Morrow County Hospital
OhioHealth

MORROW COUNTY HOSPITAL AND AFFILIATES

Combined Financial and Compliance Report with Supplementary Information December 31, 2018

Arnett Carbis Toothman llp
CPAs & Advisors

OHIO AUDITOR OF STATE
KEITH FABER

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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 Arnett Carbis Toothman, LLP, for the audit period January 1, 2018 through December 31, 2018. 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.

Keith Faber
Auditor of State
Columbus, Ohio

June 24, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Morrow County Hospital and Affiliates
Mt. Gilead, Ohio

Report on the Financial Statements

We have audited the accompanying combined financial statements of Morrow County Hospital and Affiliates, Morrow County, Ohio, a business-type activity of Morrow County, Ohio (the Hospital), which comprise the combined balance sheet, as of December 31, 2018, and the related combined statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls 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 combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entities' preparation and fair presentation of the combined 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 entities' 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Morrow County Hospital and Affiliates, Morrow County, Ohio, as of December 31, 2018, and the results of their operations and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2018, the Hospital adopted new accounting guidance *Statement No. 75 of the Governmental Accounting Standards Board Accounting – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-10 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 May 7, 2019, on our consideration of Morrow County Hospital and Affiliates, Morrow County, Ohio, 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 for the year ended December 31, 2018. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are 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.

Arnett Carbis Toothman LLP

Charleston, West Virginia
May 7, 2019

Introduction

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, and primary care 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 year ended December 31, 2018. 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 Highlights

- Combined results ended the year with an operating loss of $5,073,286 compared to a loss of $1,758,705 in 2017.
- The Combined Net Position decreased by $3,576,042, compared to a Combined Net Position increase in 2017 of $1,005,029.
- The Combined Operating Revenues decreased by $5,290,051 or 16.9%, compared to 2017.
- The Combined Operating Expenses decreased $1,975,470 or 6.0% over 2017 Combined Operating Expenses.
- The Hospital implemented GASB 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which reduced beginning net position as previously reported by $6,611,098.

The reasons for these outcomes are stated below:

Combined Results

- Payor mix degradation
- Decline in reimbursement for uncompensated care

Operating Revenue

- Lower utilization of inpatient and emergency services driving excess capacity
- Payor mix degradation

Operating Expenses

- Streamlining operational structure resulting in reduction of labor expenses

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, GASB Statement No. 38, Certain Financial Statement Note Disclosures, as amended by GASB Statement No. 63, GASB Statement 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27, and GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. 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.

The Combined Balance Sheet and Statement of Operations and Changes in Net Position

The analysis of the Organization's finances begins below. One of the most important questions asked about the Organization's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Combined Balance Sheet and Statement of Operations and Changes in Net Position (Deficit) report information about the Organization's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and related changes. You can think of the Hospital's net position (deficit) – the difference between assets and liabilities – as one way to measure the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position (deficit) are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

Combined Statement of Cash Flows

The final required statement is the Consolidated Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, noncapital related financing and capital and related financing, activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

Financial Analysis of the Hospital at December 31, 2018 and 2017

Total assets decreased 4.1% to $19.9 million, and total liabilities increased 9.9% to $23.5 million. The Hospital's total net position decreased by $10 million to ($6.1) million, a significant decrease from a year ago as shown in the following table:

	2018	2017 *
Assets		
Current assets	**$ 10,076,826**	$ 10,723,708
Noncurrent Assets, Excluding Capital Assets	**3,162,077**	3,075,808
Capital Assets	**6,667,932**	6,959,584
Total assets	**19,906,835**	20,759,100
Deferred Outflows	**3,126,035**	6,367,113
Total assets and deferred outflows	**$ 23,032,870**	$ 27,126,213
Liabilities		
Current Liabilities	**$ 5,657,330**	$ 4,684,581
Noncurrent Liabilities	**17,801,826**	16,658,127
Total liabilities	**$ 23,459,156**	$ 21,342,708

	2018	2017
Deferred Inflows	**$ 5,627,625**	$ 1,650,275
Net Position (Deficit)		
Net invested in capital assets	**6,642,536**	6,655,313
Unrestricted	**(12,696,447)**	(2,522,084)
Total net position	**$ (6,053,911)**	$ 4,133,229

* 2017 amounts have not been adjusted for the implementation of GASB 75.

The net pension liability (NPL) is the largest single liability reported by the Hospital at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the Hospital adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). 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 OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the Hospital's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service

2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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 Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the Hospital's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the Hospital is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017, from $4,133,229 to ($2,477,869).

Current Assets

Total current assets decreased by $646,882 from the previous year. Accounts Receivable decreased by $1,247,412, due to a significant decline in accounts receivable greater than 360 days. Prepaid Expenses and Other increased by $809,069, primarily due to the booking of the HCAP receivable.

Noncurrent Assets, Excluding Capital Assets

Noncurrent assets, consisting of limited use investments, general long-term investments, and net pension assets increased by $86,269, or 2.7%.

Capital Assets

Property and equipment decreased by $291,652 or 4.4% in 2018 compared to 2017. The decrease was due to net additions and retirements of $1,127,794 offset by depreciation expense of $1,419,446.

Current Liabilities

Current liabilities increased $972,749 over the prior year. The increase is primarily due to the increase of $1,566,814 to the third-party settlement, a decrease of $223,801 in Accounts Payable and a decrease in current portion of long-term debt of $278,875.

Long-term Liabilities

Long-term liabilities increased by $1,143,699 or 6.9%, primarily due a decrease in the Net Pension Liability and the implementation of GASB 75. Additional details regarding the GASB 75 can be found in Note 10 of the financial statements. Change in accounting principle can be found in Note 1 of the financial statements.

Net Position

Total net position decreased by 246.5%, primarily due to a decrease of $3,314,581 in Operating Income over prior year and implementation of GASB 75 that resulted in a ($6,611,098) restatement of net position at December 31, 2017.

Operating Results and Changes in the Hospital's Net Position

Table 2 shows two years of revenues and expenses for 2018 and 2017.

Table 2: Operating Results and Changes in Net Position

	2018	2017
Revenues:		
Net patient service revenue	**$ 24,259,555**	$ 29,120,607
Other	**1,662,984**	2,091,983
Total operating revenues	**25,922,539**	31,212,590
Expenses:		
Salaries and benefits	**17,195,534**	18,694,530
Operating supplies and expenses	**3,507,504**	3,946,303
Purchased services	**7,017,509**	6,624,548
Insurance	**267,823**	258,514
Utilities	**594,326**	608,262
Rental	**993,683**	1,130,593
Depreciation and amortization	**1,419,446**	1,708,545
Total operating expenses	**30,995,825**	32,971,295
Operating loss	**(5,073,286)**	(1,758,705)
Non-operating revenue and (expenses)		
Investment income	**71,254**	36,047
Contributions	**18,210**	1,326,133
Property taxes	**1,247,498**	1,255,766
Intergovernmental revenue	**166,048**	162,174
Interest expense	**(5,766)**	(16,386)
Total non-operating revenue	**1,497,244**	2,763,734
Increase (decrease) in net position	**(3,576,042)**	1,005,029
Net position, beginning of year, before cumulative effect of adjustment	**4,133,229**	3,128,200
Cumulative effect adjusted for change in accounting principle	**(6,611,098)**	-
Net position (deficit), beginning of year, after cumulative effect adjustment	**(2,477,869)**	3,128,200
Net position (deficit), end of year	**$ (6,053,911)**	$ 4,133,229

Operating Revenue

Operating revenue include all transactions that result in the sales and/or receipts from goods and services such as inpatient services, outpatient services, and the 340b program. In addition, certain federal, state, and private grants are considered operating if they are not utilized for capital purposes and are considered a contract for services. Operating revenue changes were a result of the following factors:

Net patient service revenue decreased $4,861,052, or 16.7%, from 2017. Gross patient revenue decreased by $1,219,699 or 2.0%. The Hospital board of trustees approved a 5.0% rate increase effective January 1, 2018. 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 slightly increased to approximately 59.7% of gross revenue.

Other operating revenue decreased approximately $429,000 mainly due to the decrease of 340b revenue, this decrease is primarily due a reduction in the number of contracted pharmacy arrangements as well as discontinuing external catering activities.

Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Hospital. The operating expense changes were the result of the following factors:

- Salaries and benefits decreased by $1,498,996 or 8.0% due to the streamlining operational structures, which resulted in reduction of labor expenses.

GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68 and GASB 75, pension and OPEB expense represents additional amounts earned, adjusted by deferred inflow/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68 and GASB 75, the statements report pension and OPEB expense above the contractually required contributions. Pension expense recorded under GASB 68 decreased approximately $25,000 compared to the contractually required contribution. OPEB expense recorded under GASB 75 increase approximately $610,000 compared to the contractually required contribution.

The following is a summary of 2018 operating expenses by type:

	Percentage	Amount
Operating Expenses		
Salaries and benefits	55.48%	$ 17,195,534
Purchased services	22.64%	7,017,509
Operating supplies and expenses	11.32%	3,507,504
Depreciation and amortization	4.58%	1,419,446
Rental	3.21%	993,683
Utilities	1.92%	594,326
Insurance	0.85%	267,823
	100%	$ 30,995,825

Non-operating Revenue (Expenses)

Non-operating revenues and expenses are all sources and uses that are primarily non-exchange in nature. At Morrow County Hospital, these typically consist primarily of investment income, contributions, property tax levy funds, intergovernmental revenue, and interest expense. Non-operating revenue decreased by $1,266,490 in 2018 compared to 2017.

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

Net cash provided by operating activities decreased $3,902,955 from the prior year due to a decrease of $2,812,589 in cash received from patients and third-party payors, a decrease in other receipts from operations of $1,755,132, and an increase in cash payments to supplier for services and goods of $280,954. Offset by a decrease in payments to employees for services of $945,720.

Net cash used in capital and related financing activities increased by $492,560 from 2017 primarily due to an increase in capital asset acquisitions.

Net cash provided in non-capital financing activities increased by $13,816.

Economic Factors and Next Year's Budget

The board of trustees approved the Morrow County Hospital 2019 operating budget in October 2018. The budget calls for gross revenue of $61.3 million, total operating expenses of $27.6 million, and revenue over expense of ($721,189). The board of trustees approved an average increase of 3.0% in the patient charge structure for the upcoming fiscal year.

There are several factors and uncertainties that may affect the Hospital during 2019 and future years including:

- The economic position of the Hospital is influenced by the local economy. Compared to other Ohio counties, Morrow County has average unemployment, higher than average home values, and average per capita income. While job growth in Morrow County is positive, the majority of Morrow County's population continues 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 employees 5 primary care physicians, 7 Advanced Practice Providers and an orthopedic surgeon through its MCHHS subsidiary. The hospital does not expect to employ any additional providers in 2019.

- 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.

- In 2015, the Governmental Accounting Standards Board passed standards 75, which require Ohio public employers to recognize on their financial statements their share of the other post employment benefits liability of Ohio's public retirement systems. For the Hospital, this standard became effective December 31, 2018. 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 brings a focus on access to services across Morrow County. In addition, select capital improvements to the facility and infrastructure are under consideration, within funding limitations.

Contacting the Organization'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.

MORROW COUNTY HOSPITAL AND AFFILIATES

COMBINED BALANCE SHEET
December 31, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2018
Current Assets	
Cash and cash equivalents (Note 2)	$ 4,915,696
Patient accounts receivable, net (Note 3)	2,121,364
Levied taxes receivable	1,350,000
Prepaid expense and other	1,202,983
Inventory	486,783
Total current assets	10,076,826
Noncurrent Assets	
Assets limited as to use (Note 4)	2,887,747
Investments (Note 4)	171,076
Net pension asset	103,254
Capital assets, net (Note 5)	6,667,932
Total noncurrent assets	9,830,009
Total assets	19,906,835
Deferred Outflows of Resources	
OPEB	530,941
Pension	2,595,094
Total deferred outflows	3,126,035
Total assets and deferred outflows	$ 23,032,870
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Current Liabilities	
Current portion of long-term debt (Note 7)	$ 25,396
Accounts payable	1,768,557
Estimated third-party payor settlements (Note 6)	2,482,434
Accrued compensation and other liabilities	783,775
Compensated absences	597,168
Total current liabilities	5,657,330
Long-Term Liabilities	
Net OPEB liability (Note 10)	7,214,895
Net pension liability (Note 9)	10,586,931
Total long-term liabilities	17,801,826
Total liabilities	23,459,156
Deferred Inflows of Resources	
Property taxes levied for next fiscal year	1,350,000
Third party revenues not available	211
OPEB	537,461
Pension	3,739,953
Total deferred inflow of resources	5,627,625
Total liabilities and deferred inflows	29,086,781
Net Position (Deficit)	
Net investment in capital assets	6,642,536
Unrestricted	(12,696,447)
Total net position (deficit)	(6,053,911)
Total liabilities, deferred inflows of resources, and net position	$ 23,032,870

See Notes to Consolidated Financial Statements

MORROW COUNTY HOSPITAL AND AFFILIATES

COMBINED STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT)
December 31, 2018

	2018
Operating Revenue	
Net patient service revenue, net of provision for bad debts of $2,806,339	$ 24,259,555
Other revenue	1,662,984
Total operating revenue	25,922,539
Operating Expenses	
Salaries and wages	10,453,502
Employee benefits and payroll taxes	6,742,032
Operating supplies and expenses	3,507,504
Purchased services	7,017,509
Insurance	267,823
Utilities	594,326
Rental	993,683
Depreciation and amortization	1,419,446
Total operating expenses	30,995,825
Operating loss	(5,073,286)
Non-Operating Revenue (Expenses)	
Investment income	71,254
Contributions	18,210
Property taxes	1,247,498
Intergovernmental revenue	166,048
Interest expense	(5,766)
Total net non-operating revenue	1,497,244
(Decrease) in Net Position	(3,576,042)
Net Position, Beginning of Year, Before Cumulative Effect Adjustment	4,133,229
Cumulative Effect Adjustment For Change in Accounting Principle (Note 1)	(6,611,098)
Net Position (Deficit), Beginning of Year, After Cumulative Effect Adjustment	(2,477,869)
Net Position (Deficit), End of Year	$ (6,053,911)

See Notes to Consolidated Financial Statements

MORROW COUNTY HOSPITAL AND AFFILIATES

COMBINED STATEMENT OF CASH FLOWS
Year Ended December 31, 2018

	2018
Cash Flows from Operating Activities	
Cash received from patients and third-party payors	$ 27,073,781
Cash paid to vendors for goods and services	(13,604,741)
Cash payments to employees for wages and benefits	(15,416,343)
Other receipts, net	1,662,984
Net cash used in operating activities	(284,319)
Cash Flows from Capital and Related Financing Activities	
Acquisitions and construction of capital assets - net	(1,127,794)
Principal payments on long term debt	(278,875)
Interest paid on capital related debt and capital leases	(5,766)
Net cash used in capital and related financing activities	(1,412,435)
Cash Flows from Investing Activities	
Investment income	71,254
Purchase of investments	(254,244)
Net cash used in investing activities	(182,990)
Cash Flow from Noncapital Financing Activities	
Contributions	18,210
Property tax levy/intergovernmental revenue	1,413,546
Net cash provided by noncapital financing activities	1,431,756
Net decrease in cash and cash equivalents	(447,988)
Cash and Cash Equivalents, Beginning of Year	7,593,234
Cash and Cash Equivalents, End of Year	$ 7,145,246
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position:	
Cash and cash equivalents in current assets	$ 4,915,696
Cash and cash equivalents in investments	171,076
Cash and cash equivalents in assets limited as to use	2,058,474
Total cash and cash equivalents	$ 7,145,246

See Notes to Consolidated Financial Statements

MORROW COUNTY HOSPITAL AND AFFILIATES

COMBINED STATEMENT OF CASH FLOWS
Year Ended December 31, 2018

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

	2018
Reconciliation of Operating Loss to Net Cash Provided By (Used In) Operating Activities	
Operating loss	**$ (5,073,286)**
Adjustment to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	**1,419,446**
Provision for bad debts	**2,806,339**
(Increase) decrease in assets:	
Patient accounts receivable	**(1,558,927)**
Prepaid expenses and other assets	**(808,326)**
Inventories	**(13,750)**
Other current assets and deferred outflows	**3,282,179**
Increase (decrease) in liabilities:	
Accounts payable	**(223,801)**
Accrued expenses and deferred inflows	**3,885,960**
Third-party settlement	**1,566,814**
Net pension liability	**(6,071,196)**
Net OPEB liability	**504,229**
Net cash provided by (used in) operating activities	**$ (284,319)**

See Notes to Consolidated Financial Statements

Note 1. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting entity: The accompanying combined 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 for year ended December 31, 2018 are $2,191,714, with assets consisting primarily of cash and cash equivalents and investments. Increase in Net Position of the Foundation for the year ended December 31, 2018, was approximately $86,234. 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 15 for combining financial 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.

Blended component unit: 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 combined financial statements.

Enterprise fund accounting: The Hospital uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Fund Accounting, as superseded by GASB Statement No. 62, codification of Accounting and Financial Reporting Guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements.

Use of estimates: The preparation of combined 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

Investments: Investments include demand deposits, money market accounts, 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 non-operating revenue when earned.

Capital assets: Capital assets are reported at historical cost. Contributed capital assets are recorded at their acquisition value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation over the expected useful lives of depreciable 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 accompanying combined statements of revenue, expenses and changes in net position. Costs of maintenance and repairs are charged to expense when incurred.

Compensated absences: Paid time-off is charged to operations when earned. Unused and earned benefits are recorded as a liability in the financial statements. Employees accumulate vacation days and sick leave benefits at varying rates depending on years of service. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the Hospital may convert accumulated sick leave to termination payments equal to one-fourth of the accumulated balance, up to a maximum of 240 hours, calculated at the employee's base pay rate as of the retirement date.

Pensions/Other Postemployment Benefits (OPEB): 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. For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

Grants and 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.

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.

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 coverage in any of the three preceding years.

Net patient service revenue and patient accounts receivable: Normal billing rates for patient services less contractual adjustments and provisions for bad debts are included in net patient service revenue. Patient accounts receivable is adjusted for contractual allowances which are recorded on the basis of preliminary estimates of the amounts to be received from third-party payors. Final adjustments are recorded in the period such amounts are finally determined.

Revenue from the Medicare and Medicaid programs accounted for approximately 37% percent and 8% percent, respectively, of the Hospital's net patient revenue for the year ended December 31, 2018. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Charity care: The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The amount of charity care not recorded as revenue was approximately $1,252,000 in 2018. The cost of caring for charity care patient for the year ended December 31, 2018, was approximately $645,000. The Hospital participates in the Hospital Care Assurance Program (HCAP) which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. The net amount received through this program totaled approximately $1,023,000 in 2018. This amount is reported as net patient service revenue on the combined statements of revenues, expenses, and changes in net position (deficit).

Property Taxes - The Hospital received approximately 5.0% of its financial support from property taxes in the year ended December 31, 2018. Total funds received and used to support operations, including intergovernmental revenue, consisting of homestead and rollback, were $1,413,546 for the year ended December 31, 2018. 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.

Operating revenues and expenses: The Hospital's combined statement of revenue, expenses, and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Non-exchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Subsequent events: The Hospital has evaluated subsequent events through May 7, 2019, the date on which the consolidated financial statements were available to be issued.

Change in accounting principle: During 2018, the Hospital adopted the Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This statement established new accounting and financial requirements for the other post-employment benefits (OPEB) provided by the Hospital to its employees. The Hospital's employees participate in a cost-sharing, multiple-employer plan, which are within the scope of this statement. This statement requires the Hospital to recognize a net OPEB liability or asset, OPEB expense, and OPEB related deferred inflows and outflows of resources based on the Hospital's proportionate share of collective amounts for all participating employers in the plan. The Hospital's portion of the net OPEB liability and asset, OPEB expense, and OPEB related deferred inflows and outflows of resources have been recognized in the accompanying financial statements.

Adoption of this statement resulted in a reduction to the beginning net position as of January 1, 2018, of approximately $6,611,000 to recognize the cumulative effect of applying this statement to beginning net position. The decrease is attributed to recognition of the net OPEB liability of approximately $6,711,000, at December 31, 2017, and deferred outflows of resources related to the Hospital's contributions made subsequent to the measurement date of January 1, 2017 through December 31, 2017, of approximately $100,000. The prior year financial statements were not restated as a result of this change in accounting principle due to sufficient information not being available to calculate the prior year effect.

New or recent accounting statements:

GASB No. 87, *Leases*, issued June 2017, relates to improving accounting and financial reporting for leases by governments. The new guidance increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principal that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activity. The new standard is effective for financial statements for periods beginning after December 15, 2019. The Hospital is currently evaluating the impact that adoption will have on its combined financial statements.

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

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, 2018, the carrying amount of the Hospital's bank deposits for all funds was $7,145,246. The bank balance was $7,333,110 in 2018. Of the bank balance, $556,542 at December 31, 2018 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.

Note 3. Patient Accounts Receivable

Patient accounts receivable and accrued expenses reported as current liabilities at December 31, 2018, consisted of these amounts:

Patient Accounts Receivable	
Patient accounts receivable	**$ 6,376,094**
Allowance for uncollectable accounts	**(1,717,355)**
Allowance for contractual adjustments	**(2,527,375)**
Patient accounts receivable, net	**$ 2,121,364**

The Hospital's grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2018, is as follows:

Commercial insurance	**44%**
Medicare and Managed Medicare	**30%**
Medicaid and Managed Medicaid	**5%**
Self-pay	**21%**
	100%

Note 4. Assets limited as to use and investments

Cash and Cash Equivalents, Assets Limited as to Use, and Investments of the Hospital are composed of the following:

Year Ending December 31,	Fair Value 2018
Demand deposits and money market accounts	$ 7,145,246
Certificates of deposit	829,273
Total	$ 7,974,519
Amounts summarized by fund type:	
Cash and cash equivalents	$ 4,915,696
Assets limited as to use	2,887,747
Investments	171,076
Total	$ 7,974,519

Note 5. Capital Assets

Capital assets additions, retirements, and balances for the year ended December 31, 2018 was as follows:

	December 31, 2017	Additions	Transfers	Retirements	December 31, 2018
Capital Assets					
Land and land improvements	$ 854,887	$ 9,370	$ -	$ -	$ 864,257
Buildings	5,656,862	122,177	-	-	5,779,039
Equipment	21,439,287	507,295	802,750	-	22,749,332
Construction in process	785,136	488,952	(802,750)	-	471,338
Total capital assets	28,736,172	1,127,794	-	-	29,863,966
Less accumulated depreciation and amortization for:					
Land and land improvements	651,037	31,031	-	-	682,068
Buildings	4,088,057	164,510	-	-	4,252,567
Equipment	17,037,494	1,223,905	-	-	18,261,399
Total accumulated depreciation and amortization	21,776,588	1,419,446	-	-	23,196,034
Capital assets, net	$ 6,959,584	$ (291,652)	$ -	$ -	$ 6,667,932

Note 6. Estimated Third-Party Payor Settlements

Estimated third-party payor settlements consist of amounts due from (to) the Medicare and Medicaid programs for the settlement of current and prior year cost reports. The balances at December 31, 2018, consist of estimated amounts as follows:

Medicaid	$ (1,482)
Medicare	(2,480,952)
Total	$ (2,482,434)

Note 7. Long-Term Liabilities

A schedule of changes in the Hospital's long-term liabilities for 2018, are as follows:

	December 31, 2017	Additions	Reductions	December 31, 2018	Amounts Due within 1 year
Long-term debt:					
Hospital Facilities Revenue Bonds, Series 2011	**$ 299,920**	**$ -**	**$ 274,524**	**$ 25,396**	**$ 25,396**
Capital lease obligations	**4,351**	**-**	**4,351**	**-**	**-**
	304,271	**-**	**278,875**	**25,396**	**25,396**
Other noncurrent liabilities:					
Net pension liability	**16,658,127**	**-**	**6,071,196**	**10,586,931**	**-**
Net OPEB liability	**-**	**7,214,895**	**-**	**7,214,895**	**-**
Total long-term liabilities	**$ 16,962,398**	**$ 7,214,895**	**$ 6,350,071**	**$ 17,827,222**	**$ 25,396**

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. In January 2019, the Hospital made the final principal and interest payment on the bonds. The bonds bear interest at a fixed rate equal to 3.5 percent. Interest is calculated on the outstanding principal amount of the disbursed bonds from the respective disbursement.

Minimum payments on these obligations to maturity as of December 31, 2018, follows:

	Long-Term Debt	
	Principal	Interest
2019	$ 25,396	$ 73

Note 8. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payment to the Hospital at amounts different from its established rates. The Organization is designated as a Critical Access Hospital (CAH) under the Medicare and Medicaid programs. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

Medicare: The Hospital is a Critical Access Hospital. Inpatient services and most outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. Other outpatient services are based on fee schedules.

The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization.

Medicaid: Inpatient services rendered to Medicaid program beneficiaries are reimbursed based on prospectively determined rates per discharge. Medicaid outpatient services are reimbursed based upon the lesser of the Hospital's charge or predetermined fee schedule amounts. Capital related expenditures are subject to annual cost report settlement.

Other payors: The Hospital has entered into agreements with certain commercial carriers. Reimbursement for services under these agreements includes discounts from established charges and other payment methodologies.

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the year ended December 31, 2018 is as follows:

Gross patient service revenue	$ 60,145,422
Less third-party allowances and other discounts	(33,079,528)
Less bad debts	(2,806,339)
Net patient service revenue	$ 24,259,555

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the years ended December 31, 2018 from these major payor sources, is as follows:

2018	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts	**$ 24,932,876**	**$ 2,133,018**	**$ 27,065,894**

Upper payment limit: In September 2001, the State of Ohio Supplemental Upper Payment Limit program for Public Hospitals (UPL) was approved by the Centers for Medicare and Medicaid Services (CMS). This program provides access to available federal funding up to 100% of the Medicare upper payment limits for services rendered by Ohio Public Hospitals to Ohio Medicaid consumers. The Hospital received $356,038 in UPL payments in 2018, which are reported as net patient service revenue in the accompanying combined statements of revenue, expenses and changes in net positon.

As disclosed in Note 6 to the accompanying financial statements, the Hospital has recorded assets and liabilities for cost report settlement amounts with Medicare and Medicaid. The net patient service revenue for the year ended December 31, 2018, was decreased by approximately $402,000 as a result of settlements at amounts different than originally estimated.

Note 9. 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.

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):

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

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.

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

2018 Statutory Maximum Contributions Rates	**State and Local**
Employer	14%
Employee	10%

Actual Contribution Rates	**2018**
Employer	
Pension	14%
Post-employment health care benefits	0%
Total Employer	14%
Employee	10%

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Hospital's contractually required contribution was $1,197,994 for 2018. Of this amount, $139,846 for 2018 was 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 at December 31, 2018 was measured as of December 31, 2017 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:

	2018		
	OPERS Traditional Plan	OPERS Combined Plan	Total
Proportionate Share of the Net Pension Asset	-	$ 103,254	$ 103,254
Proportionate Share of the Net Pension Liability	$ 10,586,931	-	$ 10,586,931
Proportion of the Net Pension Asset/Liability	0.067484%	0.075848%	
Pension Expense	$ 2,272,986	$ 16,669	$ 2,289,656

At December 31, 2018 and 2017, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018			
	Traditional Plan		Combined Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 10,812	$ 208,635	$ -	$ 30,760
Net difference between projected and actual earnings on pension plan investments	-	2,272,875	-	16,291
Changes of assumptions	1,265,209	-	9,023	-
Change in the Hospital's proportion	107,461	1,208,476	4,595	2,917
Contributions subsequent to the measurement date	1,155,141	-	42,853	-
	$ 2,538,623	$ 3,689,986	$ 56,471	$ 49,968

$1,197,994 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset/liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	Traditional	Combined	Total
2019	$ 646,614	$ (5,276)	$ 641,338
2020	(520,665)	(5,722)	(526,387)
2021	(1,231,765)	(7,913)	(1,239,678)
2022	(1,200,688)	(8,374)	(1,209,062)
2023	-	(3,169)	(3,169)
Thereafter	-	(5,896)	(5,896)
	$ (2,306,504)	$ (36,350)	$ (2,342,854)

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, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	December 31, 2017	
Actuarial Information	Traditional Plan	Combined Plan
Wage Inflation	3.25 percent	3.25 percent
Future Salary Increases, including inflation	3.25 percent to 10.75 percent, including wage inflation	3.25 percent to 8.25 percent, including wage inflation
COLA or Ad Hoc COLA	3.00 percent, simple	3.00 percent, simple
Investment Rate of Return	7.50 percent	7.50 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

For the December 31, 2017 actuarial valuation, mortality rates were based on the RP-2014 Healthy Annuitant mortality table. The most recent experience study was completed for the five year period ended December 31, 2015.

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 16.82% for 2017, respectively.

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 2017 and the long-term expected real rates of return:

	OPERS	
Asset Class	Allocation	Long-Term Expected Rate of Return
Domestic equities	19.00%	6.37%
International equities	20.00%	7.88%
Fixed income	23.00%	2.20%
Real estate	10.00%	5.26%
Private equities	10.00%	8.97%
Other investments	18.00%	5.26%
	100.00%	

Discount Rate - The discount rate used to measure the total pension liability was 7.50% as of the valuation period ending December 31, 2017. 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 7.5 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 or one-percentage-point higher than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Hospital's proportionate share of the net pension liability – Traditional	$ 18,799,693	$ 10,586,931	$ 3,739,963
Hospital's proportionate share of the net pension liability (asset) – Combined	$ (56,128)	$ (103,254)	$ (135,768)

Note 10 - Defined Benefit OPEB Plans

Net Other Post-Retirement Employee Benefit Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions, between an employer and its employee, of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the Hospital's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates annually.

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term net OPEB liability on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

Plan Description – Other Post-Retirement Employee Benefit (OPEB)

Plan Description - The 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 a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty 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 Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS 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 postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, 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 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary. This is the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board 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 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS 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 into the RMA for participants in the Member-Directed Plan for 2018 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Hospital's contractually required contribution was $0 for 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. The Hospital's proportion of the net OPEB liability was based on the Hospital's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	OPEB
Proportionate Share of the Net OPEB Liability	$ 7,214,895
Proportion of the Net OPEB Asset/Liability	0.06644000%
OPEB Expense	$ 610,317

At December 31, 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 5,620	$ -
Net difference between projected and actual earnings on OPEB plan investments	-	537,461
Changes of assumptions	525,321	-
	$ 530,941	$ 537,461

The Hospital reported $0 as deferred outflows of resources related to OPEB resulting from Hospital contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Deferred Outflows (Inflows Traditional OPEB
Year Ending December 31:	
2019	$ 119,479
2020	119,479
2021	(111,113)
2022	(134,365)
2023	-
Thereafter	-
	$ (6,520)

Actuarial Assumptions - OPEB

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 and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

	December 31, 2017
Actuarial Information	Traditional Plan
Wage Inflation	3.25 percent
Future Salary Increases, including Inflation	3.25 percent to 10.75 percent, including wage inflation
Single Discount Rate	
Current Measurement Rate	3.85 percent
Prior Measurement Rate	4.23 percent
Investment Rate of Return	6.50 percent
Health Care Cost Trend Rate	7.50 percent initial, 3.25 percent ultimate in 2028
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates

are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term expected rate of return on health care 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.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 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	34.00 %	1.88 %
Domestic Equities	21.00	6.37
Real Estate	6.00	5.91
International Equities	22.00	7.88
Other Investments	17.00	5.39
Total	100.00 %	4.98 %

Discount Rate - A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of

6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the Hospital's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the Hospital's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the Hospital's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate.

	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
Hospital's proportionate share of the net liability:			
OPEB	$ 9,585,299	$ 7,214,895	$ 5,297,261

Sensitivity of the Hospital's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
Hospital's proportionate share of the net liability:			
OPEB	$ 6,903,116	$ 7,214,895	$ 7,536,954

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries' project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

Note 11. Professional Liability Insurance

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 $5,000,000 of coverage.

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

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

Note 12. 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 $900,000 for the year ended December 31, 2018. Amounts due to OhioHealth for services amounted to approximately $263,000 at December 31, 2018, respectively, and have been included in accounts payable on the accompanying combined balance sheets.

Note 13. Fair Value of Financial Instruments

The Hospital categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.

Level 3: Significant unobservable inputs that reflect a Hospital’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair Value Measurements

Following are description of the valuation methodologies used for assets and a liability measured at fair value on a recurring basis and recognized on the accompanying combined balance sheets, as well as the general classification of such assets and liability pursuant to the valuation hierarchy.

Investments and Assets Limited as to Use: Investment securities and assets limited as to use are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security’s credit rating. Level 1 securities include those traded by dealers or brokers in active over-the-counter markets and money market funds.

Assets at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets measured at fair value on a recurring basis.

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	**$ 7,145,246**	**$ -**	**$ -**	**$ 7,145,246**
Certificate of deposit				**829,273**
Total investments				**$ 7,974,519**

Assets Recorded at Fair Value on a Nonrecurring Basis

The Hospital has no assets or liabilities that are recorded at fair value on a nonrecurring basis.

Note 14. Lease Commitments and Rental Expense

Operating leases consist of several cancelable and noncancelable leasing arrangements expiring at various dates through 2022 with renewal options thereafter. For the year ended December 31, 2018, future minimum lease payments under noncancelable operating lease agreements were as follows:

Years ending December 31,	Minimum Lease Payments
2019	$ 493,779
2020	427,855
2021	418,544
2022	323,840
Total minimum lease payments	$ 1,664,018

Note 15. Blended Component Unit

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 2018.

MORROW COUNTY HOSPITAL AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
COMBINING BALANCE SHEET
December 31, 2018

ASSETS	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
Current Assets					
Cash and cash equivalents	$ 4,622,349	$ 55,412	$ 237,935	$ -	$ 4,915,696
Patient accounts receivable	2,101,562	19,802	-	-	2,121,364
Levied taxes receivable	1,350,000	-	-	-	1,350,000
Prepaid expenses and other	1,812,929	-	250,651	(860,597)	1,202,983
Inventory	486,783	-	-	-	486,783
Total current assets	10,373,623	75,214	488,586	(860,597)	10,076,826
Noncurrent Assets					
Assets limited as to use	1,355,695	-	1,532,052	-	2,887,747
Investments	-	-	171,076	-	171,076
Net pension asset	103,254	-	-	-	103,254
Capital assets, net	6,590,245	77,687	-	-	6,667,932
Total noncurrent assets	8,049,194	77,687	1,703,128	-	9,830,009
Total assets	18,422,817	152,901	2,191,714	(860,597)	19,906,835
Deferred Outflows of Resources					
OPEB	530,941	-	-	-	530,941
Pension	2,595,094	-	-	-	2,595,094
Total assets and deferred outflow of resources	$ 21,548,852	$ 152,901	$ 2,191,714	$ (860,597)	$ 23,032,870
LIABILITIES					
Current Liabilities					
Current portion of long-term debt	$ 25,396	$ -	$ -	$ -	$ 25,396
Accounts payable	1,772,711	605,792	-	(609,946)	1,768,557
Estimated third-party payor settlements	2,482,434	-	-	-	2,482,434
Accrued liabilities and other:					
Accrued compensation	628,182	155,593	-	-	783,775
Accrued compensated absences	597,168	-	-	-	597,168
Total current liabilities	5,505,891	761,385	-	(609,946)	5,657,330
Long-Term Liabilities					
Net pension liability	10,586,931	-	-	-	10,586,931
Net OPEB liability	7,214,895	-	-	-	7,214,895
Long-term debt - net of current portion	-	250,651	-	(250,651)	-
Total long-term liabilities	17,801,826	250,651	-	(250,651)	17,801,826
Total liabilities	23,307,717	1,012,036	-	(860,597)	23,459,156
Deferred Inflows of Resources					
Property taxes levied for next fiscal year	1,350,000	-	-	-	1,350,000
Third party revenues not available	211	-	-	-	211
OPEB	537,461	-	-	-	537,461
Pension	3,739,953	-	-	-	3,739,953
Total deferred inflows of resources	5,627,625	-	-	-	5,627,625
Total liabilities and deferred inflows	28,935,342	1,012,036	-	(860,597)	29,086,781
Net Position					
Net investment in capital assets	6,642,536	-	-	-	6,642,536
Unrestricted	(14,029,026)	(859,135)	2,191,714	-	(12,696,447)
Total net position	(7,386,490)	(859,135)	2,191,714	-	(6,053,911)
Total liabilities,deferred inflows of resources and net position	$ 21,548,852	$ 152,901	$ 2,191,714	$ (860,597)	$ 23,032,870

MORROW COUNTY HOSPITAL AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
December 31, 2018

	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
Operating Revenue					
Net patient service revenue	$ 24,158,781	$ 100,774	$ -	$ -	$ 24,259,555
Other revenue	1,656,687	2,250,642	51,800	(2,296,145)	1,662,984
Total operating revenue	25,815,468	2,351,416	51,800	(2,296,145)	25,922,539
Operating Expenses					
Salaries and wages	8,280,806	2,172,696	-	-	10,453,502
Employee benefits and payroll taxes	6,148,839	593,193	-	-	6,742,032
Operating supplies and expenses	3,500,963	21,670	10,289	(25,418)	3,507,504
Purchased services	9,288,236	-	-	(2,270,727)	7,017,509
Insurance	267,823	-	-	-	267,823
Utilities	594,326	-	-	-	594,326
Rental	993,683	-	-	-	993,683
Depreciation and amortization	1,419,446	-	-	-	1,419,446
Total operating expenses	30,494,122	2,787,559	10,289	(2,296,145)	30,995,825
Operating income (loss)	(4,678,654)	(436,143)	41,511	-	(5,073,286)
Non-operating Revenue (Expenses)					
Investment income	44,741	-	26,513	-	71,254
Contributions	-	-	18,210	-	18,210
Property taxes	1,247,498	-	-	-	1,247,498
Intergovernmental revenue	166,048	-	-	-	166,048
Interest expense	(5,766)	-	-	-	(5,766)
Total non-operating income	1,452,521	-	44,723	-	1,497,244
Increase (Decrease) in Net Position	$ (3,226,133)	$ (436,143)	$ 86,234	$ -	$ (3,576,042)

MORROW COUNTY HOSPITAL AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
COMBINING STATEMENT OF CASH FLOWS
December 31, 2018

	Morrow County Hospital	Morrow County Hospital Health Services	Morrow County Hospital Foundation	Eliminating Entries	Total
Cash flow from Operating Activities					
Cash received from patients and third-party payors	$ 26,973,007	$ 100,774	$ -	$ -	$ 27,073,781
Cash payments to vendors for services and goods	(15,770,162)	(120,148)	(10,576)	2,296,145	(13,604,741)
Cash payments to employees for services	(12,650,454)	(2,765,889)	-	-	(15,416,343)
Other receipts, net	1,255,259	2,651,782	52,088	(2,296,145)	1,662,984
Net cash provided (used in) by operation activities	(192,350)	(133,481)	41,512	-	(284,319)
Cash Flow from Capital and Related Financing Activities					
Acquisitions and construction of capital assets - net	(1,127,794)	-	-	-	(1,127,794)
Principal payments on long term debt	(278,875)	-	-	-	(278,875)
Interest paid on capital realted debt and capital leases	(5,766)	-	-	-	(5,766)
Net cash used in capital and related financing activities	(1,412,435)	-	-	-	(1,412,435)
Cash Flow from Investing Financing					
Interest in investments	44,741	-	26,513	-	71,254
Purchase of investments	(254,244)	-	-	-	(254,244)
Net cash provided by investing financing	(209,503)	-	26,513	-	(182,990)
Cash Flow from Noncapital Financing Activities					
Contributions	-	-	18,210	-	18,210
Property tax levy/Intergovermental revenue	1,413,546	-	-	-	1,413,546
Net cash provided by noncapital financing activities	1,413,546	-	18,210	-	1,431,756
Net increase (decrease) in cash and investments	(400,742)	(133,481)	86,235	-	(447,988)
Cash and cash equivalents, beginning of year	5,549,514	188,893	1,854,827	-	7,593,234
Cash and cash equivalents, end of year	$ 5,148,772	$ 55,412	$ 1,941,062	$ -	$ 7,145,246

Supplementary Information

MORROW COUNTY HOSPITAL AND AFFILIATES
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS - PENSION
December 31, 2018, 2017, 2016 and 2015

Morrow County Hospital
Morrow County, Ohio
Required Supplementary Information
Schedule of Hospital Contributions
Last Four Years

	2018	2017	2016	2015
Ohio Public Employees' Retirement System (OPERS Traditional Plan)				
Contractually Required Contribution	$ 1,155,141	1,159,346	$ 1,137,945	$ 1,080,158
Contributions in Relation to the Contractually Required Contribution	(1,155,141)	(1,159,346)	(1,137,945)	(1,080,158)
Contribution deficiency (excess)	$ 0	$ 0	$ 0	$ 0
Hospital's covered payroll	$ 8,251,007	$ 8,918,046	$ 9,482,875	$ 9,001,317
Contributions as a percentage of covered payroll	14.00%	13.00%	12.00%	12.00%
Ohio Public Employees' Retirement System (OPERS Combined Plan)				
Contractually Required Contribution	$ 42,853	40,383	$ 37,589	$ 38,935
Contributions in Relation to the Contractually Required Contribution	(42,853)	(40,383)	(37,589)	(38,935)
Contribution deficiency (excess)	$ 0	$ 0	$ 0	$ 0
Hospital's covered payroll	$ 306,093	$ 310,638	$ 313,242	$ 324,458
Contributions as a percentage of covered payroll	14.00%	13.00%	12.00%	12.00%

MORROW COUNTY HOSPITAL AND AFFILIATES
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
December 31, 2018, 2017, 2016 and 2015

Morrow County Hospital
Morrow County, Ohio
Required Supplementary Information
Schedule of the Hospital's Proportionate Share of the Net Pension Liability
Last Four Years

	2018	2017	2016	2015
Ohio Public Employees' Retirement System (OPERS) - Traditional Plan				
Hospital's Proportion of the Net Pension Liability (Asset)	0.0674840%	0.0733570%	0.0723230%	0.0752570%
Hospital's Proportionate Share of the Net Pension Liability (Asset)	$ 10,586,931	$ 16,658,127	$ 12,527,255	$ 9,076,835
Hospital's Covered Payroll	$ 8,918,046	$ 9,482,875	$ 9,001,317	$ 9,226,525
Hospital's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	118.71%	175.67%	139.17%	98.38%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.66%	77.25%	81.08%	86.36%
Ohio Public Employees' Retirement System (OPERS) - Combined Plan				
Hospital's Proportion of the Net Pension Liability (Asset)	0.0758480%	0.0804710%	0.0891600%	0.0702250%
Hospital's Proportionate Share of the Net Pension Liability (Asset)	$ (103,254)	$ (44,788)	$ (48,387)	$ (27,038)
Hospital's Covered Payroll	$ 310,638	$ 313,242	$ 324,458	$ (256,700)
Hospital's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	-33.24%	-14.30%	-13.37%	-10.53%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	137.28%	116.55%	116.90%	114.83%

MORROW COUNTY HOSPITAL AND AFFILIATES
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS - OPEB
December 31, 2018, 2017 and 2016

Morrow County Hospital
Morrow County, Ohio
Required Supplementary Information
Schedule of Hospital Contributions- OPEB
Last Three Years

	2018	2017	2016
Other Postemployment Benefits (OPEB)			
Contractually Required Contribution	$ 6,589	99,568	$ 206,696
Contributions in Relation to the Contractually Required Contribution	$ (6,589)	(99,568)	(206,696)
Contribution deficiency (excess)	$ -	$ -	$ -
Hospital's covered payroll	$ 9,393,413	$ 9,410,700	$ 10,065,453
Contributions as a percentage of covered payroll	0.07%	1.06%	2.05%

MORROW COUNTY HOSPITAL AND AFFILIATES
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF NET OPEB LIABILITY
December 31, 2018, and 2017

Morrow County Hospital
Morrow County, Ohio
Required Supplementary Information
Schedule of the Hospital's Proportionate Share of the Net OPEB Liability
Last Two Years

	2018	2017
Other Postemployment Benefits (OPEB)		
Hospital's Proportion of the Net OPEB Liability	0.0664400%	0.0664400%
Hospital's Proportionate Share of the Net OPEB Liability	$ 7,214,895	$ 6,710,666
Hospital's Covered Payroll	$ 9,410,700	$ 10,065,453
Hospital's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	76.67%	66.67%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	54.14%	54.04%

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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*

To the Board of Trustees
Morrow County Hospital and Affiliates
Mt. Gilead, Ohio

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 combined financial statements of Morrow County Hospital and Affiliates (the Hospital), which comprise the combined balance sheet, as of December 31, 2018, and the related combined statement of operations and changes in net position (deficit), and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated May 7, 2019. Our report contains an emphasis of matter paragraph to describe the restatement of net position for the implementation of new Accounting Standard Statement No. 75 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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 Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arnett Carbis Toothman LLP

Charleston, West Virginia
May 7, 2019

MORROW COUNTY HOSPITAL AND AFFILIATES

SCHEDULE OF AUDIT FINDINGS AND RESPONSES
Year Ended December 31, 2018

Findings Required to be Reported by Government Auditing Standards:

No matters were reported.

MORROW COUNTY HOSPITAL AND AFFILIATES

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RESPONSES
Year Ended December 31, 2018

Findings Required to be Reported by Government Auditing Standards:

2017-01 CAPITAL ASSET RECONCILIATION

Condition and Cause

During 2017, capital asset additions were recorded in the general ledger but were not properly included in the capital asset detail records resulting in an understatement of depreciation expense on those capital asset additions. Reconciliation of the capital asset detail records (depreciation schedule) should be performed monthly so that the proper amount of depreciation expense is recorded throughout the year.

Recommendation

We recommend that management reconcile the capital asset detail to the general ledger as part of the normal monthly accounting routines.

Current Status

Management reconciliations are being completed on a monthly basis.

OHIO AUDITOR OF STATE
KEITH FABER

MORROW COUNTY HOSPITAL AND AFFILIATES

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 9, 2019

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