



**Morrow County  
Hospital**

**OhioHealth**

*Associated with OhioHealth*

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**Morrow County Hospital and Affiliates**

**Financial Report  
with Supplementary Information  
December 31, 2015**





# Dave Yost • Auditor of State

Board of Trustees  
Morrow County Hospital and Affiliates  
651 West Marion Road  
Mt. Gilead, Ohio 43338

We have reviewed the *Independent Auditor's Report* of the Morrow County Hospital and Affiliates, Morrow County, prepared by Rea & Associates, Inc., for the audit period January 1, 2015 through December 31, 2015. 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 Affiliates 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 21, 2016

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# **Morrow County Hospital and Affiliates**

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April 20, 2016

To the Board of Trustees  
Morrow County Hospital and Affiliates  
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 Affiliates, Morrow County, Ohio, a business-type activity of Morrow County, Ohio, (the "Hospital") as of and for the year ended December 31, 2015, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Morrow County Hospital and Affiliates, Morrow County, Ohio as of December 31, 2015, and the respective changes in financial position, and cash flows for the year 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, 2015, 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.

As described in Note 1, the Hospital restated the net position balances to account for a restatement of beginning balance of a prior year receivable and the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. 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*, *Schedule of Hospital Contributions*, and *Schedule of the Hospital's Proportionate Share of the Net Pension Liability* on pages 4–12, 45, and 46, respectively, 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 20, 2016 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 the Hospital's internal control over financial reporting and compliance.

*Rea & Associates, Inc.*

Medina, Ohio



# **Morrow County Hospital and Affiliates**

## **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 Hospital 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, 2015, and 2014. 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 2015**

- Combined results ended the year with an operating loss of \$1,967,788 compared to a loss of \$3,146,994 in 2014.
- The Combined Net Position decreased by \$649,178, compared to a Combined Net Position decrease in 2014 of \$1,857,524.
- The Combined Operating Revenues increased by \$1,285,586, or 4.7%, compared to 2014.
- The Combined Operating Expenses only increased \$106,380 or 0.3% over 2014 Combined Operating Expenses.
- The Hospital implemented GASB 68, which reduced beginning net position as previously reported by \$7,726,464.

The reasons for these outcomes are stated below:

- A. The Hospital management team, in partnership with the Emergency Care Physicians and Hospitalist refocused efforts to keep care local and successfully improved transfers by approximately 12%.
- B. Morrow County's Acute Care leadership partnered with our 3<sup>rd</sup> party Hospitalist team to enhance observation and admission documentation and protocols.
- C. Morrow County Hospital partnered with Optum Lynx to optimize Emergency Department care protocols.
- D. Morrow County Hospital, through its affiliated employed physician's practices, successfully began billing for two practices as Rural Health Clinics.
- E. The Hospital leadership team, with assistance from its 3<sup>rd</sup> party Pharmacy management, optimized its 340b program to include Rural Health Clinic activity.

# **Morrow County Hospital and Affiliates**

## **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, deferred outflows of resources, liabilities and deferred inflows of resources 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, 2015**

Total assets decreased 3.0% to \$19.9 million, and total liabilities increased 122.2% to \$16.7 million. The Hospital's total net position decreased from \$11.5 million to \$3.1 million, a 72.8% decrease from a year ago as shown in the following table:

	2014 *	2015	2014 to 2015 Change	
			Amount	Percentage
<b>Assets</b>				
Current assets	\$ 9,367,897	\$ 9,693,018	\$ 325,121	3.5%
Noncurrent assets	1,472,001	1,756,827	284,826	19.3%
Property and equipment	9,704,567	8,471,004	(1,233,563)	-12.7%
Total assets	20,544,465	19,920,849	(623,616)	-3.0%
<b>Deferred Outflow of Resources</b>				
Pension	-	1,605,056	1,605,056	
<b>Liabilities</b>				
Current liabilities	6,623,099	7,014,529	391,430	5.9%
Noncurrent liabilities	890,111	9,682,073	8,791,962	987.7%
Total liabilities	7,513,210	16,696,602	9,183,393	122.2%
<b>Deferred Inflow of Resources</b>	1,523,798	1,697,488	173,690	11.4%
<b>Net Position</b>				
Net investment in capital assets	8,474,608	7,593,292	(881,316)	-10.4%
Unrestricted	3,032,849	(4,461,477)	(7,494,326)	-247.1%
Total net position	<b>\$ 11,507,457</b>	<b>\$ 3,131,815</b>	<b>\$ (8,375,642)</b>	-72.8%

\* 2014 amounts have not been adjusted for the implementation of GASB 68.

# **Morrow County Hospital and Affiliates**

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

In 2015, the Hospital implemented GASB Statement 68, Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Hospital's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting the net pension asset and deferred outflows related to pension. This implementation reflects amounts only applicable to 2015. Amounts are not comparative, specifically this results in assets/deferred outflows totaling \$1,632,094 and liabilities/deferred inflows totaling \$9,244,548 that were not available for inclusion in 2014 totals.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension asset/liability equals the Hospital's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Hospital is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

# **Morrow County Hospital and Affiliates**

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

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Hospital's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows of resources.

As a result of implementing GASB 68, the Hospital is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014, from \$12,075,448 to \$4,348,984.

### **Current Assets**

Total current assets increased by \$325,121 from the previous year. Cash and cash equivalents increased by \$934,823 due to an increase of \$719,273 in cash collections from our Primary Care locations. Accounts Receivable decreased by \$238,662, primarily due to timeliness of processing. Prepaid Expenses and Other decreased by \$207,330, primarily due to not having a receivable for Meaningful Use in 2015.

### **Noncurrent Assets**

Noncurrent assets, consisting of limited use investments, general long-term investments, and net pension assets increased by \$284,826, or 19.3%.

### **Property and Equipment**

Property and equipment decreased by \$1,233,563 or 12.7%. The decrease was due to net additions and retirements of \$438,224, offset by depreciation expense of \$1,671,787.

### **Current Liabilities**

Current liabilities increased \$391,430 over the prior year. The increase is primarily due to the increase of \$342,312 to the Third Party Settlement and an increase of \$285,112 in Accounts Payable, offset by the a decrease in other accrued liabilities of \$174,418.

### **Long-term Liabilities**

Long-term liabilities increased by \$8,791,962 primarily due to the implementation of GASB 68. Additional detail regarding GASB 68 can be found in Note 9 of the financial statements.

# Morrow County Hospital and Affiliates

## Management's Discussion and Analysis (Continued)

### Net Position

Total net position decreased by 72.8%, primarily due to the implementation of GASB 68 and an Operating Loss of \$920,905 generated by the Morrow County Hospital Health Services.

### Operating Revenues and Expenses

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2015 and 2014.

#### 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:

	2014	2015	2014 to 2015 Change	
			Amount	Percentage
<b>Operating Revenues</b>				
Net patient service revenue	\$ 25,476,547	\$ 27,912,146	\$ 2,435,599	9.6%
Other	2,131,890	981,877	(1,150,013)	-53.9%
Total Operating revenues	27,608,437	28,894,023	1,285,586	4.7%
<b>Operating Expenses</b>				
Salaries and benefits	16,631,381	16,919,002	287,621	1.7%
Operating Supplies and expenses	3,952,700	4,170,911	218,211	5.5%
Purchased services	6,672,868	6,209,949	(462,919)	-6.9%
Insurance	213,024	256,791	43,767	20.5%
Utilities	606,916	607,424	508	0.1%
Rental	948,205	1,025,947	77,742	8.2%
Depreciation and amortization	1,730,337	1,671,787	(58,550)	-3.4%
Total operating expenses	30,755,431	30,861,811	106,380	0.3%
<b>Operating Income (Loss)</b>	<b>(3,146,994)</b>	<b>(1,967,788)</b>	<b>1,179,206</b>	<b>-37.5%</b>
<b>Nonoperating Revenue (Expenses)</b>				
Investment income	8,779	7,060	(1,719)	-19.6%
Property taxes	1,156,877	1,185,165	28,288	2.4%
Intergovernmental Revenue	170,277	162,562	(7,715)	-4.5%
Interest expense	(46,463)	(36,177)	10,286	-22.1%
Total nonoperating revenue	1,289,470	1,318,610	29,141	2.3%
<b>Increase (Decrease) in Net Position</b>	<b>\$ (1,857,524)</b>	<b>\$ (649,178)</b>	<b>\$ 1,208,346</b>	

# **Morrow County Hospital and Affiliates**

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

- The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 operating expenses still include pension expense of \$1,137,987 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$1,005,084. Consequently, in order to compare 2015 total operating expenses to 2014, the following adjustments are needed:

Total 2015 operating expenses under GASB 68	\$ 30,861,811
Pension expense under GASB 68	(1,005,084)
2015 contractually required contribution	<u>1,119,094</u>
Adjusted 2015 operating expenses	30,975,821
Total 2014 operating expenses under GASB 27	<u>30,755,431</u>
Increase in operating expenses not related pension	<u>\$ 220,390</u>

- Net patient service revenue increased \$2,435,599, or 9.6%, from 2014. Gross patient revenue increased by \$5,534,021 or 9.9%. The Hospital board of trustees approved a 5.0% rate increase effective January 1, 2015. 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 51.4% of gross revenue.
- Other operating revenue decreased \$1,150,013 primarily due to no Meaningful Use Incentive Payment in 2015.

### **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 \$462,919 or 6.9% primarily due to a new billing contract with our Emergency Department physicians. Team Health, formerly known as Premier Health, bills for their own services, resulting in a decrease of \$377,973 in Emergency Department professional fees.
- Operating supplies and expenses increased by \$218,211, or 5.5% due to an increase in Pharmacy Maintenance contract software of \$97,419 and an increase in Licenses & Filing fees.
- Salaries and benefits increased by \$287,621 or 1.7% due to merit adjustments given in 2015.

# **Morrow County Hospital and Affiliates**

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

The following is a summary of 2015 operating expenses by type:

	Percentage	Amount
Operating Expenses		
Salaries and benefits	54.82%	\$ 16,919,002
Operating supplies and expenses	13.52%	4,170,911
Purchased services	20.12%	6,209,949
Insurance	0.83%	256,791
Utilities	1.97%	607,424
Rental	3.32%	1,025,947
Depreciation and amortization	5.42%	1,671,787
	<u>100.00%</u>	<u>\$ 30,861,811</u>

### **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, intergovernmental revenue, and interest expense.

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

- Property Taxes income increased by \$28,288 or 2.4%, due to the increased receipts from the tax levy.

### **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

# **Morrow County Hospital and Affiliates**

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

The following discussion amplifies the overview of cash flows:

- Net cash provided by operating activities increased \$816,327 from the prior year due to a decrease in cash payments to supplier for services and goods of \$1,978,502, and an increase of \$1,316,645 in cash received from patients and third-party payors. Offset by a decrease in other receipts from operations of \$1,150,012, and an increase in payments to employees for services of \$1,328,808.
- Net cash used in capital and related financing activities decreased by \$245,709 from 2014 primarily due to a decrease in capital asset acquisitions.
- Net cash provided in non-capital financing activities increased by \$20,573 due to an increase in levy receipts.

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

The board of trustees and the Morrow County Commissioners approved the Morrow County Hospital 2016 operating budget in October 2015. The budget calls for gross revenue of \$63.9 million, total operating expenses of \$32.7 million, and excess revenue over expense of \$267,000. The board of trustees approved an average increase of 6.0% in the patient charge structure for the upcoming fiscal year.

There are several factors and uncertainties that may affect the Hospital during 2016 and future years including:

- On March 23, 2010, President Obama signed the Patient Protection and Affordable Care Act (ACA). This healthcare reform legislation continues to impact the health services industry, both as a provider and as an employer. Section 501(r), added to the IRS Code by the ACA, imposes new requirements on 501(c)(3) organizations that operate one or more hospital facilities. In 2016, several 501(c)(3) hospitals that operate nearby will be implementing the changes. The Hospital has yet to 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 continues to have higher than average unemployment and below average per capita income. The poor economic climate from 2009 - 2014 prompted the patient population to seek employment outside the county. In many cases, patient flow has shifted closer to employment locations, updated care facilities, and more comprehensive sites of care.
- Due to its rural location, the Hospital must occasionally address physician interruptions and shortages including family practitioners and specialists. The Hospital has employed 8 primary care physicians, 5 Advanced Practice Providers and an orthopedic surgeon through its MCHHS subsidiary. The hospital does not expect to employ any additional providers in 2016.



## **Morrow County Hospital and Affiliates**

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

- 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 net pension liability of Ohio's public retirement systems. For the Hospital, these standards became effective December 31, 2015. While the standard does not impact the Hospital's funding requirement, the reporting requirement may impact the hospital's ability to issue and secure new debt.
- The Hospital's strategic plan calls for the continued growth and expansion of Outpatient and Ancillary services across Morrow County. In addition, select capital improvements to the facility and infrastructure are under consideration, within funding limitations.

#### **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 Affiliates

## Combined Balance Sheet

December 31,  
2015

<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$	3,440,769
Accounts receivable (Note 3)		3,472,634
Levied taxes receivable		1,334,928
Prepaid expenses and other		982,857
Inventory		461,830
Total Current Assets		9,693,018
<b>Noncurrent Assets</b>		
Assets Limited as to Use (Note 4)		1,562,818
General Long-term Investments (Note 4)		166,971
Net Pension Asset		27,038
Property and Equipment - Net (Note 5)		8,471,004
Total Noncurrent Assets		10,227,831
Total Assets		19,920,849
<b>Deferred Outflows of Resources</b>		
Pension		1,605,056
Total Assets and Deferred Outflow of Resources	\$	21,525,905
<b>Liabilities, Deferred Inflows and Net Position</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt (Note 7)	\$	284,873
Accounts payable		2,876,820
Estimated third-party payor settlements (Note 6)		1,672,852
Accrued liabilities and other:		
Accrued compensation		1,513,081
Accrued compensated absences		666,903
Total Current Liabilities		7,014,529
<b>Long-Term Liabilities</b>		
Net Pension Liability (Note 9)		9,076,835
Long-Term Debt - Net of current portion (Note 7)		605,238
Total Long-Term Liabilities		9,682,073
Total Liabilities		16,696,602
<b>Deferred Inflows of Resources</b>		
Property taxes levied for next fiscal year		1,334,929
Third party revenues not available		194,846
Pension		167,713
Total Deferred Inflows of Resources		1,697,488
<b>Net Position</b>		
Net investment in capital assets		7,593,292
Unrestricted		(4,461,477)
Total Net Position		3,131,815
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$	21,525,905

See Notes to Financial Statements.

# **Morrow County Hospital and Affiliates**

## **Combined Statement of Revenues, Expenses, And Changes in Net Position**

	<u>Year Ended</u> <u>December 31,</u> <u>2015</u>
<b>Operating Revenues</b>	
Net patient service revenue	\$ 27,912,146
Other	981,877
Total operating revenues	<u>28,894,023</u>
<b>Operating Expenses</b>	
Salaries and wages	11,911,270
Employee benefits and payroll taxes	5,007,732
Operating supplies and expenses	4,170,911
Purchased services	6,209,949
Insurance	256,791
Utilities	607,424
Rental	1,025,947
Depreciation and amortization	1,671,787
Total operating expenses	<u>30,861,811</u>
<b>Operating Loss</b>	(1,967,788)
<b>Nonoperating Revenues (Expenses)</b>	
Investment income	7,060
Property taxes	1,185,165
Intergovernmental Revenue	162,562
Interest expense	(36,177)
Total nonoperating revenue (expenses)	<u>1,318,610</u>
<b>Decrease in Net Position</b>	(649,178)
<b>Net Position - Beginning of year - Restated</b>	3,780,993
<b>Net Position - End of year</b>	<u><u>\$ 3,131,815</u></u>

See Notes to Financial Statements.

# Morrow County Hospital and Affiliates

## Combined Statement of Cash Flow

	<u>Year Ended</u> <u>December 31,</u> <u>2015</u>
<b>Cash flow from Operating Activities</b>	
Cash received from patients and third-party payors	\$ 28,458,191
Cash payments to suppliers for services and goods	(11,375,654)
Cash payments to employees for services	(17,412,340)
Other receipts from operations	<u>981,878</u>
Net cash provided by Operation Activities	652,075
<b>Cash Flow from Capital and Related Financing Activities</b>	
Acquisitions and construction of capital assets - net	(438,224)
Principal payments on long term debt	(339,849)
Interest paid on capital related debt and capital leases	<u>(36,176)</u>
Net cash used in Capital and Related Financing Activities	(814,249)
<b>Cash Flow from Noncapital Financing Activities</b>	
Property tax levy/Intergovernmental revenue	1,347,727
Net-operating revenue	<u>-</u>
Net cash from Noncapital Financing Activities	1,347,727
<b>Cash Flow from Investing Activities</b>	
Interest in investments	7,058
Proceeds from sale of investments	<u>223,545</u>
Net cash provided from Investing Financing	230,603
<b>Net Increase in Cash and Cash Equivalents</b>	1,416,156
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>2,787,227</u>
<b>Cash and Cash Equivalents - End of year</b>	<u><u>\$ 4,203,383</u></u>

# Morrow County Hospital and Affiliates

## **Combined Statement of Cash Flow (Continued)**

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

	<u>Year Ended</u> <u>December 31,</u> <u>2015</u>
<b>Cash flows from Operating Activities</b>	
Operating loss	\$ (1,967,788)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	1,671,787
(Increase) decrease in assets:	
Patient accounts receivable	238,662
Prepaid Expenses and Other Assets	207,329
Inventories	198,640
Other current assets	(486,736)
Increase (decrease) in liabilities:	
Accounts payable	110,694
Accrued expenses and deferred inflows	337,175
Third-party settlement	342,312
Net cash provided by operating activities	<u><u>\$ 652,075</u></u>

See Notes to Financial Statements.

# Morrow County Hospital and Affiliates

Notes to Financial Statements  
December 31, 2015

## 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 position of the Foundation are \$759,350 with assets consisting primarily of cash and cash equivalents and investments. Operating revenue of the Foundation was approximately \$78,865 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. Refer to Note 14 for combining statements.

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

## **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.



# Morrow County Hospital and Affiliates

Notes to Financial Statements  
December 31, 2015

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

### Implementation of New Accounting Principles and Restatement of Net Position

For the year ended December 31, 2015, the Hospital has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68.

GASB Statement No. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 68 resulted in the inclusion of net pension liability and pension expense components on the full-accrual financial statements. See below for the effect on net position as previously reported.

GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The Hospital also restated due to a duplication of HCAP revenue. See below for the effect on net position as previously reported.

Net Position December 31, 2014	\$	12,075,448
Adjustments:		
Net Pension Asset		7,369
Net Pension Liability		(8,871,820)
HCAP		(567,991)
Deferred Outflow - Payments Subsequent to Measurement Date		1,137,987
Restated Net Position, January 1, 2015	\$	<u>3,780,993</u>

Other than employer contributions subsequent to the measurement date, the Hospital made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**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.

# **Morrow County Hospital and Affiliates**

**Notes to Financial Statements  
December 31, 2015**

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

**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 2015 of its financial support from property taxes. Total funds received and used to support operations, including intergovernmental revenue, consisting of homestead and rollback, were \$1,347,727 for the year ended December 31, 2015. 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 2015, the Hospital provided charity care of approximately \$760,132.

**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.

**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

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

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 and STAR Plus)
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. At December 31, 2015 the carrying amount of the Hospital's bank deposits for all funds was \$3,641,862 and the bank balance was \$4,203,478. Of the bank balance, \$2,600,576 at December 31, 2015 is covered by Federal Depository Insurance. The amount not covered by FDIC was fully collateralized.

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

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

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

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. As a result, the Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. At year end, all Hospital bank deposits (certificates of deposit, checking, and savings accounts) were fully collateralized.

# Morrow County Hospital and Affiliates

Notes to Financial Statements  
December 31, 2015

## Note 2 - Deposits and Investments (continued)

### 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>
2015 U.S. government bonds	\$ 967,175	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>
2015 U.S. government bonds	\$ 967,175	1.00 year

Credit Risk – State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Hospital does not have an investment policy that addresses credit risk. As of December 31, 2015 and 2014, the credit quality ratings of debt securities (other than the U.S. government) are appropriate.

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
<b>At December 31, 2015</b>			
United States government and agency obligations	\$ 330,273	AA+	S&P
Corporate bond	636,903	CCC	S&P
Total	<u>\$ 967,175</u>		

# Morrow County Hospital and Affiliates

Notes to Financial Statements  
December 31, 2015

## Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	<u>2015</u>
Patient accounts receivable	\$ 7,700,081
Less:	
Allowance for uncollectible accounts	(1,505,054)
Allowance for contractual adjustments	<u>(2,722,393)</u>
Net accounts receivable	<u>\$ 3,472,634</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, 2015</u>	
	<u>Gross Revenue</u>	<u>Accounts Receivable</u>
Commercial insurance and HMO's	66%	72%
Medicare	28	20
Medicaid	4	6
Self-pay	2	2
	<u>100%</u>	<u>100%</u>

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

Cash and Cash Equivalents, Assets Whose Use is Limited, and Investments of the Hospital are composed of the following:

	<u>Fair Value</u>
	<u>2015</u>
Demand deposits and money market accounts	\$ 4,203,383
U.S. government obligations	<u>967,175</u>
Total	<u>\$ 5,170,558</u>
	<u>Fair Value</u>
	<u>2015</u>
Amounts summarized by fund type -	
General funds:	
Cash and cash equivalents	\$ 3,440,769
Board designated	1,562,818
General long-term investments	<u>166,971</u>
Total	<u>\$ 5,170,558</u>

# Morrow County Hospital and Affiliates

## Notes to Financial Statements December 31, 2015

### Note 5 - Capital Assets

Cost of capital assets and related depreciable lives for December 31, 2015 are summarized below:

	2014	Additions	Transfers	Retirements	2015	Depreciable Life-Years
Land and land improvements	\$ 797,613	\$ 47,704	\$ -	\$ -	\$ 845,317	5-25
Building	6,080,756	87,190	-	-	6,167,946	10-40
Equipment	20,744,541	884,799	-	-	21,629,340	5-20
Construction in progress	1,039,555	181,530	(762,999)	-	458,086	
Total	<u>28,662,465</u>	<u>1,201,223</u>	<u>(762,999)</u>	<u>-</u>	<u>29,100,689</u>	
Less accumulated depreciation:						
Land and land improvements	579,677	35,537	-	-	615,214	
Building	4,025,047	169,465	-	-	4,194,512	
Equipment	14,353,174	1,466,785	-	-	15,819,959	
Total	<u>18,957,898</u>	<u>1,671,787</u>	<u>-</u>	<u>-</u>	<u>20,629,685</u>	
Net carrying amount	<u>\$ 9,704,567</u>	<u>\$ (470,564)</u>	<u>\$ (762,999)</u>	<u>\$ -</u>	<u>\$ 8,471,004</u>	

### Note 6 - Cost Report Settlements

For 2015, approximately 32 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.

# Morrow County Hospital and Affiliates

Notes to Financial Statements  
December 31, 2015

## Note 6 - Cost Report Settlements (continued)

The Medicaid payment system in Ohio is a prospective one, whereby rates for the following state fiscal year beginning July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant change in rates, or the payment system itself, could have a material impact on future Medicaid funding to providers.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements. During the year ended, December 31, 2015 the Hospital recognized a change in estimate of approximately \$342,312.

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, 2015 was as follows:

	2014 Restated	Current Year Additions	Current Year Reductions	2015	Amounts Due Within One Year
Hospital Facilities Revenue					
Bonds, Series 2011	\$ 1,139,206	\$ -	\$ (270,071)	\$ 869,135	\$ 279,595
Capital lease obligations	90,754	-	(69,778)	20,976	5,278
Total long-term debt	1,229,960	-	(339,849)	890,111	284,873
Net Pension Liability (See Note 9)	8,871,820	205,015	-	9,076,835	-
Compensated absences	611,996	920,160	(865,253)	666,903	666,903
Total liabilities	\$ 10,713,776	\$ 1,125,175	\$ (1,205,102)	\$ 10,633,849	\$ 951,773



# Morrow County Hospital and Affiliates

Notes to Financial Statements  
December 31, 2015

## 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 the year ended December 31, 2015, 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, 2015:

Years Ending December 31	Long-term Debt		Capital Lease Obligation	
	Principal	Interest	Principal	Interest
2016	279,595	26,037	5,278	606
2017	289,620	16,011	6,065	375
2018	299,920	5,710	9,633	134
Total Payments	\$ 869,135	\$ 47,758	\$ 20,976	\$ 982

## 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.

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

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 Plans**

### ***Net Pension Asset/Liability***

The net pension asset/liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension asset/liability represents the Hospital's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension asset/liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Hospital's obligation for the liability to annually required payments. The Hospital cannot control benefit terms or the manner in which pensions are financed; however, the Hospital does receive the benefit of employees' services in exchange for compensation including pension.

## **Note 9 - Defined Benefit Pension Plans (continued)**

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension asset or net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in accrued compensation on the accrual basis of accounting.

### **Plan Description – Ohio Public Employees Retirement System (OPERS)**

Plan Description - Hospital employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Hospital employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional and combined plans; therefore, the following disclosure focuses on the traditional and combined pension plans.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

**Note 9 - Defined Benefit Pension Plans (continued)**

<b>Group A</b> Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	<b>Group B</b> 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	<b>Group C</b> Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
<b>Law Enforcement</b>	<b>Law Enforcement</b>	<b>Law Enforcement</b>
<b>Age and Service Requirements:</b> Age 52 with 15 years of service credit	<b>Age and Service Requirements:</b> Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	<b>Age and Service Requirements:</b> Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
<b>Formula:</b> 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	<b>Formula:</b> 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	<b>Formula:</b> 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25

Final average salary (FAS) represents the average of the three highest years of earnings over a member’s career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member’s career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

# Morrow County Hospital and Affiliates

Notes to Financial Statements  
December 31, 2015

## Note 9 - Defined Benefit Pension Plans (continued)

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>State and Local</u>
<b>2015 Statutory Maximum Contribution Rates</b>	
Employer	14.00 %
Employee	10.00 %
<b>2015 Actual Contribution Rates</b>	
Employer:	
Pension	12.00 %
Post-employment Health Care Benefits	<u>2.00</u>
Total Employer	<u>14.00 %</u>
Employee	<u>10.00 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Hospital's contractually required contribution was \$1,119,094 for 2015. Of this amount, \$146,985 is reported as an accrued compensation.

Pension Assets/Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension asset/liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension asset/liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension asset/liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>OPERS Traditional Plan</u>	<u>OPERS Combined Plan</u>	<u>Total</u>
Proportionate Share of the Net Pension Asset	\$ 0	\$ 27,038	\$ 27,038
Proportionate Share of the Net Pension Liability	\$ 9,076,835	\$ 0	\$ 9,076,835
Proportion of the Net Pension Asset/Liability	0.07525700%	0.07022500%	
Pension Expense	\$ 987,348	\$ 17,736	\$ 1,005,084

# Morrow County Hospital and Affiliates

## Notes to Financial Statements December 31, 2015

### Note 9 - Defined Benefit Pension Plans (continued)

At December 31, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS Traditional Plan	OPERS Combined Plan	Total
<b>Deferred Outflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 484,312	\$ 1,650	\$ 485,962
District contributions subsequent to the measurement date	1,080,159	38,935	1,119,094
Total Deferred Outflows of Resources	<u>\$ 1,564,471</u>	<u>\$ 40,585</u>	<u>\$ 1,605,056</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	<u>\$ 159,462</u>	<u>\$ 8,251</u>	<u>\$ 167,713</u>

\$1,119,094 reported as deferred outflows of resources related to pension resulting from Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset/liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS Traditional Plan	OPERS Combined Plan	Total
Year Ending December 31:			
2016	\$ 47,502	\$ (568)	\$ 46,934
2017	47,502	(568)	46,934
2018	108,768	(568)	108,200
2019	121,078	(570)	120,508
2020	0	(981)	(981)
Thereafter	0	(3,346)	(3,346)
	<u>\$ 324,850</u>	<u>\$ (6,601)</u>	<u>\$ 318,249</u>

### Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Note 9 - Defined Benefit Pension Plans (continued)**

<u>Actuarial Information</u>	<u>Traditional Plan</u>	<u>Combined Plan</u>
Wage Inflation	3.75 percent	3.75 percent
Future Salary Increases, including inflation	4.25 percent to 10.05 percent, including wage inflation	4.25 percent to 8.05 percent, including wage inflation
COLA or Ad Hoc COLA	3.00 percent, simple	3.00 percent, simple
Investment Rate of Return	8.00 percent	8.00 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

**Note 9 - Defined Benefit Pension Plans (continued)**

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other Investments	18.00	4.59
Total	100.00 %	5.28 %

**Discount Rate** The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Hospital’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the Hospital’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the Hospital’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
District’s proportionate share of the net pension liability:			
Traditional Plan	\$ 16,698,776	\$ 9,076,835	\$ 2,657,325
Combined Plan	\$ 3,511	\$ (27,038)	\$ (51,264)



## **Note 10 - Post-Employment Benefits**

### Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan – a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains two cost-sharing multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2014 CAFR details.

The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible benefit recipients. 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 visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, State and Local employers contributed at a rate of 14.0 percent of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

## **Note 10 - Post-Employment Benefits (continued)**

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0 percent for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5 percent.

The Hospital's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2015, 2014, and 2013 were \$186,516, \$198,732 and \$94,968, respectively. For 2015, 87 percent has been contributed with the balance being reported as accrued compensation. The full amount has been contributed for 2014 and 2013.

## **Note 11 - 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 \$646,000 for the year ended December 31, 2015. Amounts due to OhioHealth for services amounted to approximately \$313,000 at December 31, 2015, and have been included in accounts payable on the balance sheet.

# Morrow County Hospital and Affiliates

Notes to Financial Statements  
December 31, 2015

## Note 12 - 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 \$2,647,346 for the year ended December 31, 2015.

A reconciliation of accrued health insurance at December 31, 2015 consists of the following:

Balance at December 31, 2014	\$ 636,727
Health insurance expense	2,647,346
Payments made	<u>(2,716,986)</u>
Balance at December 31, 2015	<u>\$ 567,087</u>

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

# Morrow County Hospital and Affiliates

## Notes to Financial Statements December 31, 2015

### Note 13 – 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 year ended 2015.

#### Combining Balance Sheet December 31, 2015

	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 3,110,309	\$ 59,135	\$ 271,325	\$ -	\$ 3,440,769
Accounts receivable	3,352,267	120,367	-	-	3,472,634
Levied taxes receivable	1,334,928	-	-	-	1,334,928
Prepaid expenses and other	2,984,889	18,141	321,054	(2,341,227)	982,857
Inventory	461,830	-	-	-	461,830
Total Current Assets	11,244,223	197,643	592,379	(2,341,227)	9,693,018
<b>Noncurrent Assets</b>					
Assets Limited as to Use	1,562,818	-	-	-	1,562,818
General Long-term Investments	-	-	166,971	-	166,971
Net Pension Asset	27,038	-	-	-	27,038
Property and Equipment - Net	2,534,030	5,936,973	-	-	8,471,003
Total Noncurrent Assets	4,123,886	5,936,973	166,971	-	10,227,830
<b>Deferred Outflows of Resources</b>					
Pension	1,605,056	-	-	-	1,605,056
Total Assets and Deferred Outflow of Resources	\$ 16,973,166	\$ 6,134,616	\$ 759,350	\$ (2,341,227)	\$ 21,525,905

# Morrow County Hospital and Affiliates

## Notes to Financial Statements December 31, 2015

### Note 13 – Blended Component Units (continued)

#### Combining Balance Sheet (continued) December 31, 2015

	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
<b>Liabilities, Deferred Inflows and Net Assets</b>					
<b>Current Liabilities</b>					
Current portion of long-term debt	\$ 284,874	\$ -	\$ -	\$ -	\$ 284,874
Accounts payable	2,753,084	2,214,312	-	(2,090,576)	2,876,820
Estimated third-party payor settlements	1,672,852	-	-	-	1,672,852
Accrued liabilities and other:					
Accrued compensation	1,408,712	104,369	-	-	1,513,081
Accrued compensated absences	666,903	-	-	-	666,903
Accrued interest	-	-	-	-	-
Other accrued liabilities	-	-	-	-	-
Total Current Liabilities	6,786,425	2,318,681	-	(2,090,576)	7,014,530
<b>Long-Term Liabilities</b>					
Net Pension Liability	9,076,835	-	-	-	9,076,835
Long-Term Debt - Net of current portion	605,238	250,651	-	(250,651)	605,238
Total Long-Term Liabilities	9,682,073	250,651	-	(250,651)	9,682,073
<b>Deferred Inflows of Resources</b>					
Property taxes levied for next fiscal year	1,334,929	-	-	-	1,334,929
Third party revenues not available	194,846	-	-	-	194,846
Pension	167,713	-	-	-	167,713
Total Deferred Inflows of Resources	1,697,488	-	-	-	1,697,488
<b>Net Position</b>					
Net investment in capital assets	7,593,292	-	-	-	7,593,292
Unrestricted	(8,786,112)	3,565,284	759,350	-	(4,461,478)
Total Net Position	(1,192,820)	3,565,284	759,350	-	3,131,814
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 16,973,166	\$ 6,134,616	\$ 759,350	\$ (2,341,227)	\$ 21,525,905

# Morrow County Hospital and Affiliates

## Notes to Financial Statements December 31, 2015

### Note 13 – Blended Component Units (continued)

#### Combining Statement of Revenues, Expenses, and Changes in Net Position Year Ended December 31, 2015

	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
<b>Operating Revenues</b>					
Total patient service revenue	\$ 60,201,996	\$ 967,827	\$ -	\$ -	\$ 61,169,823
Revenue deductions	(32,727,999)	(529,678)	-	-	(33,257,677)
Net Patient Service Revenue	27,473,997	438,149	-	-	27,912,146
Other	926,553	1,992,202	78,865	(2,015,743)	981,877
Total Operating Revenues	28,400,550	2,430,351	78,865	(2,015,743)	28,894,023
<b>Operating Expenses</b>					
Salaries and wages	9,397,837	2,513,433	-	-	11,911,271
Employee benefits and payroll taxes	4,571,608	436,124	-	-	5,007,732
Operating supplies and expenses	4,113,509	57,899	(497)	-	4,170,911
Purchased services	7,954,590	271,102	-	(2,015,743)	6,209,949
Insurance	256,791	-	-	-	256,791
Utilities	596,367	11,057	-	-	607,424
Rental	967,872	58,075	-	-	1,025,947
Depreciation and amortization	1,668,221	3,566	-	-	1,671,787
Total Operating Expenses	29,526,795	3,351,256	(497)	(2,015,743)	30,861,811
<b>Operating (Loss) Income</b>	(1,126,245)	(920,905)	79,362	0	(1,967,788)
<b>Nonoperating Revenues (Expenses)</b>					
Investment income	7,060	-	-	-	7,060
Property taxes	1,185,165	-	-	-	1,185,165
Intergovernmental Revenue	162,562	-	-	-	162,562
Interest expense	(36,177)	-	-	-	(36,177)
Total Nonoperating Income	1,318,610	-	-	-	1,318,610
<b>(Decrease) Increase in Net Position</b>	\$ 192,365	\$ (920,905)	\$ 79,362	\$ 0	\$ (649,178)

# Morrow County Hospital and Affiliates

## Notes to Financial Statements December 31, 2015

### Note 13 – Blended Component Units (continued)

#### Combining Statement of Cash Flows Year Ended December 31, 2015

	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
<b>Cash flow from Operating Activities</b>					
Cash received from patients and third-party payors	28,061,380	396,811	-	-	28,458,191
Cash payments to suppliers for services and goods	(11,010,034)	(365,620)	-	-	(11,375,654)
Cash payments to employees for services	(14,462,782)	(2,949,558)	-	-	(17,412,340)
Other receipts from operations	969,067	1,992,202	36,352	(2,015,743)	981,878
Net cash provided (used) from Operation Activities	3,557,631	(926,165)	36,352	(2,015,743)	652,075
<b>Cash Flow from Capital and Related Financing Activities</b>					
Acquisitions and construction of capital assets - net	(438,224)	-	-	-	(438,224)
Principal payments on long term debt	(339,849)	-	-	-	(339,849)
Interest paid on capital related debt and capital leases	(36,177)	-	-	-	(36,176)
Net cash used from Capital and Related Financing Activities	(814,250)	-	-	-	(814,249)
<b>Cash Flow from Noncapital Financing Activities</b>					
Property tax levy/Intergovernmental revenue	1,347,727	-	-	-	1,347,727
Net cash from Noncapital Financing Activities	1,347,727	-	-	-	1,347,727
<b>Cash Flow from Investing Financing</b>					
Interest in investments	7,058	-	-	-	7,058
Proceeds from sale of investments	223,545	-	-	-	223,545
Net cash (used) provided from Investing Financing	230,603	-	-	-	230,603
<b>Net Increase (Decrease) in Cash and Investments</b>	4,321,711	(926,165)	36,352	(2,015,743)	1,416,155
<b>Cash and Investments - Beginning of year</b>	1,711,228	846,164	229,835	-	2,787,227
<b>Cash and Investments - End of year</b>	<u>\$ 6,032,939</u>	<u>\$ (80,001)</u>	<u>\$ 266,187</u>	<u>\$ (2,015,743)</u>	<u>\$ 4,203,383</u>

# Morrow County Hospital and Affiliates

## Notes to Financial Statements December 31, 2015

### Note 13 – Blended Component Units (continued)

#### Combining Statement of Cash Flows (continued) Year Ended December 31, 2015

	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
<b>Cash flows from Operating Activities</b>					
Operating loss	\$ (1,126,244)	\$ (920,905)	\$ 79,362	\$ 0	\$ (1,967,787)
Adjustments to reconcile operating loss to net cash from operating activities:					
Depreciation and amortization	1,668,221	3,566	-	-	1,671,787
(Increase) decrease in assets:					
Patient accounts receivable	280,000	(41,338)	-	-	238,662
Prepaid Expenses and Other Assets	202,490	4,839	-	-	207,329
Inventories	198,640	-	-	-	198,640
Other current assets	(486,736)	-	-	-	(486,736)
Increase (decrease) in liabilities:					
Accounts payable	83,021	27,673	-	-	110,694
Accrued expenses and deferred inflows	337,175	-	-	-	337,175
Third-party settlement receivables	342,312	-	-	-	342,312
Net cash provided by operating activities	<u>\$ 1,498,879</u>	<u>\$ (926,165)</u>	<u>\$ 79,362</u>	<u>\$ 0</u>	<u>\$ 652,075</u>



**Supplementary Information**

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# Morrow County Hospital and Affiliates

**Morrow County Hospital**  
**Morrow County, Ohio**  
*Required Supplementary Information*  
*Schedule of Hospital Contributions*  
*Last Three Years (1)*

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b><i>Ohio Public Employees' Retirement System (OPERS Traditional Plan)</i></b>			
Contractually Required Contribution	\$ 1,080,159	1,107,183	\$ 1,191,636
Contributions in Relation to the Contractually Required Contribution	<u>(1,080,159)</u>	<u>(1,107,183)</u>	<u>(1,191,636)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Hospital's covered-employee payroll	\$ 9,001,325	\$ 9,226,525	\$ 9,166,434
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	13.00%
<b><i>Ohio Public Employees' Retirement System (OPERS Combined Plan)</i></b>			
Contractually Required Contribution	\$ 38,935	30,804	\$ 42,953
Contributions in Relation to the Contractually Required Contribution	<u>(38,935)</u>	<u>(30,804)</u>	<u>(42,953)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Hospital's covered-employee payroll	\$ 324,458	\$ 256,700	\$ 330,409
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

# Morrow County Hospital and Affiliates

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**Morrow County Hospital**  
**Morrow County, Ohio**  
*Required Supplementary Information*  
*Schedule of the Hospital's Proportionate Share of the Net Pension Liability*  
*Last Two Years (1)*

	<u>2015</u>	<u>2014</u>
<b><i>Ohio Public Employees' Retirement System (OPERS) - Traditional Plan</i></b>		
Hospital's Proportion of the Net Pension Liability (Asset)	0.0752570%	0.0752570%
Hospital's Proportionate Share of the Net Pension Liability (Asset)	\$ 9,076,835	\$ 8,871,820
Hospital's Covered-Employee Payroll	\$ 9,226,525	\$ 9,166,434
Hospital's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	98.38%	96.79%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%
<b><i>Ohio Public Employees' Retirement System (OPERS) - Combined Plan</i></b>		
Hospital's Proportion of the Net Pension Liability (Asset)	0.0702250%	0.0702250%
Hospital's Proportionate Share of the Net Pension Liability (Asset)	\$ (27,038)	\$ (7,369)
Hospital's Covered-Employee Payroll	\$ 256,700	\$ 330,409
Hospital's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	-10.53%	-2.23%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	114.83%	104.56%

(1) Information prior to 2014 is not available.

April 20, 2016

To the Board of Trustees  
Morrow County Hospital and Affiliates  
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 Affiliates, Morrow County, Ohio (the Hospital), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Hospital's basic financial statements, and have issued our report thereon dated April 20, 2016, 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, and the Hospital restated net position to account for a restatement of beginning balance of a prior year receivable and the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Morrow County Hospital and Affiliates  
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*  
Page 2 of 2

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*Rea & Associates, Inc.*

Medina, Ohio

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# Dave Yost • Auditor of State

**MORROW COUNTY HOSPITAL**

**MORROW COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 5, 2016**