**