



**Morrow County  
Hospital**

**OhioHealth**

*Associated with OhioHealth*

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## **Morrow County Hospital and Affiliate**

**Financial Report  
with Additional Information  
December 31, 2011 and 2010**





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of Morrow County Hospital and Affiliate, prepared by Rea & Associates, Inc., for the audit period January 1, 2011 through December 31, 2011. 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. Morrow County Hospital and Affiliate is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

October 1, 2012

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# **Morrow County Hospital and Affiliate**

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Rea & associates  
*a brighter way*

May 14, 2012

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

#### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying balance sheets of Morrow County Hospital and Affiliate (the Hospital), a business-type activity of Morrow County, Ohio, as of December 31, 2011 and 2010, and the changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the basic financial statements present only the Hospital, a business-type activity of Morrow County, Ohio and are not intended to present fairly the financial position of Morrow County, Ohio and the changes in financial position and cash flows of its business-type activities in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital, as of December 31, 2011 and 2010, and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2012 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the 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 with 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 other assurance.

*Rea & Associates, Inc.*



# **Morrow County Hospital and Affiliate**

## **Management's Discussion and Analysis**

Morrow County Hospital, located in Mount Gilead, Ohio, is a county-owned, tax-exempt entity that operates an acute-care hospital facility providing quality inpatient, outpatient, swing bed and home health services to residents of Morrow County and surrounding areas. The reporting entity (the "Hospital") is comprised of Morrow County Hospital and the Morrow County Hospital Foundation, which provides services exclusively for the benefit of Morrow County Hospital. The Hospital is reported as an enterprise fund of Morrow County, Ohio. Morrow County Hospital is operated under Section 339 of the Ohio Revised Code.

This section of the Hospital's annual financial report presents management's discussion and analysis of the Hospital's financial performance and provides an overall review of the Hospital's financial position and activities as of and for the years ended December 31, 2011, 2010, and 2009. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this management's discussion and analysis are the responsibility of the Hospital's management.

### **Financial and Operating Highlights for 2011**

- The Hospital added digital mammography in February, resulting in a 26.5% increase in exams.
- The Laboratory achieved accreditation with the College of American Pathologists.
- Home Health was awarded the Home Care Elite Award for being in the top 25% of home health agencies nationwide.
- The Hospital received the Auditor of State Award for its 2010 audit report.
- In October, the Hospital admitted its first swing bed patients.
- The Hospital opened its first primary care physician's office in May.
- Customer and physician satisfaction scores remained extremely positive, and in some areas, rank among the top 10 percent in the nation.
- The Hospital performed 4,522 blood profiles for area residents.

### **Overview of the Financial Statements**

This annual report consists of financial statements prepared in accordance with the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. 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 assets, and statement of cash flows provide an indication of the Hospital's financial health. The balance

# **Morrow County Hospital and Affiliate**

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

sheet includes the Hospital's assets and liabilities, using the accrual basis of accounting as well as an indication about which assets can be utilized for general purposes and which are restricted for other purposes. The statement of revenues, expenses, and changes in net assets reports the revenues and expenses during the time periods indicated. The statement of cash flows reports the cash provided and used by operating activities, as well as other cash sources, such as investment income, and cash payments for repayment of debt and capital asset acquisitions.

### **Financial Analysis of the Hospital at December 31, 2011**

Total assets increased 5 percent to \$22 million, and total liabilities increased 34 percent to \$8 million. The Hospital's total net assets decreased from \$14.6 million to \$13.7 million, a 6 percent decrease from a year ago as shown in the following table:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2010 to 2011 Change</u>	
				<u>Amount</u>	<u>Percentage</u>
<b>Assets</b>					
Current assets	\$ 6,991,321	\$ 6,187,164	\$ 6,978,954	\$ 791,790	12.8%
Noncurrent assets	5,311,984	5,276,484	4,408,727	(867,756)	-16.4%
Property and equipment	<u>8,938,588</u>	<u>9,154,078</u>	<u>10,317,471</u>	<u>1,163,392</u>	12.7%
Total assets	21,241,893	20,617,726	21,705,151	1,087,425	5.3%
<b>Liabilities</b>					
Current liabilities	5,664,126	5,166,842	6,383,519	1,216,677	23.5%
Noncurrent liabilities	<u>1,199,313</u>	<u>826,521</u>	<u>1,622,998</u>	<u>796,477</u>	96.4%
Total liabilities	6,863,439	5,993,362	8,006,517	2,013,155	33.6%
<b>Net Assets</b>					
Invested in capital assets - net of related debt	7,098,311	7,569,931	8,087,496	517,565	6.8%
Unrestricted	<u>7,280,144</u>	<u>7,054,432</u>	<u>5,611,138</u>	<u>(1,443,294)</u>	-20.5%
Total net assets	<u><u>\$ 14,378,455</u></u>	<u><u>\$ 14,624,363</u></u>	<u><u>\$ 13,698,634</u></u>	<u><u>\$ (925,729)</u></u>	-6.3%

### **Current Assets**

Total current assets increased by \$791,790 from the previous year. Cash and cash equivalents decreased \$155,158 due to 2011's increased operating loss. Accounts Receivable increased by \$754,671 from the previous year due to complications with billing and collecting for primary care, swing bed and observation charges and the time spent on the implementation of the hospital's new electronic health record system.

# **Morrow County Hospital and Affiliate**

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

### **Noncurrent Assets**

Noncurrent assets, consisting primarily of limited use investments and general long-term investments decreased by \$867,067, or 16 percent.

Limited use investments decreased by \$868,524. The decrease was due to the reduction in transfers to funded depreciation and debt service, funds used to save for future capital purchases and long term debt payments.

### **Property and Equipment**

Property and equipment increased by \$1,163,392 or 13 percent. The increase was due to net additions and retirements of \$2,374,247, offset by depreciation expense of \$1,210,855. The most significant additions were capitalized costs for the Meditech project of \$1,879,054, the renovation of the Hospital's Medical office building and the initial costs associated with a generator replacement project.

### **Current Liabilities**

Current liabilities increased \$1,216,678 over the prior year. Accounts payable increased by \$1,128,609 due to the timing of payments to vendors. Accrued compensation decreased \$161,031 due to the decrease in accrued health insurance. Other accrued liabilities increased by \$316,548, primarily due to an increase in the estimate for deferred income related to the government's Healthcare Assurance Program (HCAP) and Upper Payment Limit Program (UPL).

### **Long-term Liabilities**

Long-term liabilities increased by \$796,477 primarily due to the issuance of new debt of \$1,392,962 offset by principal payments on long-term debt of \$740,985. Additional detail regarding the Hospital's long-term debt can be found in Note 7 of the financial statements.

### **Net Assets**

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

# Morrow County Hospital and Affiliate

## Management's Discussion and Analysis (Continued)

### Operating Revenues and Expenses

The following table shows the changes in revenues and expenses for 2011 compared to 2010 and 2009:

	2009	2010	2011	2010 to 2011 Change	
				Amount	Percentage
<b>Operating Revenues</b>					
Total patient service revenue	\$ 25,839,573	\$ 25,782,802	\$ 24,109,843	\$ (1,672,960)	-6.5%
Other	891,366	666,182	632,646	(33,536)	-5.0%
Total Operating revenues	26,730,940	26,448,984	24,742,489	(1,706,495)	-6.5%
<b>Operating Expenses</b>					
Salaries and benefits	12,761,204	13,186,477	13,231,046	44,569	0.3%
Operating Supplies and expenses	5,373,989	4,577,210	4,284,503	(292,707)	-6.4%
Purchased services	6,845,950	7,058,444	6,861,417	(197,027)	-2.8%
Insurance	191,411	200,506	200,124	(382)	-0.2%
Utilities	596,586	545,127	511,608	(33,519)	-6.1%
Rental	606,499	756,534	640,831	(115,703)	-15.3%
Depreciation and amortization	1,294,818	1,197,340	1,210,855	13,516	1.1%
Total operating expenses	27,670,456	27,521,638	26,940,384	(581,254)	-2.1%
<b>Operating Income (Loss)</b>	(939,516)	(1,072,654)	(2,197,895)	1,125,241	-104.9%
<b>Nonoperating Income (Expenses)</b>					
Investment income	56,367	27,373	28,536	1,163	4.3%
Property taxes	1,083,755	1,131,355	1,112,593	(18,762)	-1.7%
Intergovernmental Revenue	258,902	256,044	203,617	(52,427)	-20.5%
Gain (Loss) on sale of property	4,000	-	-	-	0.0%
Interest expense	(145,165)	(96,210)	(72,580)	23,630	-24.6%
Total nonoperating income	1,257,859	1,318,562	1,272,166	(46,395)	-3.5%
<b>Increase (Decrease) in Net Assets</b>	318,343	245,908	(925,729)	<b>\$ (1,171,635)</b>	
<b>Net Assets - Beginning of year</b>	14,060,112	14,378,455	14,624,363		
<b>Net Assets - End of year</b>	<b>\$ 14,378,455</b>	<b>\$ 14,624,363</b>	<b>\$ 13,698,634</b>		

### Operating Revenues

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

# **Morrow County Hospital and Affiliate**

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

- Net patient service revenue decreased \$1,672,959, or 7 percent, from 2010. Gross patient revenue decreased by \$597,558 or 1 percent. The Hospital board of trustees approved a 6 percent rate increase effective January 1, 2011. The favorable impact of the rate increase was offset by decreases in the number of surgeries, emergency department visits and inpatient days. Gross patient revenue is reduced by revenue deductions. These deductions are the amounts that are not paid to the Hospital under contractual arrangements with Medicare, Medicaid, and other payors. These revenue deductions increased from 41.8 percent to 43.4 percent as a percentage of gross revenue. This unfavorable increase was due to a greater portion of the Hospital's revenue coming from Medicare and Medicaid rather than patients covered by commercial insurance.

### **Operating Expenses**

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

- Purchased Services decreased by \$197,027, or 3 percent primarily due to the reduced use of consulting services in 2011.
- Operating supplies and expenses decreased 6 percent due to decreased patient volumes, particularly in surgery.
- Rental Expense decreased by \$115,703, or 15 percent primarily due to the discontinuation of rental payments on the previous CT Scanner in 2010.

The following is a summary of 2011 operating expenses by type:

	<u>Percentage</u>	<u>Amount</u>
<b>Operating Expenses</b>		
Salaries and benefits	49.11%	\$ 13,231,046
Operating supplies and expenses	15.90%	4,284,503
Purchased services	25.47%	6,861,417
Insurance	0.74%	200,124
Utilities	1.90%	511,608
Rental	2.38%	640,831
Depreciation and amortization	4.50%	1,210,855
	<u>100.00%</u>	<u>\$ 26,940,384</u>

### **Nonoperating Revenues (Expenses)**

Nonoperating revenues and expenses are all sources and uses that are primarily nonexchange in nature. At Morrow County Hospital, these consist primarily of property tax levy funds and interest expense.

# **Morrow County Hospital and Affiliate**

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

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

- Intergovernmental Revenue and Property taxes decreased by \$71,189, or 5 percent, due to the decrease in the tangible personal property tax reimbursement received in 2011.
- Interest expense decreased by \$23,629 or 25 percent, due to the payoff of capital leases during 2010 and 2011 and the normal paydown of the Hospital's master lease and purchase agreement.

### **Statement of Cash Flows**

The statement of cash flows provides relevant information about the entity's cash receipts and cash payments. The statement of cash flows also helps assess:

- An entity's ability to generate future net cash flows
- Its ability to meet its obligations as they come due
- Its needs for external financing

The following table shows condensed cash flow information for the years 2011, 2010, and 2009:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Increase (Decrease)</u>
<b>Cash Provided (Used) by:</b>				
Operating activities	\$ 167,262	\$ 82,494	\$ 2,412,013	\$ 2,329,519
Investing activities	(162,843)	2,525,624	(3,713,940)	(6,239,564)
Capital and related financing activities	<u>(73,210)</u>	<u>(377,773)</u>	<u>(478,629)</u>	<u>(100,856)</u>
<b>Net increase (Decrease) in Cash</b>	(68,790)	2,230,346	(1,780,556)	(4,010,901)
<b>Cash - Beginning of year</b>	<u>1,978,720</u>	<u>1,909,930</u>	<u>4,140,275</u>	<u>2,230,345</u>
<b>Cash - End of year</b>	<u><b>\$ 1,909,930</b></u>	<u><b>\$ 4,140,276</b></u>	<u><b>\$ 2,359,720</b></u>	<u><b>\$ (1,780,555)</b></u>

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

- Net cash provided by operating activities increased \$2,329,519 from the prior year due to a decrease of \$3,418,450 in payments received from our patients and third-party payors and an increase in payments to employees of \$295,392. The decrease was offset by a reduction of \$6,076,901 in payments to suppliers for goods and services.
- Investing activities provided \$6,239,558 less cash in 2011 than in 2010. This was primarily due to a \$2,028,507 decrease in proceeds from the net purchase/sale of investments compared to 2010 and a decrease of \$4,212,215 in limited use assets compared to 2010.

# **Morrow County Hospital and Affiliate**

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

- Net cash used in capital and related financing activities increased by \$100,868 from 2010 primarily due to the acquisition and construction of capital assets, net of the amount financed by the issuance of revenue bonds. As noted above, the most significant capital additions related to the Meditech electronic health record project, the renovation of the Hospital's Medical office building and the initial costs associated with a generator replacement project.

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

The board of trustees and the Morrow County Commissioners approved the 2012 operating budget in December 2011. The budget calls for gross revenue of \$52.1 million, total operating expenses of \$30.2 million, and excess revenue over expense of \$144,000. The board of trustees approved an average increase of 6 percent in the patient charge structure for the upcoming fiscal year.

There are several factors and uncertainties that may affect the Hospital during 2012 and future years including:

- On March 23, 2010, President Obama signed the Patient Protection and Affordable Care Act (H.R. 3590). This healthcare reform legislation could impact the hospital, both as a provider and as an employer. However, U.S. House Republicans have expressed their intent to reduce or eliminate funding for the legislation, and elements of the law are being challenged in the courts. Due to the size and complexity of the legislation and the uncertainty of its funding, the Hospital cannot determine whether the legislation's overall impact will be positive or negative. In addition, budget issues at both the federal and state levels could have a negative impact on the Hospital's Medicare and Medicaid reimbursement rates.
- The Center for Medicare and Medicaid Services (CMS) has initiated a Recovery Audit Contractor (RAC) initiative, whereby claims will be reviewed by contractors for validity, accuracy and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The RAC program for Ohio hospitals started in early 2010. The Hospital is unable to determine if it will be audited and if so, the extent of liability for overpayments, if any. If selected for audit, the potential exists for significant overpayment of claims liability for the Hospital at a future date.
- The American Recovery and Reinvestment Act (ARRA) requires hospitals to demonstrate "meaningful use" of an electronic health record (EHR) system by 2015. There are financial incentives for meeting federal guidelines before 2015. After 2015, the Hospital will incur financial penalties if it has not attained meaningful use. In 2011, the Hospital began installation of the MEDITECH EHR system. The cost of the system is estimated at \$3.1 million, but the Hospital expects to receive \$1.8 million of ARRA reimbursement from the federal government.

## **Morrow County Hospital and Affiliate**

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

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

- The economic position of the Hospital is influenced by the local economy. Compared to other Ohio counties, Morrow County has higher than average unemployment and below average per capita income. The poor economic climate of 2009 - 2011 has led to decreased volumes, increased bad debt expense, charity care, and Medicaid utilization and may continue to do so.
- Due to its rural location, the Hospital must occasionally address physician shortages including family practitioners and specialists. In 2011, the hospital employed its first primary care physician. The hospital expects to employ additional physicians in 2012 and in future years.
- The Hospital's strategic plan calls for the expansion and renovation of its facility. The project has been placed on hold until the hospital's operating results improve and other uncertainties have been resolved.

#### **Contacting the Authority's Financial Management**

This financial report is intended to provide the people of Morrow County, state and federal governments, and our debt holders with a general overview of the Hospital's finances. In addition, this report discloses the uses of the money received from services provided and county property taxes. If you have questions about this report or need additional information, please contact me.

Joseph Schueler  
Chief Financial Officer



# Morrow County Hospital and Affiliate

	<b>Balance Sheet</b>	
	December 31, 2011	December 31, 2010
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	\$ 114,108	\$ 269,266
Short-term investments (Note 4)	349,848	-
Accounts receivable (Note 3)	3,996,128	3,241,457
Levied taxes receivable	1,350,000	1,250,000
Estimated third-party payor settlements (Note 6)	24,844	57,563
Prepaid expenses and other	540,562	681,133
Inventory	545,637	616,433
Other current asset - Physician advances	57,827	71,312
Total current assets	6,978,954	6,187,164
<b>Assets Limited as to Use (Note 4)</b>	4,069,828	4,938,352
<b>General Long-term Investments (Note 4)</b>	338,898	337,442
<b>Property and Equipment - Net (Note 5)</b>	10,317,471	9,154,078
<b>Other Assets - Physician advances</b>	-	690
Total assets	<b>\$ 21,705,151</b>	<b>\$ 20,617,726</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt (Note 7)	\$ 606,978	\$ 751,485
Accounts payable	2,524,739	1,396,130
Accrued liabilities and other:		
Accrued compensation	847,299	1,008,330
Accrued compensated absences	542,639	559,972
Accrued interest	536	6,145
Deferred revenue for levied taxes	1,350,000	1,250,000
Other accrued liabilities	511,327	194,780
Total current liabilities	6,383,519	5,166,842
<b>Long-term Debt - Net of current portion (Note 7)</b>	1,622,998	826,521
Total liabilities	8,006,517	5,993,363
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	8,087,496	7,569,931
Unrestricted	5,611,138	7,054,432
Total net assets	13,698,634	14,624,363
Total liabilities and net assets	<b>\$ 21,705,151</b>	<b>\$ 20,617,726</b>

See Notes to Financial Statements.

# **Morrow County Hospital and Affiliate**

## **Statements of Revenues, Expenses, and Changes in Net Assets**

	Year Ended	
	December 31, 2011	December 31, 2010
<b>Operating Revenues</b>		
Net patient service revenue	\$ 24,109,843	\$ 25,782,802
Other	632,646	666,182
Total operating revenues	24,742,489	26,448,984
<b>Operating Expenses</b>		
Salaries and wages	9,122,112	9,258,264
Employee benefits and payroll taxes	4,108,934	3,928,213
Operating supplies and expenses	4,284,503	4,577,210
Purchased services	6,861,417	7,058,444
Insurance	200,124	200,506
Utilities	511,608	545,127
Rental	640,831	756,534
Depreciation and amortization	1,210,855	1,197,340
Total operating expenses	26,940,384	27,521,638
<b>Operating Loss</b>	(2,197,895)	(1,072,654)
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	28,536	27,373
Property taxes	1,112,593	1,131,355
Intergovernmental Revenue	203,617	256,044
Interest expense	(72,580)	(96,210)
Total nonoperating revenue (expenses)	1,272,166	1,318,562
<b>(Decrease) Increase in Net Assets</b>	(925,729)	245,908
<b>Net Assets - Beginning of year</b>	14,624,363	14,378,455
<b>Net Assets - End of year</b>	<b>\$ 13,698,634</b>	<b>\$ 14,624,363</b>

See Notes to Financial Statements.

# Morrow County Hospital and Affiliate

## Statements of Cash Flows

	Year Ended	
	December 31, 2011	December 31, 2010
<b>Cash flows from Operating Activities</b>		
Cash received from patients and third-party payors	\$ 23,287,891	\$ 26,706,341
Cash payments to supplies for services and goods	(8,099,111)	(14,176,012)
Cash payments to employees for services	(13,409,409)	(13,114,017)
Other receipts from operation	632,642	666,182
Net cash provided by operating activities	2,412,013	82,494
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	2,400,223	4,225,864
Investment income	28,536	27,373
Increase (Decrease) in assets limited as to use	(3,634,910)	577,311
Purchase of investments	(2,507,789)	(2,304,924)
Net cash provided by (used in) investing activities	(3,713,940)	2,525,624
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(981,279)	(1,012,830)
Property tax levy/Intergovernmental revenue	1,316,215	1,387,396
Interest paid on long-term debt	(72,580)	(99,445)
Principal payments on long-term debt	(740,985)	(652,894)
Net cash used in capital and related financing activities	(478,629)	(377,773)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,780,556)	2,230,345
<b>Cash and Cash Equivalents - Beginning of year</b>	4,140,275	1,909,930
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 2,359,720</b>	<b>\$ 4,140,275</b>
<b>Supplemental Cash Flow Information</b>		
Cash and Cash Equivalents	\$ 114,108	\$ 269,266
Investments	2,136,703	3,784,241
Board Designated Funds	108,909	86,768
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 2,359,720</b>	<b>\$ 4,140,275</b>

### Non cash transaction:

During 2011 the hospital drew down \$1,392,962 of Facilities Revenue Bonds to finance the Meditech EMR project. The financed amount was also added to Construction in Progress.

# Morrow County Hospital and Affiliate

## Statements of Cash Flows (Continued)

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

	Year Ended	
	December 31, 2011	December 31, 2010
<b>Cash flows from Operating Activities</b>		
Operating loss	\$ (2,197,895)	\$ (1,072,654)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	1,210,855	1,197,340
Provision for bad debts	2,634,280	2,537,977
Forgiveness of Pysicans Advances	-	4,456
(Increase) decrease in assets:		
Patient accounts receivable	(754,671)	(1,549,798)
Taxes Receivable	(100,000)	4,456
Third-party settlement receivables	32,719	(57,563)
Prepaid Expenses and Other Assets	140,571	-
Inventories	70,796	(147,300)
Other current assets	14,174	(216,012)
Increase (decrease) in liabilities:		
Accounts payable	1,128,609	(357,678)
Accrued expenses	132,574	(249,198)
Deferred Revenue	100,000	(7,077)
Net cash provided by operating activities	<u>\$ 2,412,013</u>	<u>\$ 82,494</u>

# **Morrow County Hospital and Affiliate**

**Notes to Financial Statements  
December 31, 2011 and 2010**

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

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

Morrow County Hospital is an acute care facility owned by, and is a part of, Morrow County, Ohio and operated by a board of trustees. Members of the board of trustees are appointed by the County Commissioners, the Probate Court Judge and the Common Pleas Judge. The Hospital is a political subdivision of the State of Ohio and is therefore exempt from federal income taxes under Section 115 of the Internal Revenue Code. The Hospital was formed under the provisions of the Ohio Revised Code.

During 1997, the Hospital formed Morrow County Hospital Foundation (the "Foundation"). The purpose of the Foundation is to support the Hospital and community programs to improve the health and well-being of the people served by the Hospital. The Foundation is exempt under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code. Total assets and net assets of the Foundation are \$523,648 with assets consisting primarily of cash and cash equivalents and investments. Net revenue of the Foundation was approximately \$72,000 and consisted primarily of investment income. The basic financial statements do not provide separate columns to reflect the Foundation because such amounts are not significant compared to the total amounts reflected for the Hospital.

**Basis of Presentation** - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Hospital follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provide a comprehensive look at the Hospital's financial activities. The Foundation is required to be reported in the Hospital's financial statements.

**Enterprise Fund Accounting** - The Hospital uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, as amended, the Hospital has elected to not apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

**Cash and Cash Equivalents** - Cash and cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less. Cash and cash equivalents included in assets limited as to use and general long-term investments are considered cash and cash equivalents for the purpose of the statement of cash flows.

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

**Investments** - Investments include certificates of deposit and government securities and are recorded at fair value in the balance sheet. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in nonoperating revenue when earned.

**Patient Accounts Receivable** - Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

**Inventories** - Inventories, which consist of medical and office supplies and pharmaceutical products, are stated at cost, determined on a first-in, first-out basis or market, whichever is lower.

**Assets Limited as to Use** - Investments set aside for board-designated purposes for future capital improvements (funded depreciation), or for debt service, and are considered to be noncurrent assets limited as to use.

**Capital Assets** - Property and equipment amounts are recorded at cost, or if donated, at fair value at the date of receipt. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Costs of maintenance and repairs are charged to expense when incurred.

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

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

**Classification of Net Assets** - Net assets of the Hospital are classified in two components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted net assets* are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Net Patient Service Revenue** - The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

# **Morrow County Hospital and Affiliate**

## **Notes to Financial Statements December 31, 2011 and 2010**

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

The Medicare program has initiated a Recovery Audit Contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The hospital is unable to determine if it will be audited and if so, the extent of liability for overpayments, if any. If selected for audit, the potential exists for significant overpayment of claims liability for the Hospital at a future date.

**Contributions** - The Hospital reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Hospital reports the expiration of donor restrictions when the assets are placed in service.

**Loss from Operations** - The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

**Property Taxes** - The Hospital received approximately 4.6 percent in 2011 and 4.6 in 2010 of its financial support from property taxes. The total funds received were used to support operations \$1,316,210 and \$1,387,399 as of December 31, 2011 and 2010, respectively, including intergovernmental revenues.

Property taxes are levied by the County on the Hospital's behalf on January 1 and are intended to finance the Hospital's activities of the same calendar year. Amounts levied are based on assessed property values as of the preceding July 1. The property tax calendar includes these dates:

Levy date	January 1
Lien date	January 1
Tax bill mailed	January 21
First installment payment due	February 16
Second installment payment due	July 13

Property taxes are considered delinquent on the day following each payment due date.



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

**Risk Management** - The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**Charity Care** - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. During 2011 and 2010, the Hospital provided charity care of approximately \$1,228,357 and \$997,000, respectively.

**Pension Plan** - Substantially all of the Hospital's employees are eligible to participate in a defined benefit pension plan sponsored by the Ohio Public Employees' Retirement System (OPERS). The Hospital funds pension costs based on contribution rates determined by OPERS.

### **Note 2 - Deposits and Investments**

Chapter 135 of the Ohio Uniform Depository Act authorizes local and governmental units to make deposits in any national bank located in the state subject to inspection by the superintendent of financial institutions. Section 135.14 of the Ohio Revised Code allows the local governmental to invest in United States Treasury bills, notes, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States of America and bonds and other obligations of the State of Ohio. Investments in no-load money market mutual funds, repurchase agreements, commercial paper, and bankers' acceptances are permitted subject to certain limitations that include completion of additional training, approved by the auditor of state, by the treasurer or governing board investing in these instruments.

The Hospital has designated three banks for the deposit of its funds. Investment of interim funds is limited to bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, no-load money market mutual funds, and the Ohio subdivision's fund (STAR Ohio).

Statutes require the classification of funds held by the Hospital into three categories:

**Active Funds** - Active funds are those funds required to be kept in a "cash" or "near cash" status for immediate use by the Hospital. Such funds must be maintained either in depository accounts or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

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

**Inactive Funds** - Inactive funds are those funds not required for use within the current five-year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit, maturing not later than the end of the current period of designated depositories or as savings or deposit accounts, including, but not limited to, passbook accounts.

**Interim Funds** - Interim funds are those funds which are not needed for immediate use but will be needed before the end of the current period of designation of deposit. Ohio law permits interim funds to be invested or deposited in the following securities:

1. Bonds, notes, or other obligations guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest
2. Bonds, notes debentures, or other obligations or securities issued by any federal governmental agency
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions
4. Interim deposits in the eligible institutions applying for interim funds to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including but not limited to, passbook accounts
5. Bonds and other obligations of the State of Ohio
6. The Ohio State Treasurer's investment pool (STAR Ohio)
7. Commercial paper and bankers' acceptances which meet the requirements established by Ohio Revised Code, SEC 135.142
8. Under limited circumstances, corporate debt included in either of the two highest rating classifications by at least two nationally recognized rating agencies

Protection of the Hospital's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by single collateral pool established by the financial institution to secure the repayment of all public funds deposited with the institution.

# **Morrow County Hospital and Affiliate**

**Notes to Financial Statements  
December 31, 2011 and 2010**

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

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

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

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

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

### **Custodial Credit Risk of Investments**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Hospital does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Hospital's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
2011 U.S. government bonds	\$ 1,583,222	Counterparty
2010 U.S. government bonds	1,404,785	Counterparty

### **Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Hospital does not have an investment policy that addresses interest rate risk. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
2011 U.S. government bonds	\$ 1,583,222	1.00 year
2010 U.S. government bonds	1,404,785	1.50 years

# Morrow County Hospital and Affiliate

## Notes to Financial Statements December 31, 2011 and 2010

### Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	<u>2011</u>	<u>2010</u>
Patient accounts receivable	\$ 9,129,104	\$ 7,525,379
Less:		
Allowance for uncollectible accounts	(1,554,160)	(1,422,745)
Allowance for contractual adjustments	<u>(3,578,816)</u>	<u>(2,861,177)</u>
Net accounts receivable	<u><u>\$ 3,996,128</u></u>	<u><u>\$ 3,241,457</u></u>

The Hospital grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows:

	<u>Percent</u>	
	<u>2011</u>	<u>2010</u>
Medicare	46%	48%
Medicaid	16	15
Commercial insurance and HMO's	30	30
Self-pay	8	7
	<u>100%</u>	<u>100%</u>

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

Cash deposits, assets whose use is limited, and investments of the Hospital are composed of the following:

	<u>Fair Value</u>	
	<u>2011</u>	<u>2010</u>
Demand deposits and money market accounts	\$ 2,939,613	\$ 4,140,275
Certificate of deposits	349,848	-
U.S. government obligations	<u>1,583,222</u>	<u>1,404,785</u>
Total	<u><u>\$ 4,872,683</u></u>	<u><u>\$ 5,545,060</u></u>

# Morrow County Hospital and Affiliate

## Notes to Financial Statements December 31, 2011 and 2010

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

	Fair Value	
	2011	2010
Amounts summarized by fund type -		
General funds:		
Cash and cash equivalents	\$ 114,108	\$ 269,266
Short-term investments	349,848	-
Board designated	4,069,828	4,938,352
General long-term investments	338,899	337,442
<b>Total</b>	<b>\$ 4,872,683</b>	<b>\$ 5,545,060</b>

### Note 5 - Capital Assets

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

	2010	Additions	Transfers	Retirements	2011	Depreciab. Life-Year
Land and land improvements	\$ 691,203	\$ 45,273			736,476	5-25
Building	5,950,933	21,672			5,972,605	10-40
Equipment	15,749,939	245,055		(11,300)	15,983,694	5-20
Construction in progress	262,758	2,218,716	(156,470)		2,325,005	
<b>Total</b>	<b>22,654,833</b>	<b>2,530,717</b>	<b>(156,470)</b>	<b>(11,300)</b>	<b>25,017,781</b>	
Less accumulated depreciation:						
Land and land improvements	435,165	34,201	-	-	469,366	
Building	3,257,483	221,681	-	-	3,479,164	
Equipment	9,808,107	954,973	-	(11,300)	10,751,779	
<b>Total</b>	<b>13,500,755</b>	<b>1,210,855</b>	<b>-</b>	<b>(11,300)</b>	<b>14,700,309</b>	
<b>Net carrying amount</b>	<b>\$ 9,154,078</b>	<b>\$ 1,258,645</b>	<b>\$ (156,470)</b>	<b>\$ -</b>	<b>\$ 10,317,471</b>	

## Morrow County Hospital and Affiliate

Cost of capital assets and related depreciable lives for December 31, 2010 are summarized below:

	2009	Additions	Transfers	Retirements	2010	Depreciab. Life-Year
Land and land improvements	\$ 588,085	\$ 55,978	\$ 47,140	\$ -	\$ 691,203	5-25
Building	5,350,477	12,035	588,421	-	5,950,933	10-40
Equipment	16,087,779	497,566	29,793	(865,199)	15,749,939	5-20
Construction in progress	81,161	874,086	(692,489)	-	262,758	
Total	22,107,502	1,439,665	(27,135)	(865,199)	22,654,833	
Less accumulated depreciation:						
Land and land improvements	405,103	30,062	-	-	435,165	
Building	3,029,616	227,867	-	-	3,257,483	
Equipment	9,734,195	939,111	-	(865,199)	9,808,107	
Total	13,168,914	1,197,040	-	(865,199)	13,500,755	
Net carrying amount	<u>\$ 8,938,588</u>	<u>\$ 242,625</u>	<u>\$ (27,135)</u>	<u>\$ -</u>	<u>\$ 9,154,078</u>	

### **Note 6 - Cost Report Settlements**

Approximately 62 percent of the Hospital's revenues from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under these reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

**Medicare** - Effective October 1, 2002, the Hospital received full accreditation from the Center for Medicare and Medicaid Services for the critical access hospital designation. As a critical access hospital, the Hospital receives cost-based reimbursement for both inpatient and outpatient services provided to Medicare beneficiaries.

**Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Capital costs relating to Medicaid inpatients are paid on a cost-reimbursement method. The Hospital is reimbursed for outpatient services on a fee-for-service methodology.

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

# Morrow County Hospital and Affiliate

## Notes to Financial Statements December 31, 2011 and 2010

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

### Note 7 - Long-term Debt and Other Noncurrent Liabilities

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

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

Long-term liability activity for the year ended December 31, 2010 was as follows:

	2009	Current Year Additions	Current Year Reductions	2010	Amounts Due Within One Year
Master lease and purchase agreement	\$ 1,761,195	\$ -	\$ (607,459)	\$ 1,153,731	\$ 644,049
Capital lease obligations	69,699	400,000	(45,430)	424,269	107,436
Total long-term debt	1,830,894	400,000	(652,889)	1,578,000	751,485
Compensated absences	484,245	834,690	(758,964)	559,972	559,972
Total noncurrent liabilities	<u>\$ 2,315,139</u>	<u>\$ 1,234,690</u>	<u>\$ (1,411,853)</u>	<u>\$ 2,137,972</u>	<u>\$ 1,311,456</u>

# Morrow County Hospital and Affiliate

## Notes to Financial Statements December 31, 2011 and 2010

The notes payable are summarized as follows:

- Under a master lease and purchase agreement, the Hospital borrowed \$4,950,000 under an arrangement with a finance company to finance the construction of facilities improvements. The financing was provided by the issuance of a 10-year note maturing August 2012, with interest at 5.89 percent. The debt is collateralized by capital assets purchased with the proceeds. The lease and purchase agreement provides, among other things, for certain covenants and payoff options which allow for early retirement of the debt by the Hospital.
- The Hospital leases medical and office equipment and furniture and fixtures used in its operations under capital leases which generally require the Hospital to pay insurance and maintenance costs. These capital leases are due in monthly installments including interest at rates ranging from 8.53 percent to 9.06 percent annually. These leases expire in 2015 and are collateralized by the leased equipment. Capitalized costs at December 31, 2011 and 2010 were approximately \$528,000 and \$528,000 less accumulated depreciation of \$201,000 and \$104,000, respectively.
- During 2011, the Hospital authorized the issuance of revenue bonds in a principal amount of \$3,200,000 for the purpose of acquiring and installing the Meditech computer system. All debt charges on the bonds are expected to be paid from adjusted annual revenue of the Hospital. The Hospital made interest only payments on a monthly basis, commencing September 24, 2011. A mandatory redemption of \$1,800,000 in principal of the bonds is due on or before December 24, 2013. The Hospital will then be required to make monthly principal and interest payments through December, 2018. The bonds bear interest at a fixed rate equal to 3.5%. Interest is calculated on the outstanding principal amount of the disbursed bonds from the respective disbursement. As of December 31, 2011, the Hospital had issued \$1,392,962 of the total authorized. No amortization schedule is available at this time; the project is still in progress.

The Hospital is required to segregate in a separate subaccount within the funded depreciation account marketable securities of the nature satisfactory to the original purchaser, with an initial fair market value of \$1,800,000. The Hospital was compliant with this requirement at December 31, 2011.

The following is a schedule by years of principal and interest as of December 31, 2011:

Years Ending <u>December 31</u>	<u>Long-term Debt</u>		<u>Capital Lease Obligation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 509,682	\$ 15,120	\$ 97,296	\$ 15,508
2013	-	-	82,389	10,467
2014	-	-	86,980	5,876
2015	-	-	60,667	1,240
Total Payments	<u>\$ 509,682</u>	<u>\$ 15,120</u>	<u>\$ 327,332</u>	<u>\$ 33,092</u>



### **Note 8 - Medical Malpractice Claims**

Based on the nature of its operations, the Hospital is at times subject to pending or threatened legal actions, which arise in the normal course of its activities.

The Hospital is insured against medical malpractice claims under a claims-based policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding \$1,000,000, or aggregate claims exceeding \$3,000,000, for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional \$4,000,000 of coverage.

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

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

### **Note 9 - Defined Benefit Pension Plan**

**Plan Description** - The Hospital contributes to the Ohio Public Employees' Retirement System of Ohio (OPERS). OPERS administers three separate pension plans: the Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan; the Member-directed Plan (MD) - a defined contribution plan; and the Combined Plan (CO) - a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, and survivor benefits, as well as postemployment healthcare coverage to qualifying members of both the TP and CO plans. Members of the MD do not qualify for ancillary benefits, including postemployment healthcare coverage.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to Ohio Public Employees' Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-5601 or 1-800-222-PERS (7377).

## **Note 9 - Defined Benefit Pension Plan (Continued)**

**Funding Policy** - The Ohio Revised Code provides statutory authority requiring public employers to fund retirement and postretirement benefits through their contributions to OPERS for member and employer contributions. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement benefits.

For 2010, member and employer contribution rates were consistent across all three plans (TP, MD, and CO), and are actuarially determined. The member contribution rate for members of local government units was 10.0 percent of their annual covered salary. The employer contribution rate for local government units was 14.00 percent of covered payroll. The Hospital's contributions to OPERS for the years ended December 31, 2011, 2010, and 2009 were approximately \$1,325,485, \$1,372,517, and \$1,327,335, respectively. Required employer contributions for all plans are equal to 100 percent of employer charges and must be extracted from the employer's records.

**Postretirement Benefits** - In order to qualify for postretirement healthcare coverage under the TP and CO plans, age and service retirees must have 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an other postemployment benefit (OPEB), as described in GASB Statement No. 45. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2011 and 2010 employer contribution rates for local government employer units were 14.00 percent of covered payroll. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during the calendar year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

**Healthcare Plan** - On September 9, 2004, the OPERS retirement board adopted a healthcare preservation plan (HCPP) with an effective date of January 1, 2007. Member and employer contribution rates increased as of January 1, 2007, 2008, 2009, 2010 and remained unchanged for 2011. The increases allowed additional funds to be allocated to the healthcare plan.

# **Morrow County Hospital and Affiliate**

## **Notes to Financial Statements December 31, 2011 and 2010**

### **Note 10 - Affiliation**

The Hospital contracts with OhioHealth for management, information technology, and other support services. OhioHealth employs the Hospital's chief executive and chief financial officers and also appoints one nonvoting representative to the Hospital's board of trustees. Fees for services amounted to approximately \$507,000 and \$462,000 for the years ended December 31, 2011 and 2010, respectively. Amounts due to OhioHealth for services amounted to approximately \$71,000 and \$68,000 at December 31, 2011 and 2010, respectively, and have been included in accounts payable on the balance sheet.

### **Note 11 - Self-insured Benefits**

The Hospital is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$125,000 per employee and provides up to a maximum benefit of \$875,000 per person. Claims, charged to operations when incurred, were approximately \$1,991,032 and \$1,649,423 for the years ended December 31, 2011 and 2010, respectively.

A reconciliation of accrued health insurance at December 31, 2011 and 2010 consists of the following:

Balance at January 1, 2010	\$ 320,542
Health insurance expense	1,649,423
Payments made	<u>(1,652,738)</u>
Balance at December 31, 2010	317,227
Health insurance expense	1,991,032
Payments made	<u>1,785,769</u>
Balance at December 31, 2011	<u>\$ 205,263</u>

### **Note 12 – Commitment Note**

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

## **Morrow County Hospital and Affiliate**

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### **Note 12 – Commitment Note (continued)**

The system is expected to cost \$3.1 million. As of December 31, 2011, the Hospital had capitalized costs of \$1,879,054 related to the system. The American Recovery and Reinvestment Act (“ARRA”) provides financial incentives to hospitals achieving the “meaningful use” of an electronic health record by 2015. The hospital expects to receive approximately \$1.8 million of ARRA reimbursement after the new electronic health record system is fully implemented in 2013.

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

On October 25, 2011, the Hospital closed its extended care facility. The Hospital is currently in negotiations to sell the licenses for its 38 extended care beds to an outside party. The sale is expected to be completed by December 31, 2012.

**Additional Information**

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May 14, 2012

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

We have audited the financial statements of Morrow County Hospital and Affiliate as of December 31, 2011. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The accompanying combining balance sheet and statement of operations information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Rea & Associates, Inc.*

# Morrow County Hospital and Affiliate

## Combining Balance Sheet December 31, 2011

	Morrow County Hospital	Morrow County Hospital Foundation	Eliminating Entries	Total
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ -	\$ 114,108	\$ -	\$ 114,108
Short-term investments	349,848	-	-	349,848
Accounts receivable	3,996,128	-	-	3,996,128
Levied taxes receivable	1,350,000	-	-	1,350,000
Estimated third-party payor settlements	24,844	-	-	24,844
Prepaid expenses and other	470,159	70,403	-	540,562
Inventory	545,637	-	-	545,637
Other current asset - Physician advances	57,827	-	-	57,827
Total current assets	6,794,444	184,510	-	6,978,954
<b>Assets Limited as to Use</b>	4,069,589	239	-	4,069,828
<b>General Long-term Investments</b>	-	338,898	-	338,898
<b>Property and Equipment - Net</b>	10,317,471	-	-	10,317,471
<b>Other Assets - Physician advances</b>	-	-	-	-
Total assets	<u>\$ 21,181,504</u>	<u>\$ 523,647</u>	<u>\$ -</u>	<u>\$ 21,705,151</u>

# Morrow County Hospital and Affiliate

## Combining Balance Sheet (Continued) December 31, 2011

	Morrow County Hospital	Morrow County Hospital Foundation	Eliminating Entries	Total
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Current portion of long-term debt	\$ 606,978	\$ -	\$ -	\$ 606,978
Accounts payable	2,524,739	-	-	2,524,739
Accrued liabilities and other:				
Accrued compensation	847,299	-	-	847,299
Accrued compensated absences	542,639	-	-	542,639
Accrued interest	536	-	-	536
Deferred revenue for levied taxes	1,350,000	-	-	1,350,000
Other accrued liabilities	511,327	-	-	511,327
Total current liabilities	6,383,519		-	6,383,519
<b>Long-term Debt - Net of current portion</b>	1,622,998	-	-	1,622,998
Total liabilities	8,006,517			8,006,517
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	8,087,496	-	-	8,087,496
Unrestricted	5,087,491	523,647	-	5,611,138
Total liabilities and net assets	<u>\$ 21,181,504</u>	<u>\$ 523,647</u>	<u>\$ -</u>	<u>\$ 21,705,151</u>



# Morrow County Hospital and Affiliate

## Combining Statement of Revenues, Expenses, and Changes in Net Assets Year Ended December 31, 2011

	Morrow County Hospital	Morrow County Hospital Foundation	Eliminating Entries	Total
<b>Operating Revenues</b>				
Total patient service revenue	\$ 53,796,646	\$ -	\$ -	\$ 53,796,646
Revenue deductions	(29,686,803)	-	-	(29,686,803)
Net patient service revenue	24,109,843	-	-	24,109,843
Other	560,172	72,474	-	632,646
Total operating revenues	24,670,015	72,474	-	24,742,490
<b>Operating Expenses</b>				
Salaries and wages	9,122,112	-	-	9,122,112
Employee benefits and payroll taxes	4,108,934	-	-	4,108,934
Operating supplies and expenses	4,282,642	1,862	-	4,284,503
Purchased services	6,861,417	-	-	6,861,417
Insurance	200,124	-	-	200,124
Utilities	511,608	-	-	511,608
Rental	640,831	-	-	640,831
Depreciation and amortization	1,210,855	-	-	1,210,855
Total operating expenses	26,938,523	1,862	-	26,940,384
<b>Operating (Loss) Income</b>	(2,268,508)	70,612	-	(2,197,895)
<b>Nonoperating Revenues (Expenses)</b>				
Investment income	28,536	-	-	28,536
Property taxes	1,112,593	-	-	1,112,593
Intergovernmental Revenue	203,617	-	-	203,617
Interest expense	(72,580)	-	-	(72,580)
Total nonoperating income	1,272,167	-	-	1,272,166
<b>(Decrease) Increase in Net Assets</b>	<b>\$ (996,341)</b>	<b>\$ 70,612</b>	<b>\$ -</b>	<b>\$ (925,728)</b>



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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**

May 14, 2012

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

We have audited the financial statements of Morrow County Hospital (the Hospital), a business-type activity of Morrow County, Ohio, as of and for the year ended December 31, 2011, and have issued our report thereon dated May 14, 2012. Our report contained additional language stating the financial statements of the Hospital are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Morrow County that are attributable to the transactions of the Hospital. Those financial statements do not purport to, and do not, present fairly the financial position of Morrow County as of December 31, 2011, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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*.

We certain matters that we reported to management of the Hospital in a separate letter dated May 14, 2012.

This report is intended solely for the information and use of management, the Board of Trustees and other specified parties and is not intended to be and should not be used by anyone other than those specified parties.

*Rea & Associates, Inc.*

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# Dave Yost • Auditor of State

**MORROW COUNTY HOSPITAL AND AFFILIATE**

**MORROW COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 11, 2012**