

**MERCER COUNTY JOINT TOWNSHIP
COMMUNITY HOSPITAL**

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

CPAs / ADVISORS





Dave Yost • Auditor of State

Board of Governors
Mercer County Joint Township Community Hospital
800 West Main Street
Coldwater, Ohio 45828

We have reviewed the *Report of Independent Auditors* of the Mercer County Joint Township Community Hospital, Mercer County, prepared by Blue & Co., LLC, for the audit period April 1, 2013 through March 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Mercer County Joint Township Community Hospital is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

September 9, 2014

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MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

TABLE OF CONTENTS MARCH 31, 2014 AND 2013

	Page
Report of Independent Auditors	1
Required Supplementary Information	
Management's Discussion and Analysis (Unaudited)	i-viii
Consolidated Basic Financial Statements	
Consolidated Balance Sheets	4
Consolidated Statements of Operations and Changes in Net Position	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	9
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	29
Schedule of Audit Findings and Responses – Year Ended March 31, 2014.....	32
Schedule of Prior Year Audit Findings and Responses – Year Ended March 31, 2013.....	33

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REPORT OF INDEPENDENT AUDITORS

Mercer County Joint Township Community Hospital
800 West Main Street
Coldwater, Ohio 45828

To the Board of Governors:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the business-type activities of Mercer County Joint Township Community Hospital (the Organization) as of and for the years ended March 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audits. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Organization's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Organization as of March 31, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 2 to the consolidated financial statements, certain errors resulting in understatement of amounts previously reported for employee benefits expense and accrued expenses as of March 31, 2013, were discovered by management of the Organization during the current year. Accordingly, amounts reported for employee benefits expense and accrued expenses have been restated in the 2013 financial statements now presented, and an adjustment has been made to net position as of April 1, 2012, to correct the error. Our opinion is not modified with respect to this matter.

Change in Accounting Principles

Also discussed in Note 2 to the consolidated financial statements, the Organization adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

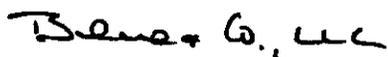
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic consolidated financial statements. Although this information is not part of the basic consolidated financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2014, on our consideration of the Organization'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



Columbus, Ohio
July 30, 2014

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The discussion and analysis of the Mercer County Joint Township Community Hospital (the Organization) consolidated financial statements provides an overview of the Organization's financial activities for the years ended March 31, 2014 and 2013. The financial statements reflect consolidated information for the Mercer County Joint Township Community Hospital (the Hospital) and the Medical Educational Development Foundation Physicians Corporation (MEDF). Management is responsible for the completeness and fairness of the financial statements and the related footnote disclosures along with this discussion and analysis.

Financial Highlights

The Organization's total assets increased by \$1,968,841 and total liabilities decreased by \$621,196 during the year ended March 31, 2014. Net position increased \$2,590,037 in fiscal year 2014. The increase in net position resulted primarily from the Organization's growth in operating revenues of \$2,024,835.

Using This Annual Report

The Organization's financial statements consist of three statements—a Balance Sheet; a Statement of Operations and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Organization, including resources held by the Organization but restricted for specific purposes.

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

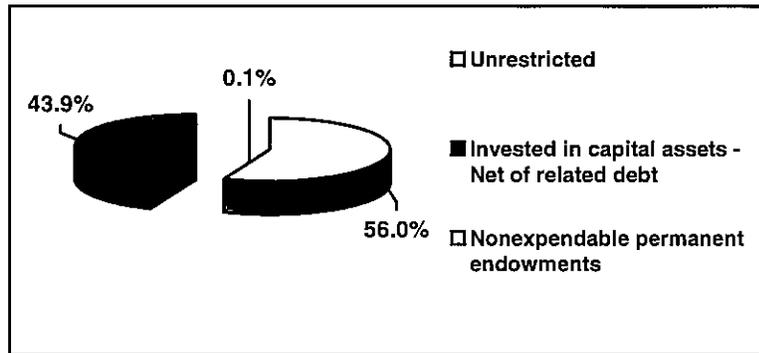
One of the most important questions asked about the Organization's finances is, "Is the Organization as a whole better off or worse off as a result of last year's activities?" The balance sheet and statement of operations and changes in net position report information about the Organization's resource 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 Organization's net position and changes in them. You can think of the Organization's net position - the difference between assets and liabilities - as one way to measure the Organization's financial health, or financial position. Over time, increases or decreases in the Organization's net position 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 Organization'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 Organization.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

The Organization's Net Position

The following chart provides a breakdown of net position by category at March 31, 2014.



For the year ended March 31, 2014, the Organization's revenues and other support exceeded expenses creating an increase in net position of \$2,590,037 compared to a \$2,730,034 increase in the previous year.

Condensed Financial Information

The following is a comparative analysis of the major components of the balance sheets of the Organization as of March 31, 2014, 2013 and 2012:

	March 31		
	2014	2013 As restated	2012 As restated
Assets:			
Current assets	\$ 13,950,642	\$ 12,543,783	\$ 9,494,183
Noncurrent assets	5,797,907	5,074,105	4,711,155
Capital assets, net	15,603,923	15,765,743	15,555,540
Total assets	\$ 35,352,472	\$ 33,383,631	\$ 29,760,878
Liabilities:			
Current liabilities	\$ 5,172,064	\$ 4,886,808	\$ 3,474,835
Long-term liabilities	6,753,778	7,660,230	8,179,484
Total liabilities	\$ 11,925,842	\$ 12,547,038	\$ 11,654,319
Net position:			
Unrestricted	\$ 13,112,553	\$ 11,502,440	\$ 9,299,319
Invested in capital assets - net of related debt	10,289,077	9,309,153	8,782,240
Restricted - nonexpendable permanent endowments	25,000	25,000	25,000
Total net position	\$ 23,426,630	\$ 20,836,593	\$ 18,106,559

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

During 2014, current assets increased \$1,406,859 or 11.2%, driven primarily by an increase in cash and cash equivalents and estimated amounts due from third party payors. Noncurrent and capital assets increased \$561,982 during 2014 primarily due to an increase in assets whose use is limited. Total liabilities decreased \$621,196 during the year due to payment of current and long term debt obligations.

Operating Results and Changes in the Organization's Net Position

	Year Ended March 31		
	2014	2013 As restated	2012 As restated
Operating revenue			
Net patient service revenue	\$ 49,134,171	\$ 48,332,631	\$ 45,727,178
Other operating revenue	2,340,201	1,116,906	1,106,942
Total operating revenues	<u>51,474,372</u>	<u>49,449,537</u>	<u>46,834,120</u>
Operating expenses			
Salaries and wages	19,880,105	19,823,184	18,726,517
Employee benefits	7,259,887	6,883,112	7,850,381
Supplies	5,846,326	5,412,755	5,201,107
Professional fees	5,397,439	5,002,152	4,752,128
Purchased services	1,300,920	1,318,146	1,393,976
Insurance	586,781	273,682	245,669
Depreciation and amortization	2,326,471	2,087,368	1,943,480
Other operating expenses	6,207,881	5,536,108	5,303,709
Total operating expenses	<u>48,805,810</u>	<u>46,336,507</u>	<u>45,416,967</u>
Operating gain	2,668,562	3,113,030	1,417,153
Nonoperating gains (losses)			
Interest expense	(252,903)	(326,237)	(207,165)
Other gains (losses)	174,378	(56,759)	(82,449)
Total nonoperating gains (losses)	<u>(78,525)</u>	<u>(382,996)</u>	<u>(289,614)</u>
Change in net position	2,590,037	2,730,034	1,127,539
Net position, beginning of year	<u>20,836,593</u>	<u>18,106,559</u>	<u>16,979,020</u>
Net position, end of year	<u>\$ 23,426,630</u>	<u>\$ 20,836,593</u>	<u>\$ 18,106,559</u>

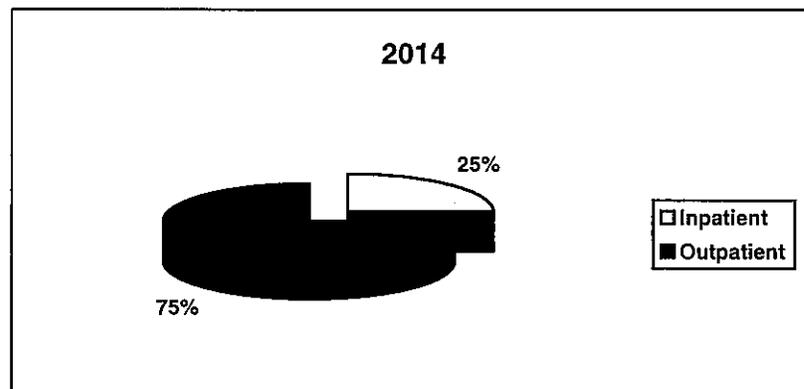
**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

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, physician offices, and the cafeteria. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are not to be utilized for long-term purposes.

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased \$801,540 or 1.7%, in 2014. This was attributable to changes in patient volumes and rate increases offset by deductions from revenue. Gross patient revenue is reduced by revenue deductions in determining net patient revenue. These deductions include amounts not paid to the Organization under contractual arrangements primarily with Medicare, Medicaid, and commercial payors as well as amounts related to self-pay patients that qualify for charity write-offs based on pre-established financial need criteria and bad debts. These revenue deductions decreased from 48.0% in 2013 to 47.4% of gross revenue in 2014.
- The following is a graphic illustration of patient revenues by source:



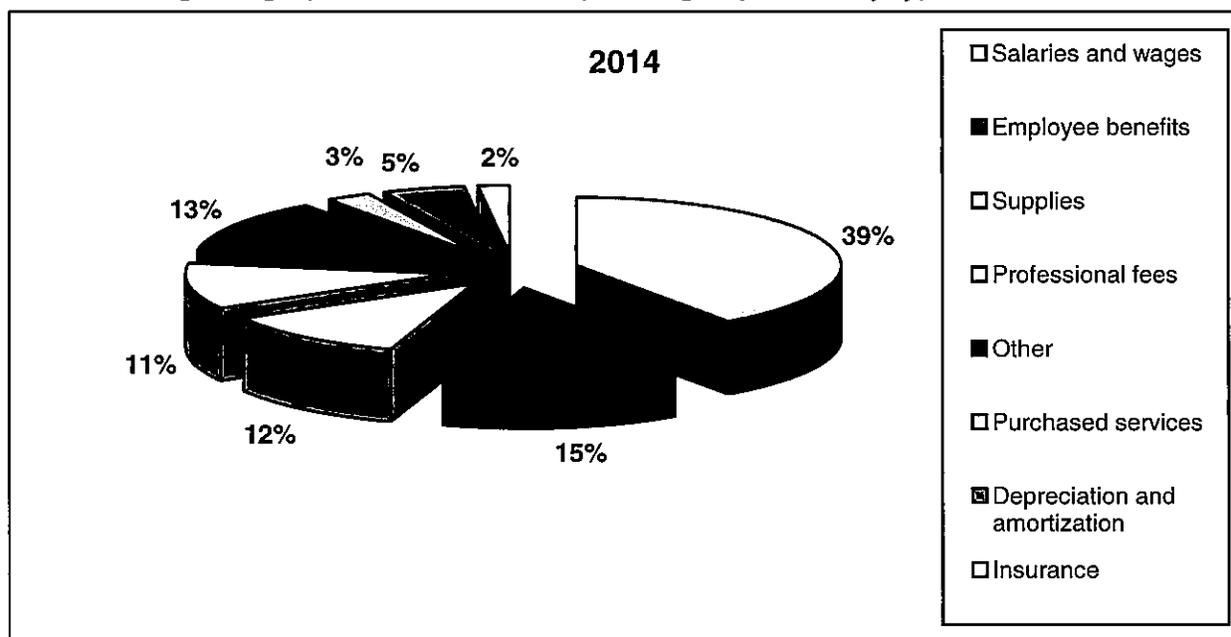
MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Organization. The significant operating expense changes from 2013 to 2014 were the result of the following factors:

- Benefits expense increased \$376,775, or 5.5%, primarily due to an increase in health insurance claims.
- Supplies expense increased \$433,571, or 8.0%, primarily due to an increase in patient volumes.
- Professional fees increased \$395,287, or 7.9%, primarily due to an increase in rehab services.
- Other operating expenses increased \$671,773, or 12.1%, primarily as a result of more physicians in 2014 compared to 2013.

The following is a graphic illustration of operating expenses by type:



Non-operating Losses

Non-operating losses are all sources and uses that are primarily non-exchange in nature. They consist primarily of interest expense, joint venture gains and losses, contributions and interest income.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Statement of Cash Flows

The primary purpose of the statements of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows 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

	Year Ended March 31		
	2014	2013 As restated	2012 As restated
Cash provided by (used in):			
Operating activities	\$ 4,719,277	\$ 6,254,762	\$ 3,080,259
Non-capital and related financing activities	166,218	(30,191)	(107,831)
Investing activities	17,725	(306,690)	25,382
Capital and related financing activities	(3,568,863)	(2,931,976)	(1,531,325)
 Total	1,334,357	2,985,905	1,466,485
 Cash - beginning of year	9,159,226	6,173,321	4,706,836
 Cash - end of year	\$ 10,493,583	\$ 9,159,226	\$ 6,173,321

Capital Asset and Debt Administration

Capital Assets

At March 31, 2014, the Organization had a total investment of \$45,330,645 in gross capital assets and accumulated depreciation totaled \$29,726,722, resulting in a net carrying value of \$15,603,923. Depreciation expense for 2014 was \$2,326,471 compared to \$2,087,368 for 2013.

Debt

At March 31, 2014, the Organization had \$5,314,846 in long-term debt outstanding compared to \$6,456,590 at March 31, 2013. The Organization continues to pay down its debt obligations as prescribed in the debt schedules. More detailed information about the Organization's long-term liabilities is presented in the notes to the financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Economic Factors that Will Affect the Future

During 2014, the Organization continued to experience a significant improvement in its financial strength and stability. Much of this improvement resulted from (1) higher out-patient volumes, (2) managing overall total Organization costs, (3) improving business process redesigns, where needed, (4) management focusing on improving financial ratios, (5) implementation of new patient services, (6) fostering enhanced physician relationships, and (7) incorporating employee accountability into the day-to-day operations. These improvement initiatives along with aligning our work force to work volumes without layoffs via attrition and reallocating resources have established a foundation that serves as a strategy to help offset the many financial challenges that face a small community Organization such as Mercer County Joint Township Community Hospital.

The Organization continues to actively work on renegotiating managed care contracts and enrolling patients in new managed Medicaid plans to enhance overall Organization patient revenue.

The healthcare environment has and is scheduled to continue to change as the federal and state regulatory processes attempt to work with provisions of the Patient Protection and Affordable Care Act that was signed in March 2010. Some of the provisions, which now are in effect, include reduced level of anticipated revenues to the Organization. These "revenue at risk" programs include value-based purchasing, thirty day readmissions, medicare sequestration, medical low volume adjustment, increased medicare recovery audit contractor (RAC) audits, home care revenue reductions, and potential physician revenue reductions.

These programs were also part of the legislation (American Taxpayer Relief Act of 2012) that was passed by Congress on January 1, 2013. As a result, some provisions of the programs listed above were affirmed for continuation, modified, or deferred by the legislation.

In addition, the state of Ohio, has utilized the franchise fee collected from Organizations to help offset financial deficiencies in the administration of the state's Medicaid program. Recently, the Organization's annual franchise fees were paid in the amount of nearly \$623,000.

Although the future of healthcare reform legislation is uncertain, the Organization has identified areas of revenue at risk and initiated improvement strategies to minimize the potential for lost revenues.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Contacting the Organization's Management

This financial report is intended to provide the reader with a general overview of the Organization's finances. If you have questions about this report or need additional information, we welcome you to contact the Senior Vice President and Chief Financial Officer, George Boyles, at 800 W. Main Street, Coldwater, Ohio 45828.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED BALANCE SHEETS MARCH 31, 2014 AND 2013

	2014	2013 As restated
	<u>2014</u>	<u>As restated</u>
Current assets		
Cash and cash equivalents	\$ 5,962,650	\$ 5,321,209
Patient accounts receivable, net of uncollectible accounts of \$3,602,792 in 2014 and \$3,522,813 in 2013	5,485,605	5,349,623
Estimated amounts due from third party payors	517,672	-
Other receivables	711,795	560,999
Inventories	970,380	870,004
Prepaid expenses and other current assets	302,540	441,948
Total current assets	<u>13,950,642</u>	<u>12,543,783</u>
Assets whose use is limited	4,530,933	3,838,017
Capital assets, net	15,603,923	15,765,743
Other receivables	154,707	110,517
Other assets	<u>1,112,267</u>	<u>1,125,571</u>
Total assets	<u>\$ 35,352,472</u>	<u>\$ 33,383,631</u>

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED BALANCE SHEETS MARCH 31, 2014 AND 2013

LIABILITIES AND NET POSITION

	2014	2013 As restated
Current liabilities		
Accounts payable	\$ 1,314,120	\$ 1,193,378
Accrued expenses	3,407,200	3,039,217
Estimated amounts due to third party payors	-	11,389
Current portion of long-term debt	450,744	642,824
Total current liabilities	<u>5,172,064</u>	<u>4,886,808</u>
Compensated absences	1,889,676	1,846,464
Long-term debt, net of current portion	<u>4,864,102</u>	<u>5,813,766</u>
Total liabilities	11,925,842	12,547,038
Net position		
Unrestricted	13,112,553	11,502,440
Invested in capital assets - net of related debt	10,289,077	9,309,153
Restricted - nonexpendable permanent endowments	25,000	25,000
Total net position	<u>23,426,630</u>	<u>20,836,593</u>
Total liabilities and net position	<u>\$ 35,352,472</u>	<u>\$ 33,383,631</u>

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED MARCH 31, 2014 AND 2013

	2014	2013 As restated
Operating revenue		
Net patient service revenue	\$ 49,134,171	\$ 48,332,631
Other operating revenue	2,340,201	1,116,906
Total operating revenues	<u>51,474,372</u>	<u>49,449,537</u>
Operating expenses		
Salaries and wages	19,880,105	19,823,184
Employee benefits	7,259,887	6,883,112
Supplies	5,846,326	5,412,755
Professional fees	5,397,439	5,002,152
Purchased services	1,300,920	1,318,146
Insurance	586,781	273,682
Depreciation and amortization	2,326,471	2,087,368
Other operating expenses	6,207,881	5,536,108
Total operating expenses	<u>48,805,810</u>	<u>46,336,507</u>
Operating gain	2,668,562	3,113,030
Nonoperating gains (losses)		
Interest expense	(252,903)	(326,237)
Other gains (losses)	174,378	(56,759)
Total nonoperating gains (losses)	<u>(78,525)</u>	<u>(382,996)</u>
Change in net position	2,590,037	2,730,034
Net position, beginning of year	<u>20,836,593</u>	<u>18,106,559</u>
Net position, end of year	<u>\$ 23,426,630</u>	<u>\$ 20,836,593</u>

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED MARCH 31, 2014 AND 2013

	2014	2013 As restated
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 48,469,128	\$ 48,428,873
Cash payments to suppliers for services and goods	(19,361,255)	(17,255,749)
Cash payments to employees and related benefits	(26,728,797)	(26,035,268)
Other operating revenue	2,340,201	1,116,906
Net cash flows from operating activities	4,719,277	6,254,762
Cash flows from non-capital and related financing activities		
Other non-operating	166,218	(30,191)
Cash flows from investing activities		
Purchases of investments	(1,356,677)	(1,356,740)
Proceeds from sale of investments	1,356,677	1,356,740
Contributions to joint ventures	-	(325,000)
Investment earnings	17,725	18,310
Net cash flows from investing activities	17,725	(306,690)
Cash flows from capital and related financing activities		
Payments on long-term debt	(1,141,744)	(572,662)
Interest paid	(252,903)	(272,817)
Acquisition of capital assets	(2,174,216)	(2,086,497)
Net cash flows from capital and related financing activities	(3,568,863)	(2,931,976)
Net change in cash and cash equivalents	1,334,357	2,985,905
Cash and cash equivalents, beginning of year	9,159,226	6,173,321
Cash and cash equivalents, end of year	\$ 10,493,583	\$ 9,159,226
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	\$ 5,962,650	\$ 5,321,209
Assets whose use is limited	4,530,933	3,838,017
Total cash and cash equivalents	\$ 10,493,583	\$ 9,159,226

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED MARCH 31, 2014 AND 2013

	2014	2013 As restated
Cash flows from operating activities		
Operating gain	\$ 2,668,562	\$3,113,030
Adjustments to reconcile operating gain to net cash from operating activities:		
Depreciation and amortization	2,326,471	2,087,368
Provision for bad debts	2,838,941	3,148,171
Changes in assets and liabilities		
Patient accounts receivable	(2,974,923)	(3,014,520)
Other receivables	(194,986)	(196,409)
Inventories	(100,376)	(54,450)
Prepaid expenses and other current assets	139,408	10,632
Other assets	13,304	4,931
Accounts payable	120,742	522,390
Accrued expenses	367,983	788,546
Estimated third-party settlements	(529,061)	(37,409)
Compensated absences	43,212	(117,518)
Net cash flow from operating activities	\$ 4,719,277	\$ 6,254,762
Noncash investing and financing transactions:		
Assets acquired under capital lease obligation	\$ -	\$ 255,952

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity/Basis of Consolidation

Mercer County Joint Township Community Hospital (the Hospital) is a 76-bed facility, located in Mercer County, Ohio and operates currently under the direction of a fourteen member Board of Governors pursuant to the authority of the Joint Township Hospital Board of Trustees with representatives from Butler, Center, Franklin, Gibson, Granville, Marion, Recovery, Washington, Jefferson, Hopewell, Union and Dublin Townships. The Hospital provides healthcare services to the residents of Mercer County, Ohio and the surrounding area. The Hospital is operated under the provisions of the Ohio Revised Code.

The consolidated financial statements include the accounts of the Hospital and the Medical and Educational Development Foundation Physicians Corporation (MEDF). MEDF is a not for profit, non-governmental entity that manages physician practices. The Hospital is deemed to have control over MEDF. The financial statements of MEDF have been consolidated with the Hospital's financial statements (collectively, the Organization). All material intercompany balances and transactions have been eliminated in the consolidation.

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 Organization follows the "business-type" activities reporting requirements of GASB Statement No. 34.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term, highly liquid investments purchased with initial maturities of three months or less.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

Inventories

Inventories, consisting primarily of medical supplies and drugs, are valued at the lower of cost, determined by the first-in, first-out method, or market.

Assets Whose Use is Limited

Assets whose use is limited include cash and cash equivalents set aside by the Board of Governors for future capital improvements and debt repayment, over which the Board of Governors retains control and may at its discretion subsequently, use for other purposes. Assets whose use is limited also includes permanent endowments, of which the interest is restricted for operations and capital improvements. Investment income is included in nonoperating gains (losses).

Other Receivables

The Organization makes certain payments on behalf of physicians under various agreements. These advances are unsecured and are forgiven systematically in accordance with the agreements. Should the arrangement between the Organization and the physician be terminated prior to the end date agreed upon by both parties, the Organization will pursue collection of any outstanding advances.

Capital Assets

Capital assets are recorded at cost or, if donated, at fair value at the date of receipt. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Costs of the maintenance and repairs are charged to expense when incurred.

Enterprise Fund Accounting

The Organization uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Compensated Absences

Paid time off is charged to operations when earned. The earned and unused 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. Payment of accrued vacation days and accrued sick leave is based on the employee's rate of pay at the time of termination. Upon termination the maximum payout shall not exceed 240 hours for vacation time and 240 hours for sick leave.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

Patient Accounts Receivable and Net Patient Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization 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. Retroactive adjustments to these estimated amounts are recorded 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 exclusion from the Medicare and Medicaid programs.

The Organization estimates an allowance for doubtful accounts based on an evaluation of historical losses, current economic conditions, and other factors unique to the Organization.

Restricted Resources

When the Organization has both restricted and unrestricted resources available to finance a particular program, it is the Organization's policy to use restricted resources before unrestricted resources.

Net Position

Net position of the Organization is classified in three components. Net position 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. Restricted nonexpendable net position equal the principal portion of a permanent endowment received in 2006 for which the income is unrestricted as to use. Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

Income from Operations

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses, other than financing costs which are reported as nonoperating activities based on GASB reporting requirements. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Pension Plan

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

Charity Care

The Organization provides care to patients who meet certain criteria under the Organization's charity policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Of the Organization's total reported operating expenses (approximately \$48,805,000 and \$46,337,000 during 2014 and 2013, respectively), an estimated \$753,000 and \$714,000 arose from providing services to charity patients during 2014 and 2013, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Organization's total operating expenses divided by gross patient service revenue. The Organization 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. Net amounts received through this program totaled approximately \$189,000 and \$288,000 for 2014 and 2013, respectively, and are reported as net patient service revenue in the financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

Electronic Health Records (EHR) Incentive Payments

In 2014 and 2013, the Organization received EHR incentive payments under the Medicare and Medicaid programs. Medicare and Medicaid EHR incentive payments are expected in future periods. To qualify for these payments, the Organization must meet "meaningful use" criteria that become more stringent over time. The Organization periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (ending on September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Organization's cost reports. The payment calculation is based upon initial amount as adjusted for discharges, Medicare utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Organization recognizes EHR incentive payments as grant income when there is reasonable assurance that the Organization will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2014 and 2013, the Organization recognized approximately \$1,049,000 and \$157,000, respectively, in EHR incentive payments as grant income using the cliff recognition method. Under the cliff recognition method, the Organization records income at the end of EHR reporting period in which compliance is achieved. EHR incentive income is included in other operating revenue in the statement of operations and changes in net position. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Organization as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

Federal Income Tax

As a political subdivision, the Organization is exempt from taxation under the Internal Revenue Code.

Reclassifications

Certain amounts in the 2013 financial statements have been reclassified to conform with the 2014 presentation.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

Subsequent Events

The Organization has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued, which is July 30, 2014.

2. RESTATEMENT

During 2014, management discovered that certain expenses related to the Ohio Public Employees Retirement System (OPERS) were not recognized due to calculations based on an inaccurate interpretation of applicable guidance. The 2013 consolidated balance sheets, consolidated statements of operations and changes in net position, and consolidated statements of cash flows have been restated to reflect \$995,431 of additional accrued expenses, of which \$259,803 of additional employee benefits expense relate to 2013 and the remaining \$735,628 relate to periods preceding 2013 and have been reflected as reductions in beginning consolidated net position.

During 2014, the Organization implemented GASB Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14, the Financial Reporting Entity, and 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. The objective of the implementation is to improve financial reporting for a governmental financial reporting entity. As discussed in note 14 to the financial statements, the Organization adopted GASB Statement No. 61 which requires reporting condensed combining information in the notes to the financial statements for blended component units of primary governments that are business-type activities.

During 2014, the Organization also implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Debt issuance costs should now be recognized as an expense in the period incurred. Previously, debt issuance costs were capitalized at issuance and amortized over the term of the related debt.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

The 2013 financial statements have been retroactively restated to address the correction of error and the implementation of new standards and the effects on the financial statements are detailed below:

	<u>As previously reported</u>	<u>Effects of new standards implementation</u>	<u>Effects of correction of error</u>	<u>As restated</u>
Consolidated balance sheet:				
Other assets	\$ 1,251,951	\$ (126,380)	\$ -	\$ 1,125,571
Accrued expenses	\$ 2,043,786	\$ -	\$ 995,431	\$ 3,039,217
Net position - unrestricted	\$ 12,624,251	\$ (126,380)	\$ (995,431)	\$ 11,502,440
Consolidated statement of operations and changes in net position:				
Employee benefits	\$ 6,623,309	\$ -	\$ 259,803	\$ 6,883,112
Depreciation and amortization	\$ 2,094,244	\$ (6,876)	\$ -	\$ 2,087,368
Change in net position	\$ 2,982,961	\$ 6,876	\$ (259,803)	\$ 2,730,034
Net position at 4/1/2012	\$ 18,975,443	\$ (133,256)	\$ (735,628)	\$ 18,106,559
Net position at 3/31/13	\$ 21,958,404	\$ (126,380)	\$ (995,431)	\$ 20,836,593
Consolidated statement of cash flows:				
Depreciation and amortization	\$ 2,094,244	\$ (6,876)	\$ -	\$ 2,087,368
Accrued expenses	\$ 521,867	\$ 6,876	\$ 259,803	\$ 788,546

3. DEPOSITS AND INVESTMENTS

Cash deposits and assets whose use is limited of the Organization are composed of the following:

	<u>2014</u>		<u>2013</u>	
	<u>Fair Value</u>	<u>Amortized Historical Cost</u>	<u>Fair Value</u>	<u>Amortized Historical Cost</u>
Demand deposits and money market accounts	\$ 9,136,906	\$ 9,136,906	\$ 7,802,486	\$ 7,802,486
Certificates of deposit	1,356,677	1,356,677	1,356,740	1,356,740
Total	<u>\$ 10,493,583</u>	<u>\$ 10,493,583</u>	<u>\$ 9,159,226</u>	<u>\$ 9,159,226</u>
	<u>2014</u>		<u>2013</u>	
	<u>Fair Value</u>	<u>Amortized Historical Cost</u>	<u>Fair Value</u>	<u>Amortized Historical Cost</u>
Amounts summarized by fund type-				
General funds:				
Cash	\$ 5,962,650	\$ 5,962,650	\$ 5,321,209	\$ 5,321,209
Assets whose use is limited	4,530,933	4,530,933	3,838,017	3,838,017
Total	<u>\$ 10,493,583</u>	<u>\$ 10,493,583</u>	<u>\$ 9,159,226</u>	<u>\$ 9,159,226</u>

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

Protection of the Organization's deposits is provided by the Federal Deposit Insurance Corporation, or by securities pledged by the financial institution to secure the repayment of all public funds deposited with the institution.

At March 31, 2014 and 2013, the Organization had \$10,264,862 and \$9,661,935, respectively, of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured but are collateralized with securities held by the pledging financial institution.

The Organization had the following investments and maturities, all of which are held in the organizations name by a custodial bank that is an agent of the Organization.

	Carrying Amount	Maturities	
		< than one year	> than one year
March 31, 2014			
Certificates of deposit	\$ 1,356,677	\$ 1,356,677	\$ -
	Carrying Amount	Maturities	
		< than one year	> than one year
March 31, 2013			
Certificates of deposit	\$ 1,356,740	\$ 1,356,740	\$ -

Interest rate risk – The Organization has a formal investment policy that limits investment maturities to within five years of settlement date as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – The Organization may invest in United States obligations or any other obligation guaranteed by the United States; bonds, notes or any other obligations or securities issued by any federal government or instrumentality; time certificate of deposit or savings or deposit accounts, including passbook accounts, in any eligible institution mentioned in the Ohio Revised Code, bonds and other obligations of the State of Ohio or the political subdivisions of the state provided that such political subdivisions are located wholly or partly within the same county; certain no load money market mutual funds; certain commercial paper; and certain repurchase agreements.

Concentration of credit risk – The Organization has an action plan whereby deposits and investments are diversified between several issuers. The Organization maintains its investments, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes that it is not exposed to any significant credit risk on investments.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

4. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2014	2013
Gross patient accounts receivable	\$ 14,439,298	\$ 14,066,808
Less allowance for:		
Uncollectible accounts	(3,602,792)	(3,522,813)
Contractual adjustments	(5,350,901)	(5,194,372)
Net patient accounts receivable	\$ 5,485,605	\$ 5,349,623

The mix of accounts receivable and gross revenues from patients and third-party payors in 2014 and 2013 follows:

	2014		2013	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	25%	40%	24%	39%
Medicaid	7%	8%	7%	8%
Self-pay	34%	5%	34%	5%
Commercial and other	34%	47%	35%	48%
	100%	100%	100%	100%

5. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2014 was as follows:

	2013	Additions	Retirements	2014
Land	\$ 44,300	\$ -	\$ -	\$ 44,300
Land improvements	101,563	-	-	101,563
Buildings and improvements	28,032,386	170,581	(8,969)	28,193,998
Equipment	15,456,735	1,905,387	(567,521)	16,794,601
Construction in progress	328,989	98,248	(231,054)	196,183
Total capital assets	43,963,973	2,174,216	(807,544)	45,330,645
Less accumulated depreciation				
Land improvements	70,867	4,812	-	75,679
Buildings and improvements	18,201,123	872,159	(8,969)	19,064,313
Equipment	9,926,240	1,449,500	(789,010)	10,586,730
Total accumulated depreciation	28,198,230	2,326,471	(797,979)	29,726,722
Capital assets, net	\$ 15,765,743	\$ (152,255)	\$ (9,565)	\$ 15,603,923

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

Capital asset activity for the year ended March 31, 2013 was as follows:

	2012	Additions	Retirements	2013
Land	\$ 44,300	\$ -	\$ -	\$ 44,300
Land improvements	83,890	18,527	(854)	101,563
Buildings and improvements	27,766,454	442,990	(177,058)	28,032,386
Equipment	15,089,355	1,551,943	(1,184,563)	15,456,735
Construction in progress	-	328,989	-	328,989
Total capital assets	<u>42,983,999</u>	<u>2,342,449</u>	<u>(1,362,475)</u>	<u>43,963,973</u>
Less accumulated depreciation				
Land improvements	67,692	4,029	(854)	70,867
Buildings and improvements	17,484,410	883,990	(167,277)	18,201,123
Equipment	9,876,357	1,199,349	(1,149,466)	9,926,240
Total accumulated depreciation	<u>27,428,459</u>	<u>2,087,368</u>	<u>(1,317,597)</u>	<u>28,198,230</u>
Capital assets, net	<u>\$ 15,555,540</u>	<u>\$ 255,081</u>	<u>\$ (44,878)</u>	<u>\$ 15,765,743</u>

6. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

Approximately 48% of the Organization's revenues from patient services are received from the Medicare and Medicaid programs. The Organization has agreements with these payors that provide for reimbursement to the Organization at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Organization's established rates for services and amounts reimbursed by third-party payors.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements. Medicare cost reports have been settled through 2012 and Medicaid cost reports have been settled through 2007.

Medicare

Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, or other factors. Certain outpatient services, including ambulatory surgery, radiology, and laboratory services are reimbursed on an established fee-for-service methodology. Reimbursement for other outpatient services is based on the prospectively determined ambulatory payment classification system.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

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 Organization is reimbursed for outpatient services on an established fee-for-service methodology.

The Medicaid payment system in Ohio is prospective, 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 the future Medicaid funding to providers.

Commercial Payors

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

7. OTHER ASSETS

The Organization is a member of the West Central Ohio Regional Healthcare Alliance, Ltd. along with four other area hospitals which assist in the daily operations of the Cancer Network of West Central Ohio ("Cancer Network"). In regards to the Cancer Network, the Organization maintains a 25% ownership which is accounted for on the equity method. The carrying amount of the Organization's equity interest in this entity is \$209,937 and \$309,011 at March 31, 2014 and 2013, respectively. Gains from the Cancer Network included in nonoperating losses were \$99,074 in 2014. Losses from the Cancer Network included in nonoperating losses were \$184,011 in 2013. At March 31, 2012, the Organization also had a \$200,000 note receivable from the Cancer Network included in other assets, the hospital forgave the principle portion of the receivable during 2013. The note carried interest at 2.77% at March 31, 2013.

The Organization has entered into a joint venture agreement with Joint Township District Memorial Hospital with respect to the ownership and expansion of a medical office building. A nonprofit real estate holding company and a nonprofit management company were formed as a result of the joint venture. The Organization has a 50% ownership in each of these entities. The Organization accounts for its interest in these joint ventures on the equity method. The carrying amount of the Organization's equity interest in these entities was \$645,206 and \$606,503 at March 31 2014 and 2013, respectively. These balances are included within other assets. During 2014 and 2013, the Organization recognized investment income from these entities of \$85,769 and \$7,733, respectively, which is included in nonoperating losses.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

8. LONG-TERM LIABILITIES

Long-term debt activity for the year March 31, 2014 was as follows:

	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Leases, bonds and notes payable:					
Note payable, bearing interest at 6.5%, repaid in 2014	\$ 83,742	\$ -	\$ (83,742)	\$ -	\$ -
Note payable, bearing interest at 3.95%, repaid in 2014	282,345	-	(282,345)	-	-
Series 2008A bond payable, bearing interest at 3.5%, due in semiannual installments of \$165,684 through July 2033	4,540,422	-	(151,132)	4,389,289	149,747
Series 2009 bond payable, bearing interest at 4.125%, due in semiannual installments of \$133,415 through February 2017	971,420	-	(228,662)	742,758	237,463
Capital lease obligation, bearing interest at 3.32%, terminated in 2014	327,876	-	(327,876)	-	-
Capital lease obligation, bearing interest at 1.60%, due in monthly installments of \$5,506 through February 2017	250,785	-	(67,986)	182,799	63,534
Total leases, bonds and notes payable	<u>\$ 6,456,590</u>	<u>\$ -</u>	<u>\$ (1,141,743)</u>	<u>\$ 5,314,846</u>	<u>\$ 450,744</u>

Long-term debt activity for the year March 31, 2013 was as follows:

	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Leases, bonds and notes payable:					
Note payable, bearing interest at 6.5%, due in monthly installments of \$4,443 through November 2014	\$ 129,973	\$ -	\$ (46,231)	\$ 83,742	\$ 49,328
Note payable, bearing interest at 3.95%, due in monthly installments of \$4,000 through December 2019	318,417	-	(36,072)	282,345	37,522
Series 2008A bond payable, bearing interest at 4.125%, due in semiannual installments of \$165,684 through July 2033	4,670,904	-	(130,482)	4,540,422	143,941
Series 2009 bond payable, bearing interest at 4.125%, due in semiannual installments of \$133,415 through February 2017	1,189,332	-	(217,912)	971,420	228,662
Capital lease obligation, bearing interest at 3.32%, due in monthly installments of \$10,964 through February 2016	464,674	-	(136,798)	327,876	120,824
Capital lease obligation, bearing interest at 1.60%, due in monthly installments of \$5,506 through February 2017	-	255,952	(5,167)	250,785	62,547
Total leases, bonds and notes payable	<u>\$ 6,773,300</u>	<u>\$ 255,952</u>	<u>\$ (572,662)</u>	<u>\$ 6,456,590</u>	<u>\$ 642,824</u>

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

The lease, bonds and notes payable are summarized as follows:

2008A Hospital Facilities Revenue Bonds - dated July 1, 2008, were issued in the amount of \$5,000,000 for the purpose of constructing an emergency room. The bonds had annual payments of \$331,368 and a fixed interest rate of 3.5% until July 1, 2018. Every five years thereafter, until the bonds mature the interest rate is adjusted based on 90% of the average 5-year constant maturity Treasury note. The bonds mature on July 1, 2033, and are subject to redemption at the option of the issuer on any interest payment date. The bonds are secured by all pledged receipts of the Organization.

2009 Hospital Facilities Revenue Bonds - dated February 1, 2009, were issued in the amount of \$1,800,000 to finance new imaging equipment. The bonds have annual payments of \$266,830 and a fixed interest rate of 4.125%. The bonds mature on February 1, 2017, and are subject to redemption at the option of the issuer on any interest payment date. The bonds are secured by all pledged receipts of the Organization.

In December 2009, the Organization entered into a note payable for \$227,019, proceeds from which were used to purchase a patient monitoring system. The loan was repaid in 2014.

In April 2010, the Organization entered into a note payable for \$400,000, proceeds from which were used to purchase a building. The loan was repaid in 2014.

The Organization entered into a capital lease for a CT scanner in February 2012 with monthly payments of \$10,964. Depreciation of the asset under the capital lease is included in depreciation expense. This lease was terminated in 2014 and the asset was acquired under a provision in the lease for an additional payment of \$97,916.

The Organization entered into a capital lease for diagnostic radiology equipment in February 2013. This lease includes imputed interest at 1.60% with monthly payments of \$5,508 through February 2017. Depreciation of the asset under the capital lease is included in depreciation expense. This agreement is secured by the equipment which has a net book value at March 31, 2014 of \$208,703.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

The following is a schedule of principal and interest payments based on interest rates effective at March 31, 2014:

Years Ended March 31	Long-term Debt	
	Principal	Interest
2015	\$ 450,744	\$ 211,711
2016	469,165	194,353
2017	474,559	176,623
2018	169,715	161,654
2019-2023	961,786	695,057
2024-2028	1,181,676	475,168
2029-2033	1,451,837	191,774
2034	155,364	16,609
Total	<u>\$ 5,314,846</u>	<u>\$ 2,122,949</u>

The carrying value of equipment under capital lease obligations is as follows:

	2014	2013
Cost of equipment under capital lease	\$ 250,444	\$ 743,993
Lease accumulated depreciation	41,741	121,124
Net carrying amount	<u>\$ 208,703</u>	<u>\$ 622,869</u>

9. ACCRUED EXPENSES

The details of accrued liabilities at March 31, 2014 and 2013 are as follows:

	2014	2013
Payroll and related amounts	\$ 1,825,755	\$ 1,475,217
Health insurance	500,000	500,000
Workers' compensation premiums	40,853	89,472
Pension	334,907	329,095
Interest	50,371	53,420
Other	655,314	592,013
Total accrued liabilities	<u>\$ 3,407,200</u>	<u>\$ 3,039,217</u>

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

10. NET PATIENT SERVICE REVENUES

Net patient service revenue consists of the following:

	<u>2014</u>	<u>2013</u>
Revenue:		
Inpatient	\$ 23,199,960	\$ 23,314,380
Outpatient	70,164,196	69,657,379
Total patient revenue	<u>93,364,156</u>	<u>92,971,759</u>
Revenue deductions:		
Contractual allowances	39,951,262	40,193,768
Provision for bad debts	2,838,941	3,148,171
Charity care	1,439,782	1,297,189
Total deductions	<u>44,229,985</u>	<u>44,639,128</u>
Total net patient service revenue	<u>\$ 49,134,171</u>	<u>\$ 48,332,631</u>

11. OPERATING LEASES

The Organization has entered into lease agreements for certain buildings and office equipment under operating lease terms. The following are the net future minimum lease payments for these leases:

<u>Years Ending March 31</u>	
2015	\$ 26,604
2016	26,604
2017	17,802
Total	<u>\$ 71,010</u>

Total rental expense for operating leases, including those with terms of one month or less, for the years ended March 31, 2014 and 2013 was \$314,085 and \$432,066, respectively, and were included within other expenses on the statements of operations and changes in net position.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

12. PENSION PLAN

The Organization contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – 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 maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 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 45.

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 the OPEB Plan is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014 and 2013, state and local employers contributed at a rate of 14.0% and 10.0%, respectively, of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care was 1.0% and 4.0% during calendar years 2013 and 2012, respectively. Effective January 1, 2014, the portion of employer contributions allocated to health care was adjusted to 2%, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Organization's contributions, representing 100% of employer contributions, for the last three years follow:

<u>Years</u>	<u>Contribution</u>
2014	\$ 2,434,451
2013	2,464,761
2012	2,177,608

Organization contributions made to fund post-employment healthcare benefits approximated \$194,000, \$512,000 and \$622,000 for 2014, 2013 and 2012, respectively.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

13. SELF-INSURED BENEFITS

The Organization provides health insurance to participating employees under a plan that is partially self-insured. The plan is covered by a stop-loss policy that generally covers specific claims over \$125,000 and an annual aggregate deductible and covered expenses of \$4,365,728. Total health insurance expenses charged to operations, including an estimate of incurred but unreported claims, totaled \$3,262,668 and \$3,014,271 for the years ended March 31, 2014 and 2013, respectively.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

14. BLENDED COMPONENT UNIT

The consolidated financial statements include the Medical and Educational Development Foundation Physicians Corporation (MEDF), a separate entity organized to support the operations of the Hospital as a blended component unit. The following is a summary of the financial position and activities of MEDF as of and for the years ended March 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Assets:		
Total current assets	\$ 657,952	\$ 635,923
Capital assets, net	149,785	166,226
Other Assets	<u>31,325</u>	<u>31,325</u>
Total assets	<u><u>839,062</u></u>	<u><u>833,474</u></u>
Liabilities:		
Total current liabilities	<u>492,372</u>	<u>292,711</u>
Total liabilities	<u><u>492,372</u></u>	<u><u>292,711</u></u>
Net position:		
Total net position	<u>346,690</u>	<u>540,763</u>
Total liabilities and net position	<u><u>\$ 839,062</u></u>	<u><u>\$ 833,474</u></u>
	<u>2014</u>	<u>2013</u>
Operating revenues		
Total operating revenues	<u>\$ 4,164,019</u>	<u>\$ 3,751,493</u>
Operating expenses		
Total operating expenses	<u>6,408,092</u>	<u>5,200,727</u>
Income (Loss) from operations	(2,244,073)	(1,449,234)
Transfer from (to) affiliates	<u>2,050,000</u>	<u>1,600,000</u>
Change in net position	(194,073)	150,766
Net position - beginning of year	<u>540,763</u>	<u>389,997</u>
Net position - end of year	<u><u>\$ 346,690</u></u>	<u><u>\$ 540,763</u></u>
	<u>2014</u>	<u>2013</u>
Cash provided by (used in):		
Operating activities	\$ 46,491	\$ 9,100
Capital and related financing activities	<u>16,441</u>	<u>(22,018)</u>
Total	<u>62,932</u>	<u>(12,918)</u>
Cash - beginning of year	<u>17,565</u>	<u>30,483</u>
Cash - end of year	<u><u>\$ 80,497</u></u>	<u><u>\$ 17,565</u></u>

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

15. RISK MANAGEMENT

The Organization is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Organization has purchased commercial insurance for malpractice, general liability, and employee medical claims.

The Organization is insured against medical malpractice claims under a claims-made 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 Organization 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.

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 Organization 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 Organization's cost for such claims for the year, and it has been charged to operations as a current expense.

The Organization is exposed to various risks of loss related to property and general losses, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Organization has purchased commercial insurance and/or participated in state-sponsored plans for coverage of these claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2014 AND 2013

16. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what effects, if any, the implementation of the following recently enacted statements may have on its future financial statements:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, issued June 2012, will be effective for periods beginning after June 15, 2014. This Statement establishes the accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to certain pensions. It will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013, will be effective for government combinations and disposals of government operations occurring in financial reporting periods for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations (mergers, acquisitions, and transfers of operations) and disposals of government operations. The disclosures required by this Statement will enable financial statement users to evaluate the nature and financial effects of those transactions.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued April 2013, will be effective for financial reporting periods beginning after June 15, 2013. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. Additional disclosures will be required by both governments that extend and receive financial guarantees.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*, issued November 2013, will be required to be applied simultaneously with provisions of GASB Statement No. 68. This Statement amends previous guidance to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

Mercer County Joint Township Community Hospital
800 West Main Street
Coldwater, Ohio 45828

To the Board of Governors:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the consolidated financial statements of the business-type activities of Mercer County Joint Township Community Hospital (the Organization), as of and for the year ended March 31, 2014, and the related notes to the consolidated financial statements, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated July 30, 2014.

Our report included emphasis-of-matter paragraphs stating the Organization corrected an error relating to employee benefit expense/accrued wages and adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our opinion is not modified with respect to these matters.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the consolidated financial statements, but not to the extent necessary to opine on the effectiveness of the Organization's internal control. Accordingly, we have not opined on it.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS (continued)

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of audit findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Organization's financial statements. We consider finding 2014-1 described in the accompanying schedule of audit findings and responses to be a material weakness.

A significant deficiency is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2014-2 described in the accompanying schedule of audit findings and responses to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring about whether the Organization's consolidated financial statements are free from material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2014-1.

Management's Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying schedule of audit findings and responses. We did not audit the Organization's responses, and accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bene G., LLC

Columbus, Ohio
July 30, 2014

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

SCHEDULE OF AUDIT FINDINGS AND RESPONSES YEAR ENDED MARCH 31, 2014

2014-1 Pension Plan Contributions (Material Weakness & Instance of Noncompliance)

Condition: Management did not accurately contribute to the Ohio Public Employees Retirement System (OPERS).

Criteria: OPERS contributions should be based on employees earnable salaries as defined by Ohio Administrative Code (OAC) 145-1-26.

Cause: The base amount used to calculate OPERS contributions did not include all earnable salary as defined.

Effect: Accrued expenses and employee benefits expense were understated. An adjustment was posted to correct the financial statements during the audit.

Recommendation: We recommend that all earnable salary as defined by OAC 145-1-26 be included in the OPERS contribution calculation.

Management's response: Management corrected this condition in 2014 and has entered into a payment plan with OPERS to remit any underpayment.

2014-2 Accrued Liability Recognition (Significant Deficiency)

Condition: During our audit, we noted MEDF did not accrue for earned vacation or sick pay time.

Criteria: Vacation and sick pay time should be evaluated by management and recorded appropriately.

Cause: Vacation and sick pay time had not been evaluated by management.

Effect: The accrued liability and related expense were not recorded to the Organization's records, thus, the Organization understated liabilities and related employee benefits expense.

Recommendation: We recommend that vacation and sick pay time be reviewed by management and recorded appropriately.

Management's response: Management will review vacation and sick pay accruals at period end for reasonableness.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RESPONSES YEAR ENDED MARCH 31, 2013

2013-1 Expense Recognition

Condition: At March 31, 2013 the Organization had recorded a liability for an expense that had not been incurred until fiscal year 2014.

Recommendation: In order to be in accordance with accounting principles generally accepted in the United States of America, a liability should not be recorded until the expense is incurred.

Current Status: Management has reviewed these types of transactions and is appropriately accounting for them in accordance with the applicable accounting guidance.

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Dave Yost • Auditor of State

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

MERCER 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
SEPTEMBER 23, 2014**