



**Morrow County
Hospital**

OhioHealth

Associated with OhioHealth

Morrow County Hospital and Affiliate

**Audited Financial Statements
December 31, 2014 and 2013**



Dave Yost • Auditor of State

Board of Trustees
Morrow County Hospital and Affiliate
651 West Marion Road
Mt. Gilead, OH 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, 2014 through December 31, 2014. 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

June 11, 2015

This page intentionally left blank.

Morrow County Hospital and Affiliate

Contents

Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-11
Basic Financial Statements	
Balance Sheets	12
Statements of Revenues, Expenses, and Changes in Net Position	13
Statements of Cash Flow	14-15
Notes to Financial Statements	16-42
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.	43-44
Schedule of Findings & Responses	45

This page intentionally left blank.

April 28, 2015

To the Board of Trustees
Morrow County Hospital and Affiliate
Morrow County, Ohio
651 West Marion Road
Mt. Gilead, OH 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, a business-type activity of Morrow County, Ohio, (the "Hospital") as of and for the year ended December 31, 2014 and 2013, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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.

Opinions

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, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a 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, 2014 and 2013, 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 4-11 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2015 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, OH

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, emergency, inpatient, outpatient, swing bed, primary care and home health services to residents of Morrow County and surrounding areas. The reporting entity (the "Hospital") is comprised of Morrow County Hospital, the Morrow County Hospital Foundation, and Morrow County Health Services, 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, 2014, 2013, and 2012. 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 2014

- The Hospital had operating loss of \$3,146,994 compared to a loss of \$690,686 in 2013, decrease of \$2,456,308.
- The Hospital's Net Position decreased by \$1,857,524, or 13.3% compared to 2013.
- The Hospital's Total Operating Revenues increased by \$321,342, or 1.2%, compared to 2013.
- Successfully attested to Medicare Stage 1, Year 2, Medicaid, and Primary Care requirements for the meaningful use of an electronic medical record.
- Began seeing patients at a new 14,000 square foot physician office/outpatient facility at the intersection of State Route 61 and 1-71 in southern Morrow County. The facility opened in June 2014. Expanded services to include: Primary Care, Lab, Physical Therapy, Radiology, Pediatrics, Cardiology and Orthopedics.
- Expanded primary care Physicians by adding three physicians and two mid-level providers.
- Secured Rural Health Clinic status for two Physicians practices.

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, 2014

Total assets decreased 5.8% to \$21.1 million, and total liabilities increased 12.1% to \$7.5 million. The Hospital's total net position decreased from \$13.9 million to \$12.1 million, a 13.3% decrease from a year ago as shown in the following table:

	2012	2013	2014	2013 to 2014 Change	
				Amount	Percentage
Assets					
Current assets	\$ 8,548,722	\$ 10,119,891	\$ 9,935,887	\$ (184,004)	-1.8%
Noncurrent assets	2,515,469	1,520,111	1,472,001	(48,110)	-3.2%
Property and equipment	<u>11,052,652</u>	<u>10,786,911</u>	<u>9,704,567</u>	<u>(1,082,344)</u>	-10.0%
Total assets	22,116,843	22,426,913	21,112,455	(1,314,458)	-5.9%
Liabilities					
Current liabilities	5,925,763	5,487,854	6,623,099	1,135,245	20.7%
Noncurrent liabilities	<u>1,600,628</u>	<u>1,212,292</u>	<u>890,111</u>	<u>(322,181)</u>	-26.6%
Total liabilities	7,526,391	6,700,146	7,513,210	813,064	12.1%
Deferred Inflow of Resources	1,719,348	1,793,795	1,523,798	(269,997)	-15.1%
Net Position					
Net investment in capital assets	8,370,920	9,191,445	8,474,608	(716,837)	-7.8%
Unrestricted	<u>4,500,186</u>	<u>4,741,527</u>	<u>3,600,840</u>	<u>(1,140,687)</u>	-24.1%
Total net position	<u>\$ 12,871,106</u>	<u>\$ 13,932,972</u>	<u>\$ 12,075,448</u>	<u>\$ (1,857,524)</u>	-13.3%

Morrow County Hospital and Affiliate

Management's Discussion and Analysis (Continued)

Current Assets

Total current assets decreased by \$184,003 from the previous year. Accounts Receivable decreased by \$923,596 through billing efficiencies gained in first full year of Meditech software and Prepaid Expenses and Other increased by \$600,418, primarily due to an increase in the HCAP Receivable of \$28,024 and the 2014 Stage 1, Year 2 Medicare Meaningful Use receivable of \$402,948.

Noncurrent Assets

Noncurrent assets, consisting of limited use investments and general long-term investments decreased by \$48,110, or 3.2%.

Property and Equipment

Property and equipment decreased by \$1,082,344 or 10.0%. The decrease was due to net additions and retirements of \$647,993, offset by depreciation expense of \$1,730,337. The most significant change was the depreciation of the Meditech Project of \$774,357 in 2014. Additional detail regarding property and equipment can be found in Note 5 of the financial statements.

Current Liabilities

Current liabilities increased \$1,135,245 over the prior year. The increase is primarily due to the increase of \$741,402 to the Third Party Settlement and an increase of \$317,532 in Accounts Payable, offset by the recognition of the 2013 Meaningful Use monies of \$617,781 which reduced the liability.

Long-term Liabilities

Long-term liabilities decreased by \$322,181 primarily due to the issuance of new debt of \$14,859 offset by principal payments on long-term debt and capital lease obligations of \$380,363. Additional detail regarding the Hospital's long-term debt can be found in Note 7 of the financial statements.

Net Position

Total net position decreased by 13.3%, primarily due to an Operating loss of \$1,175,733 generated by the Morrow County Hospital Health Services. This was contributed through the addition of new physicians to physician practices and opening of a new outpatient clinic in 2014.

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 2014 compared to 2013 and 2012:

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:

	2012	2013	2014	2013 to 2014 Change	
				Amount	Percentage
Operating Revenues					
Net patient service revenue	\$ 24,219,266	\$ 23,782,338	\$ 25,476,547	\$ 1,694,209	7.1%
Other	887,463	3,504,757	2,131,890	(1,372,867)	-39.2%
Total Operating revenues	25,106,729	27,287,095	27,608,437	321,342	1.2%
Operating Expenses					
Salaries and benefits	13,488,191	13,967,502	16,631,381	2,663,879	19.1%
Operating Supplies and expenses	4,161,990	3,543,775	3,952,700	408,929	11.5%
Purchased services	7,072,588	7,518,666	6,672,868	(845,798)	-11.2%
Insurance	196,825	197,959	213,024	15,065	7.6%
Utilities	498,293	537,107	606,916	69,811	13.0%
Rental	698,872	792,169	948,205	156,036	19.7%
Depreciation and amortization	1,106,650	1,420,603	1,730,337	309,732	21.8%
Total operating expenses	27,223,410	27,977,781	30,755,431	2,777,652	9.9%
Operating Income (Loss)	(2,116,680)	(690,686)	(3,146,994)	(2,456,311)	355.6%
Nonoperating Income (Expenses)					
Other non operating revenue	-	456,000	-	(456,000)	-100.0%
Investment income	33,715	(4,692)	8,779	13,471	-287.1%
Property taxes	1,123,825	1,148,346	1,156,877	8,532	0.7%
Intergovernmental Revenue	165,822	168,182	170,277	2,095	1.2%
Interest expense	(34,210)	(15,284)	(46,463)	(31,179)	204.0%
Total nonoperating income	1,289,152	1,752,552	1,289,470	(463,081)	-26.4%
Increase (Decrease) in Net Position	(827,528)	1,061,866	(1,857,524)	\$ (2,919,389)	
Net Position - Beginning of year	13,698,634	12,871,106	13,932,972		
Net Position - End of year	\$ 12,871,106	\$ 13,932,972	\$ 12,075,448		

Morrow County Hospital and Affiliate

Management's Discussion and Analysis (Continued)

- Net patient service revenue increased \$1,694,209, or 6.7%, from 2013. Gross patient revenue increased by \$4,504,749 or 9.1%. The Hospital board of trustees approved a 5.0% rate increase effective January 1, 2014. The increase in gross patient revenue is due to the addition of new Primary Care practices and the increase in employed physicians. 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 at approximately 50.6% of gross revenue.
- Other operating revenue decreased \$1,372,867 primarily due to the Meaningful Use Incentive Payment for Stage 1, year 2 being substantially less than Stage 1, year 1.

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 decreased by \$845,798 or 11.2% primarily due to a new contract with our ED physicians. Team Health, formerly known as Premier Health, bills for their own services, resulting in a decrease of \$931,934 in Emergency Department professional fees.
- Operating supplies and expenses increased by \$408,925, or 11.5% due to increased orthopedic surgeries which resulted in an increase of \$225,499 in implant expense.
- Salaries and benefits increased by \$2,663,879 or 19.1% due to the addition of three physicians and two mid-level providers in 2014.
- Depreciation and amortization increased by \$309,734, or 21.8% mostly due to the first full year of depreciation of the Meditech project.

The following is a summary of 2014 operating expenses by type:

	Percentage	Amount
Operating Expenses		
Salaries and benefits	54.08%	\$ 16,631,381
Operating supplies and expenses	12.85%	3,952,700
Purchased services	21.70%	6,672,868
Insurance	0.69%	213,024
Utilities	1.97%	606,916
Rental	3.08%	948,205
Depreciation and amortization	5.63%	1,730,337
	<u>100.00%</u>	<u>\$ 30,755,431</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:

- Interest expense increased by \$31,179 or 204.0%, due to the payments made on the Meditech loan which began January 2014.
- Decrease of other non operating revenue from sale of ECF bed licenses in 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 2014, 2013, and 2012:

	2012	2013	2014	Increase (Decrease)
Cash Provided (Used) by:				
Operating activities	\$ (1,098,308)	\$ 681,352	\$ (164,252)	\$ (845,604)
Capital and related financing activities	(1,424,184)	(2,256,517)	(1,059,958)	1,196,559
Non capital financing activities	1,289,647	1,772,528	1,327,154	(445,374)
Investing activities	33,715	(4,692)	8,779	13,471
Net increase (Decrease) in Cash	(1,199,130)	192,671	111,723	(80,948)
Cash - Beginning of year	4,872,683	3,673,553	3,866,224	192,671
Cash - End of year	\$ 3,673,553	\$ 3,866,224	\$ 3,977,947	\$ 111,723

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

- Net cash provided by operating activities decreased \$845,604 from the prior year due to, a decrease of other receipts from operations of \$1,372,867, an increase of \$1,152,380 in payments to suppliers for goods and services and an increase of \$2,125,213 in payments to employees. The decrease was offset by an increase of \$3,804,856 in payments received from our patients.

Morrow County Hospital and Affiliate

Management's Discussion and Analysis (Continued)

- Net cash used in capital and related financing activities decreased by \$1,196,559 from 2013 primarily due to a \$1,205,445 decrease in principal payments on long term debt.
- Net cash used in non capital financing activities decreased by \$445,374 due to the one time 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 Morrow County Hospital 2015 operating budget in October 2014. The budget calls for gross revenue of \$59.6 million, total operating expenses of \$28.4 million, and excess revenue over expense of \$244,000. 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 2015 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 - 2014 has led the patient population to seek employment outside the county, and in many cases, shift patient flow closer to employment locations.
- 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 two additional nurse practitioners in 2015
- 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 became 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.

Jonathan Kelly
Vice President of Finance

Morrow County Hospital and Affiliate

	Balance Sheets	
	December 31, 2014	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 2,505,946	\$ 2,346,113
Accounts receivable (Note 3)	3,711,296	4,634,892
Levied taxes receivable	1,300,000	1,300,000
Prepaid expenses and other	1,758,178	1,157,760
Inventory	660,470	665,822
Other current asset - Physician advances	-	15,304
Total current assets	9,935,888	10,119,891
Assets Limited as to Use (Note 4)	1,306,096	1,354,733
General Long-term Investments (Note 4)	165,905	165,378
Property and Equipment - Net (Note 5)	9,704,567	10,786,911
Total assets	<u>\$ 21,112,456</u>	<u>\$ 22,426,913</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	\$ 339,849	\$ 383,172
Accounts payable	2,591,708	2,274,176
Estimated third-party payor settlements (Note 6)	1,330,540	589,138
Accrued liabilities and other:		
Accrued compensation	1,574,588	1,055,408
Accrued compensated absences	611,996	583,325
Other accrued liabilities	174,418	602,635
Total current liabilities	6,623,099	5,487,854
Long-term Debt - Net of current portion (Note 7)	890,111	1,212,292
Total liabilities	7,513,210	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	223,798	493,795
Total deferred inflows of resources	1,523,798	1,793,795
Net Position		
Net investment in capital assets	8,474,608	9,191,445
Unrestricted	3,600,840	4,741,527
Total net position	12,075,448	13,932,972
Total liabilities, deferred inflows and net position	<u>\$ 21,112,456</u>	<u>\$ 22,426,913</u>

See Notes to Financial Statements.

Morrow County Hospital and Affiliate

Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended	
	December 31, 2014	December 31, 2013
Operating Revenues		
Net patient service revenue	\$ 25,476,547	\$ 23,782,338
Other	2,131,890	3,504,757
Total operating revenues	<u>27,608,437</u>	<u>27,287,095</u>
Operating Expenses		
Salaries and wages	11,604,395	10,048,119
Employee benefits and payroll taxes	5,026,986	3,919,383
Operating supplies and expenses	3,952,700	3,543,775
Purchased services	6,672,868	7,518,666
Insurance	213,024	197,959
Utilities	606,916	537,107
Rental	948,205	792,169
Depreciation and amortization	1,730,337	1,420,603
Total operating expenses	<u>30,755,431</u>	<u>27,977,781</u>
Operating Loss	(3,146,994)	(690,686)
Nonoperating Revenues (Expenses)		
Other non operating revenue	-	456,000
Investment income	8,779	(4,692)
Property taxes	1,156,877	1,148,346
Intergovernmental Revenue	170,277	168,182
Interest expense	(46,463)	(15,284)
Total nonoperating revenue (expenses)	<u>1,289,470</u>	<u>1,752,552</u>
Increase (Decrease) in Net Position	(1,857,524)	1,061,866
Net Position - Beginning of year	13,932,972	12,871,106
Net Position - End of year	<u><u>\$ 12,075,448</u></u>	<u><u>\$ 13,932,972</u></u>

See Notes to Financial Statements.

Morrow County Hospital and Affiliate

Statements of Cash Flow

	Year Ended	
	December 31, 2014	December 31, 2013
Cash flow from Operating Activities		
Cash received from patients and third-party payors	\$ 27,141,546	\$ 23,336,690
Cash payments to suppliers for services and goods	(13,354,156)	(12,201,776)
Cash payments to employees for services	(16,083,532)	(13,958,319)
Other receipts from operations	2,131,890	3,504,757
Net cash provided (used) from Operation Activities	(164,252)	681,352
Cash Flow from Capital and Related Financing Activities		
Acquisitions and construction of capital assets - net	(633,132)	(655,425)
Principal payments on long term debt	(380,363)	(1,585,808)
Interest paid on capital related debt and capital leases	(46,463)	(15,284)
Net cash used from Capital and Related Financing Activities	(1,059,958)	(2,256,517)
Cash Flow from Noncapital Financing Activities		
Property tax levy/Intergovernmental revenue	1,327,154	1,316,528
Net-operating revenue	-	456,000
Net cash from Noncapital Financing Activities	1,327,154	1,772,528
Cash Flow from Investing Financing		
Interest in investments	8,779	(4,692)
Net cash (used) provided from Investing Financing	8,779	(4,692)
Net Increase (Decrease) in Cash and Investments	111,723	192,671
Cash and Investments - Beginning of year	3,866,224	3,673,553
Cash and Investments - End of year	\$ 3,977,947	\$ 3,866,224
Supplemental Cash Flow Information		
Cash and Cash Equivalents	\$ 2,505,946	\$ 2,346,113
Board designated funds	165,905	165,378
Hospital improvement funds	1,306,096	1,354,733
Cash and Investments - End of year	\$ 3,977,947	\$ 3,866,224
Non cash transaction:		
Finance revenue bonds for the Meditech EMR Project	\$ -	\$ 499,439
	\$ -	\$ 499,439

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, 2014	December 31, 2013
Cash flows from Operating Activities		
Operating loss	\$ (3,146,994)	\$ (690,686)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	1,730,337	1,420,603
(Increase) decrease in assets:		
Patient accounts receivable	923,596	(414,031)
Prepaid Expenses and Other Assets	(600,418)	(21,995)
Inventories	5,352	21,134
Other current assets	15,304	31,752
Increase (decrease) in liabilities:		
Accounts payable	317,532	(319,939)
Accrued expenses and deferred inflows	(150,363)	686,131
Third-party settlement	741,402	(31,617)
Net cash provided by operating activities	<u>\$ (164,252)</u>	<u>\$ 681,352</u>

See Notes to Financial Statements.

Morrow County Hospital and Affiliate

**Notes to Financial Statements
December 31, 2014 and 2013**

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 \$680,277 with assets consisting primarily of cash and cash equivalents and investments. Net revenue of the Foundation was approximately \$70,055 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.

In 2012, the Hospital recognized the need to employ physicians and mid-level providers to stabilize the physician community and started Morrow County Hospital Health Services. The purpose of Morrow County Hospital Health Services is to employ key physicians and mid-level providers to supply health services to the surrounding community.

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

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2014 and 2013

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

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.

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

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

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.

Classification of Net Position - Net position of the Hospital is 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 position* is remaining net position that does 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 Policies - For the fiscal year ended December 31, 2014, the Hospital has implemented Governmental Accounting Standards Board (GASB) Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

GASB Statement No. 69 addresses accounting and financial reporting for government combinations (including mergers, acquisitions and transfers of operations) and disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the Hospital.

GASB Statement No. 70 improves comparability of financial statements by requiring consistent reporting and specifying information required to be disclosed for extending and receiving nonexchange financial guarantees. The implementation of GASB Statement No. 70 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 4.0% in 2014 and 4.0% in 2013 of its financial support from property taxes. Total funds received and used to support operations, including intergovernmental revenue, were \$1,327,154 and \$1,316,528 for the years ended December 31, 2014 and 2013, respectively.

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2014 and 2013

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 2014 and 2013, the Hospital provided charity care of approximately \$1,351,726 and \$2,033,803, 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, 2014 and 2013**

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>
2014 U.S. government bonds	\$ 1,190,720	Counterparty
2013 U.S. government bonds	\$ 952,470	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>
2014 U.S. government bonds	\$ 1,190,720	1.00 year
2013 U.S. government bonds	\$ 952,470	1.00 year

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2014 and 2013

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	<u>2014</u>	<u>2013</u>
Patient accounts receivable	\$ 8,379,232	\$ 11,440,404
Less:		
Allowance for uncollectible accounts	(1,731,934)	(3,896,892)
Allowance for contractual adjustments	<u>(2,936,002)</u>	<u>(2,908,620)</u>
Net accounts receivable	<u>\$ 3,711,296</u>	<u>\$ 4,634,892</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 revenue and receivables from patients and third-party payors was as follows:

	<u>December 31, 2014</u>		<u>December 31, 2013</u>	
	<u>Gross Revenue</u>	<u>Accounts Receivable</u>	<u>Gross Revenue</u>	<u>Accounts Receivable</u>
Commercial insurance and HMO's	59%	62%	61%	60%
Medicare	30	31	29	29
Medicaid	8	4	3	3
Self-pay	<u>3</u>	<u>3</u>	<u>7</u>	<u>8</u>
	<u>100%</u>	<u>100%</u>	<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>2014</u>	<u>2013</u>
Demand deposits and money market accounts	\$ 2,787,227	\$ 2,913,754
U.S. government obligations	<u>1,190,720</u>	<u>952,470</u>
Total	<u>\$ 3,977,947</u>	<u>\$ 3,866,224</u>

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2014 and 2013

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

	Fair Value	
	2014	2013
Amounts summarized by fund type -		
General funds:		
Cash and cash equivalents	\$ 2,505,946	\$ 2,346,113
Board designated	1,306,096	1,354,733
General long-term investments	165,905	165,378
Total	<u>\$ 3,977,947</u>	<u>\$ 3,866,224</u>

Note 5 - Capital Assets

Cost of capital assets and related depreciable lives for December 31, 2014 are summarized below:

	2013	Additions	Transfers	Retirements	2014	Depreciable Life-Years
Land and land improvements	\$ 797,613	\$ -	\$ -	\$ -	\$ 797,613	5-25
Building	6,065,772	14,984	-	-	6,080,756	10-40
Equipment	20,502,888	241,653	-	-	20,744,542	5-20
Construction in progress	648,199	450,218	(58,862)	-	1,039,555	
Total	28,016,484	706,855	(58,862)	-	28,662,465	
Less accumulated depreciation:						
Land and land improvements	537,166	42,511	-	-	579,677	
Building	3,853,932	171,115	-	-	4,025,047	
Equipment	12,836,463	1,516,711	-	-	14,353,174	
Total	17,227,561	1,730,337	-	-	18,957,898	
Net carrying amount	<u>\$ 10,786,911</u>	<u>\$ (1,023,482)</u>	<u>\$ (58,862)</u>	<u>\$ -</u>	<u>\$ 9,704,567</u>	

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2014 and 2013

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	-	-	12,836,463	
Total	<u>15,806,960</u>	<u>1,420,601</u>	<u>-</u>	<u>-</u>	<u>17,227,561</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>	

Note 6 - Cost Report Settlements

For 2014, approximately 38 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.

Rural Health Clinics – Effective November 18, 2014, the Hospital received confirmation that two of the primary care practices were granted Rural Health Clinic status. As a rural health clinic, the practices receive cost-based reimbursement for provider visits provided to Medicare and Medicaid beneficiaries.

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, 2014 and 2013

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, 2014 was as follows:

	2013	Current Year Additions	Current Year Reductions	2014	Amounts Due Within One Year
Hospital Facilities Revenue					
Bonds, Series 2011	\$ 1,400,000	\$ -	\$ (260,794)	1,139,206	\$ 270,068
Capital lease obligations	195,464	14,859	(119,569)	90,754	69,781
Total long-term debt	1,595,464	14,859	(380,363)	1,229,960	339,849
Compensated absences	583,326	809,251	(780,581)	611,996	611,996
 Total noncurrent liabilities	 <u>\$ 2,178,790</u>	 <u>\$ 824,110</u>	 <u>\$ (1,160,944)</u>	 <u>\$ 1,841,956</u>	 <u>\$ 951,845</u>

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	314,935	-	(119,473)	195,462	122,381
Total long-term debt	2,681,833	499,439	(1,585,810)	1,595,462	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>\$ 2,178,788</u>	 <u>\$ 966,498</u>

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2014 and 2013

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 2018 and are collateralized by the leased equipment. Capitalized costs were approximately \$613,000 for each of the years ended December 31, 2014 and 2013, which represents the present value of the minimum lease payments at the inception of the leases.
- 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 is 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.

The following is a schedule by years of principal and interest as of December 31, 2014:

Years Ending <u>December 31</u>	<u>Long-term Debt</u>		<u>Capital Lease Obligation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	270,068	35,561	69,781	2,070
2016	279,595	26,037	9,715	606
2017	289,620	16,011	6,065	375
2018	299,923	5,710	5,193	134
Total Payments	<u>\$ 1,139,206</u>	<u>\$ 83,319</u>	<u>\$ 90,754</u>	<u>\$ 3,051</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, 2014, 2013, and 2012 were approximately \$1,391,125, \$1,329,558 and \$1,277,684, 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 2014 and 2013 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, 2014 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, 2013 and 2014. The increases allowed additional funds to be allocated to the healthcare plan.

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2014 and 2013

Note 10 - Affiliation

The Hospital contracts with OhioHealth for management, information technology, and other support services. OhioHealth employs the Hospital's chief executive and VP of Finance officers and also appoints one nonvoting representative to the Hospital's board of trustees. Fees for services amounted to approximately \$690,000 and \$597,000 for the years ended December 31, 2014 and 2013, respectively. Amounts due to OhioHealth for services amounted to approximately \$61,000 and \$52,000 at December 31, 2014 and 2013, 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 \$2,801,485 and \$1,935,333 for the years ended December 31, 2014 and 2013, respectively.

A reconciliation of accrued health insurance at December 31, 2014 and 2013 consists of the following:

Balance at January 1, 2013	\$ 239,632
Health insurance expense	1,935,333
Payments made	<u>(1,989,938)</u>
Balance at December 31, 2013	185,027
Health insurance expense	2,801,485
Payments made	<u>(2,349,785)</u>
Balance at December 31, 2014	<u>\$ 636,727</u>

The balance of accrued health insurance is included as accrued compensation on the balance sheet.

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 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 2014 and 2013, the Hospital successfully implemented the new electronic health record system and recorded revenue of approximately \$1.1 million and \$2.5 million, respectively 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.

Note 14 – Blended Component Units

Morrow County Hospital Health Services and Morrow County Hospital Foundation are considered blended component units under the criteria of GASB Statement No. 61. The following represents combining Financial Statements for the years ended 2014 and 2013.

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2014 and 2013

Note 14 – Blended Component Units (continued)

Combining Balance Sheet December 31, 2014

	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
Assets					
Current Assets					
Cash and cash equivalents	\$ 2,233,520	\$ 79,466	\$ 192,960	\$ -	\$ 2,505,946
Accounts receivable	3,716,148	(4,853)	-	-	3,711,296
Levied taxes receivable	1,300,000	-	-	-	1,300,000
Prepaid expenses and other	2,895,735	13,301	321,413	(1,472,271)	1,758,178
Inventory	660,468	-	-	-	660,468
Other current asset - Physician advances	-	-	-	-	-
Total current assets	10,805,873	87,914	514,373	(1,472,271)	9,935,888
Assets Limited as to Use	1,306,096	-	-	-	1,306,096
General Long-term Investments	-	-	165,905	-	165,905
Property and Equipment - Net	9,600,510	104,057	-	-	9,704,567
Total assets	<u>\$ 21,712,479</u>	<u>\$ 191,971</u>	<u>\$ 680,277</u>	<u>\$ (1,472,271)</u>	<u>\$ 21,112,456</u>

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2014 and 2013

Note 14 – Blended Component Units (continued)

Combining Balance Sheet (continued) December 31, 2014

	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	\$ 339,849	\$ -	\$ -	\$ -	\$ 339,849
Accounts payable	2,537,850	1,275,478	-	(1,221,620)	2,591,708
Estimated third-party payor settlements	1,330,540	-	-	-	1,330,540
Accrued liabilities and other:					
Accrued compensation	1,489,389	85,199	-	-	1,574,588
Accrued compensated absences	637,347	(25,350)	-	-	611,996
Accrued interest	-	-	-	-	-
Other accrued liabilities	174,418	-	-	-	174,418
Total current liabilities	6,509,392	1,335,326	-	(1,221,620)	6,623,099
Long-term Debt - Net of current portion	890,111	250,651	-	(250,651)	890,111
Total liabilities	7,399,503	1,585,977	-	(1,472,271)	7,513,210
Deferred Inflows of Resources					
Property taxes levied for next fiscal year	1,300,000	-	-	-	1,300,000
Third party revenues not available	223,798	-	-	-	223,798
Total deferred inflows of resources	1,523,798	-	-	-	1,523,798
Net Position					
Net investment in capital assets	8,474,608	-	-	-	8,474,608
Unrestricted	4,314,569	(1,394,006)	680,277	-	3,600,840
Total net position	12,789,178	(1,394,006)	680,277	-	12,075,448
Total liabilities and net position	<u>\$ 21,712,479</u>	<u>\$ 191,971</u>	<u>\$ 680,277</u>	<u>\$ (1,472,271)</u>	<u>\$ 21,112,456</u>

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2014 and 2013

Note 14 – Blended Component Units (continued)

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

Notes to Financial Statements December 31, 2014 and 2013

Note 14 – Blended Component Units (continued)

Combining Balance Sheet (continued) December 31, 2013

Liabilities and Net Assets	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
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

Notes to Financial Statements December 31, 2014 and 2013

Note 14 – Blended Component Units (continued)

Combining Statement of Revenues, Expenses, and Changes in Net Position Year Ended December 31, 2014

	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
Operating Revenues					
Total patient service revenue	\$ 54,488,479	\$ 1,147,323	\$ -	\$ -	\$ 55,635,802
Revenue deductions	(29,469,597)	(689,658)	-	-	(30,159,255)
Net patient service revenue	25,018,882	457,665	-	-	25,476,547
Other	2,328,040	1,385,012	70,055	(1,651,217)	2,131,890
Total operating revenues	27,346,922	1,842,677	70,055	(1,651,217)	27,608,437
Operating Expenses					
Salaries and wages	9,502,118	2,102,277	-	-	11,604,395
Employee benefits and payroll taxes	4,777,738	249,248	-	-	5,026,986
Operating supplies and expenses	3,882,517	144,628	(74,445)	-	3,952,700
Purchased services	7,876,219	447,866	-	(1,651,217)	6,672,867
Insurance	213,024	-	-	-	213,024
Utilities	594,899	12,017	-	-	606,916
Rental	891,898	56,307	-	-	948,205
Depreciation and amortization	1,724,676	5,661	-	-	1,730,337
Total operating expenses	29,463,089	3,018,004	(74,445)	(1,651,217)	30,755,431
Operating (Loss) Income	(2,116,167)	(1,175,327)	144,500	0	(3,146,994)
Nonoperating Revenues (Expenses)					
Other non operating revenue	-	-	-	-	-
Investment income	7,941	-	838	-	8,779
Property taxes	1,156,877	-	-	-	1,156,877
Intergovernmental Revenue	170,277	-	-	-	170,277
Interest expense	(46,056)	(407)	-	-	(46,463)
Total nonoperating income	1,289,039	(407)	838	-	1,289,470
(Decrease) Increase in Net Position	<u>\$ (827,128)</u>	<u>\$ (1,175,734)</u>	<u>\$ 145,338</u>	<u>\$ 0</u>	<u>\$ (1,857,524)</u>

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2014 and 2013

Note 14 – Blended Component Units (continued)

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

Notes to Financial Statements December 31, 2014 and 2013

Note 14 – Blended Component Units (continued)

Combining Statement of Cash Flows Year Ended December 31, 2014

	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	26,460,048	681,498	-	-	27,141,546
Cash payments to suppliers for services and goods	(15,306,135)	226,317	74,445	1,651,217	(13,354,156)
Cash payments to employees for services	(13,715,173)	(2,368,359)	-	-	(16,083,532)
Other receipts from operations	2,250,772	1,462,280	70,055	(1,651,217)	2,131,890
Net cash provided (used) from Operation Activities	(310,488)	1,736	144,500	-	(164,252)
Cash Flow from Capital and Related Financing Activities					
Acquisitions and construction of capital assets - net	(603,845)	(29,287)	-	-	(633,132)
Principal payments on long term debt	(380,363)	-	-	-	(380,363)
Interest paid on capital related debt and capital leases	(46,056)	(407)	-	-	(46,463)
Net cash used from Capital and Related Financing Activities	(1,030,264)	(29,694)	-	-	(1,059,958)
Cash Flow from Noncapital Financing Activities					
Property tax levy/Intergovernmental revenue	1,327,154	-	-	-	1,327,154
Net cash from Noncapital Financing Activities	1,327,154	-	-	-	1,327,154
Cash Flow from Investing Financing					
Interest in investments	7,941	-	838	-	8,779
Net cash (used) provided from Investing Financing	7,941	-	838	-	8,779
Net Increase (Decrease) in Cash and Investments	(5,657)	(27,958)	145,338	-	111,723
Cash and Investments - Beginning of year	3,545,272	91,117	229,835	-	3,866,224
Cash and Investments - End of year	<u>\$ 3,539,615</u>	<u>\$ 63,159</u>	<u>\$ 375,172</u>	<u>\$ -</u>	<u>\$ 3,977,947</u>
Supplemental Cash Flow Information					
Cash and Cash Equivalents	\$ 2,233,519	\$ 63,159	\$ 209,268	\$ -	\$ 2,505,946
Board designated funds	-	-	165,905	-	165,905
Hospital improvement funds	1,306,096	-	-	-	1,306,096
Cash and Investments - End of year	<u>\$ 3,539,615</u>	<u>\$ 63,159</u>	<u>\$ 375,173</u>	<u>\$ -</u>	<u>\$ 3,977,947</u>

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2014 and 2013

Note 14 – Blended Component Units (continued)

Combining Statement of Cash Flows (continued) Year Ended December 31, 2014

	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
Cash flows from Operating Activities					
Operating loss	\$ (2,116,167)	\$ (1,175,327)	\$ 144,500	\$ 0	\$ (3,146,994)
Adjustments to reconcile operating loss to net cash from operating activities:					
Depreciation and amortization	1,724,676	5,661	-	-	1,730,337
(Increase) decrease in assets:					
Patient accounts receivable	699,764	223,834	-	-	923,598
Prepaid Expenses and Other Assets	768,415	13,301	-	(1,382,134)	(600,418)
Inventories	5,352	-	-	-	5,352
Other current assets	15,304	-	-	-	15,304
Increase (decrease) in liabilities:					
Accounts payable	482,117	9,833	-	-	491,950
Accrued expenses and deferred inflows	(324,783)	-	-	-	(324,783)
Third-party settlement receivables	741,402	-	-	-	741,402
Net cash provided by operating activities	<u>\$ 1,996,076</u>	<u>\$ (922,698)</u>	<u>\$ 144,500</u>	<u>\$ (1,382,134)</u>	<u>\$ (164,252)</u>

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2014 and 2013

Note 14 – Blended Component Units (continued)

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	-	-	23,336,69
Cash payments to suppliers for services and goods	(12,724,857)	(198,355)	29,491	691,945	(12,201,77)
Cash payments to employees for services	(12,959,381)	(998,938)	-	-	(13,958,31)
Other receipts from operations	4,087,312	19,475	44,689	(646,719)	3,504,75
Net cash provided (used) from Operation Activities	595,215	(33,269)	74,180	45,226	681,35
Cash Flow from Capital and Related Financing Activities					
Acquisitions and construction of capital assets - net	(589,441)	(65,984)	-	-	(655,42)
Principal payments on long term debt	(1,585,808)	-	-	-	(1,585,80)
Interest paid on capital related debt and capital leases	(14,877)	(407)	-	-	(15,28)
Net cash used from Capital and Related Financing Activities	(2,190,126)	(66,391)	-	-	(2,256,51)
Cash Flow from Noncapital Financing Activities					
Property tax levy/Intergovernmental revenue	1,316,528	-	-	-	1,316,52
Net-operating revenue	456,000	-	-	-	456,00
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)	1,772,52
Cash Flow from Investing Financing					
Interest in investments	(5,439)	-	747	-	(4,69)
Net cash (used) provided from Investing Financing	(5,439)	-	747	-	(4,69)
Net Increase (Decrease) in Cash and Investments	79,955	51,704	61,012	-	192,67
Cash and Investments - Beginning of year	3,465,317	39,413	168,823	-	3,673,55
Cash and Investments - End of year	<u>\$ 3,545,272</u>	<u>\$ 91,117</u>	<u>\$ 229,835</u>	<u>\$ -</u>	<u>\$ 3,866,22</u>
Supplemental Cash Flow Information					
Cash and Cash Equivalents	\$ 2,190,539	\$ 91,117	\$ 64,457	\$ -	\$ 2,346,11
Board designated funds	-	-	165,378	-	165,37
Hospital improvement funds	1,354,733	-	-	-	1,354,73
Cash and Investments - End of year	<u>\$ 3,545,272</u>	<u>\$ 91,117</u>	<u>\$ 229,835</u>	<u>\$ -</u>	<u>\$ 3,866,22</u>

Morrow County Hospital and Affiliate

Notes to Financial Statements December 31, 2014 and 2013

Note 14 – Blended Component Units (continued)

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>

April 28, 2015

To the Board of Trustees
Morrow County Hospital and Affiliate
Morrow County, Ohio
651 West Marion Road
Mt. Gilead, OH 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 years ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated April 28, 2015, wherein we noted the basic financial statements of the Hospital present only a 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 opinion 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying *Schedule of Findings and Responses* as item 2014-001 that we consider to be a significant deficiency.

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*.

The Hospital's Response to Findings

The Hospital's response to the finding identified in our audit is described in the accompanying *Schedule of Findings and Responses*. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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, OH

Morrow County Hospital and Affiliate
Morrow County, Ohio
Schedule of Findings & Responses
December 31, 2014

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

Finding Number: 2014-001

Significant Deficiency – Internal Controls over Financial Reporting

Criteria: The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 122 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client’s internal control over financial reporting. This standard requires the audit to report in writing to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 122 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Condition: There were multiple audit adjustments made to the financial statements presented for audit.

Cause: There were three factors that resulted in the adjustments to the financial statements, each independent of the other, identified below:

A change in a stop loss laser resulted in increased health insurance claims. The claims liability estimation did not account for this increase.

In addition, two adjustments were made as reclassification entries on the Balance Sheet.

Effect: The conditions described above resulted in an understatement of Accrued Compensation in the amount of \$501,015. The Balance Sheet reclassification entries had no effect on ending Net Position.

Recommendation: To ensure the Hospital’s financial statements and notes to the financial statements are complete and accurate, the Hospital should adopt procedures, including a final review of the statements and notes, to identify potential errors and omissions.

Management’s Response: Morrow County financial management’s communication with the TPA about high dollar claims will be added to the monthly close process to determine whether additional amounts should be accrued on top of the standard calculation. In addition, Morrow County financial management will work with OhioHealth Corporate Finance to ensure their calculation is completed in the same manner as OhioHealth.

Additionally, Morrow County financial management will complete a calculation related to stop loss coverage to determine if Morrow County should purchase additional coverage given their historical claims experience. This analysis will be completed by June 30, 2015.

Historically, Morrow County Hospital did not obtain an actuarial report for their self-funded insurance plan. The Hospital will consider obtaining an actuarial report to certify that the amounts are fairly stated in accordance with sound loss reserving principles.

This page intentionally left blank.



Dave Yost • Auditor of State

MORROW COUNTY HOSPITAL

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
JUNE 23, 2015**