



Morrow County Hospital OhioHealth

MORROW COUNTY HOSPITAL AND AFFILIATES

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



MORROW COUNTY HOSPITAL AND AFFILIATES

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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.

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NOTES TO COMBINED FINANCIAL STATEMENTS

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.

