

**MERCER COUNTY JOINT TOWNSHIP  
COMMUNITY HOSPITAL**

**CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2017 AND 2016**

*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, 2016 through March 31, 2017. 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

October 6, 2017

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# MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

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blueandco.com

## REPORT OF INDEPENDENT AUDITORS

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

### ***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, 2017 and 2016, 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 consolidated 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 consolidated 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 audits 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, 2017 and 2016, 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.

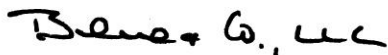
**Other Matters**

*Required Supplementary Information*

The accompanying management's discussion and analysis on pages i through xii and the Supplementary Information on GASB 68 Pension Liabilities on page 33 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 financial statements, and other knowledge we obtained during our audit of the basic 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 27, 2017, 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 27, 2017



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

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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, 2017, 2016, and 2015. 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 consolidated financial statements and the related footnote disclosures along with this discussion and analysis.

**Financial Highlights**

The Organization's total assets and deferrals increased by \$18,124,022 and total liabilities and deferrals increased by \$20,358,036 during the year ended March 31, 2017. Net position decreased \$2,234,014 in fiscal year 2017. The decrease in net position was primarily related to the impact of GASB 68 which increased employee benefits expense by \$4,546,486.

GASB No. 68 (Accounting and Financial Reporting for Pensions), as amended by GASB Statement No. 71

In fiscal year 2016, the Organization implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71. GASB Statement No. 68 requires employers participating in cost-sharing multiple-employer pension plans to recognize a proportionate share of the net pension liabilities of the plans. The Organization participates in the Public Employees Retirement System of Ohio (OPERS). A proportionate share of the net pension liabilities of OPERS has been allocated to the Organization, based on retirement plan contributions for Organization employees. The cumulative impact of adopting GASB Statement No. 68 has been a \$20,311,878 reduction in the Organization's net position through March 31, 2017.

These standards fundamentally change the future accounting and financial reporting requirements for public pensions. The new standards require each public employer to account for a portion of its public pension plan's unfunded liabilities on their balance sheets. As part of this accounting recognition, there will be operating income/loss impacts into the future. However, since the impact is dependent upon the OPERS investment portfolio performance via market investments, it is uncertain as to the performance of these investments in future years.

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

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The chart below summarizes our 2017 activity with and without the impact of GASB Statement No. 68.

|                                    | <b>Impact in<br/>accordance with<br/>GAAP</b> | <b>Impact w/o<br/>GASB 68</b> |
|------------------------------------|---|-------------------------------|
| <b>Operating results</b>           |   |                               |
| Change in net position             | \$ (2,234,014)                                | \$ 2,312,472                  |
| <b>Net position</b>                |   |                               |
| Assets and deferrals               | \$ 65,811,941                                 | \$ 54,921,966                 |
| Liabilities and deferrals          | 53,900,636                                    | 22,698,783                    |
| Net position                       | 11,911,305                                    | 32,223,183                    |
| Total liabilities and net position | \$ 65,811,941                                 | \$ 54,921,966                 |

**Using This Annual Report**

The Organization's consolidated financial statements consist of three statements—a consolidated Balance Sheet; a consolidated Statement of Operations and Changes in Net Position; and a consolidated Statement of Cash Flows. These consolidated 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 Consolidated Balance Sheet and Consolidated 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 consolidated balance sheet and consolidated statement of operations and changes in net position report information about the Organization's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

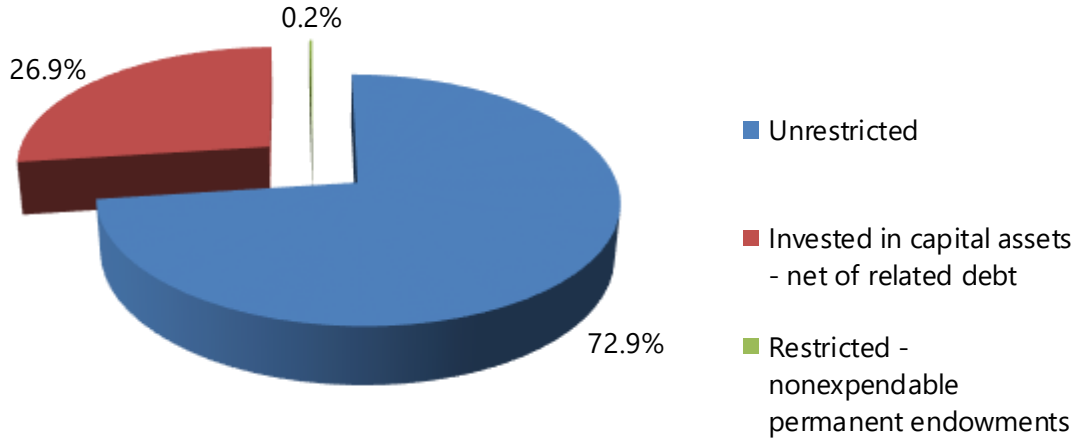
These two statements report the Organization's net position and changes in them. You can think of the Organization's net position - the difference between assets and liabilities - as one way to measure the Organization's financial health, or financial position. Over time, increases or decreases in the 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)**

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**The Organization's Net Position**

The following chart provides a breakdown of net position by category at March 31, 2017.



For the years ended March 31, 2017 and 2016 the implementation of GASB 68 significantly reduced unrestricted net position. For the year ended March 31, 2017 the Organization's expenses exceeded revenues and other support creating a decrease in net position of \$2,234,014 compared to a \$2,550,229 increase in the previous year. The decrease in net position for 2017 was primarily driven by the impact of GASB 68. GASB 68 led to increases in operating expenses of \$4,546,486 and \$1,203,230 for 2017 and 2016, respectively.

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

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**Condensed Financial Information**

The following is a comparative analysis of the major components of the balance sheets of the Organization as of March 31, 2017, 2016 and 2015:

|  | March 31             |                      |                      |
|--|----------------------|----------------------|----------------------|
|  | 2017                 | 2016                 | 2015 (*)             |
| <b>Assets:</b>                                   |                      |                      |                      |
| Current assets                                   | \$ 13,185,202        | \$ 18,082,727        | \$ 15,105,754        |
| Noncurrent assets                                | 22,829,552           | 5,969,411            | 6,473,004            |
| Capital assets, net                              | 19,007,007           | 16,383,558           | 15,579,652           |
| Deferred outflows-pension                        | 10,790,180           | 7,252,223            | -                    |
| <b>Total assets and deferrals</b>                | <b>\$ 65,811,941</b> | <b>\$ 47,687,919</b> | <b>\$ 37,158,410</b> |
| <b>Liabilities:</b>                              |                      |                      |                      |
| Current liabilities                              | \$ 5,030,161         | \$ 4,549,517         | \$ 4,751,211         |
| Long-term liabilities                            | 47,664,399           | 28,495,374           | 6,250,018            |
| Deferred inflows-interest rate swap              | 428,576              | -                    | -                    |
| Deferred inflows-pension plan                    | 777,500              | 497,709              | -                    |
| <b>Total liabilities and deferrals</b>           | <b>\$ 53,900,636</b> | <b>\$ 33,542,600</b> | <b>\$ 11,001,229</b> |
| <b>Net position:</b>                             |                      |                      |                      |
| Unrestricted                                     | \$ 8,682,454         | \$ 1,944,938         | \$ 15,297,367        |
| Invested in capital assets - net of related debt | 3,203,851            | 12,175,381           | 10,834,814           |
| Restricted - nonexpendable permanent endowments  | 25,000               | 25,000               | 25,000               |
| <b>Total net position</b>                        | <b>\$ 11,911,305</b> | <b>\$ 14,145,319</b> | <b>\$ 26,157,181</b> |

(\*) 2015 amounts do not reflect the adoption of GASB No. 68

During 2017, current assets decreased \$4,897,525 or 27%, driven primarily by a transfer of cash and cash equivalents to noncurrent assets for the west wing expansion project. Noncurrent and capital assets increased \$19,483,590 during 2017 primarily due to an increase in assets whose use is limited. Deferred outflows-pension increased \$3,537,957 due to actuarial assumption changes and an actuarially determined difference between projected and actual investment earnings relating to the Ohio Public Employees Retirement System Plan (OPERS Plan). Total liabilities and deferrals increased \$20,358,036 during the year primarily due to the Organization issuing \$12,000,000 in new debt to finance the West Wing Addition project and an increase in the net pension liability of \$7,816,297.

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

**Operating Results and Changes in the Organization's Net Position**

|  | Year Ended March 31  |                      |                      |
|--|----------------------|----------------------|----------------------|
|  | 2017                 | 2016                 | 2015 (*)             |
| <b>Operating revenue</b>               |                      |                      |                      |
| Net patient service revenue            | \$ 60,919,456        | \$ 58,760,499        | \$ 53,609,945        |
| Other operating revenue                | 1,487,463            | 1,275,182            | 2,306,197            |
| Total operating revenues               | <u>62,406,919</u>    | <u>60,035,681</u>    | <u>55,916,142</u>    |
| <b>Operating expenses</b>              |                      |                      |                      |
| Salaries and wages                     | 24,502,147           | 23,005,735           | 21,141,198           |
| Employee benefits                      | 13,035,096 (^)       | 8,362,194 (#)        | 8,404,631            |
| Supplies                               | 7,468,846            | 6,864,664            | 6,504,382            |
| Professional fees                      | 8,883,522            | 7,774,018            | 6,467,887            |
| Purchased services                     | 1,916,522            | 1,563,657            | 1,383,673            |
| Insurance                              | 374,123              | 282,071              | 266,505              |
| Depreciation and amortization          | 2,995,065            | 2,737,108            | 2,578,338            |
| Other operating expenses               | 6,692,258            | 6,373,051            | 5,946,079            |
| Total operating expenses               | <u>65,867,579</u>    | <u>56,962,498</u>    | <u>52,692,693</u>    |
| <b>Operating gain</b>                  | (3,460,660)          | 3,073,183            | 3,223,449            |
| <b>Nonoperating gains (losses)</b>     |                      |                      |                      |
| Interest expense                       | (143,325)            | (117,914)            | (209,013)            |
| Other gains (losses)                   | 1,369,971            | (404,970)            | (283,885)            |
| Total nonoperating gains (losses)      | <u>1,226,646</u>     | <u>(522,884)</u>     | <u>(492,898)</u>     |
| <b>Change in net position</b>          | (2,234,014)          | 2,550,299            | 2,730,551            |
| <b>Net position, beginning of year</b> | 14,145,319           | 26,157,181           | 23,426,630           |
| Cumulative effect of accounting change | -                    | (14,562,161)         | -                    |
| <b>Net position, end of year</b>       | <u>\$ 11,911,305</u> | <u>\$ 14,145,319</u> | <u>\$ 26,157,181</u> |

(\*) 2015 amounts do not reflect the adoption of GASB No. 68

(^) 2017 employee benefits expense includes the GASB No. 68 impact of \$4,546,486

(#) 2016 employee benefits expense includes the GASB No. 68 impact of \$1,203,230

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

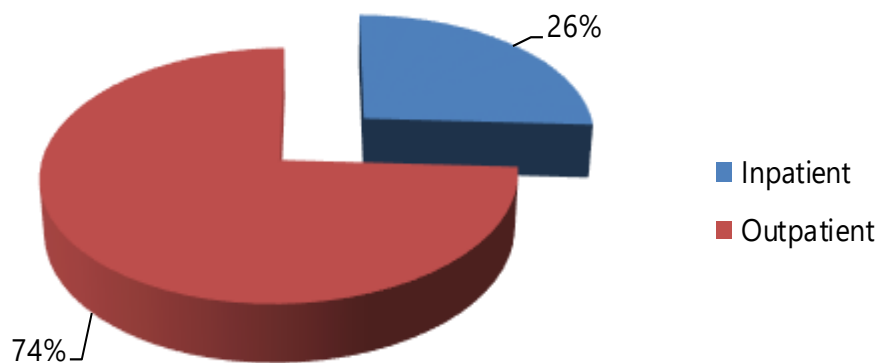
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**Operating Revenues**

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 \$2,158,957 or 3.7%, in 2017. 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 increased from 46.3% in 2016 to 47.3% of gross revenue in 2017.
- The following is a graphic illustration of patient revenues by source:



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

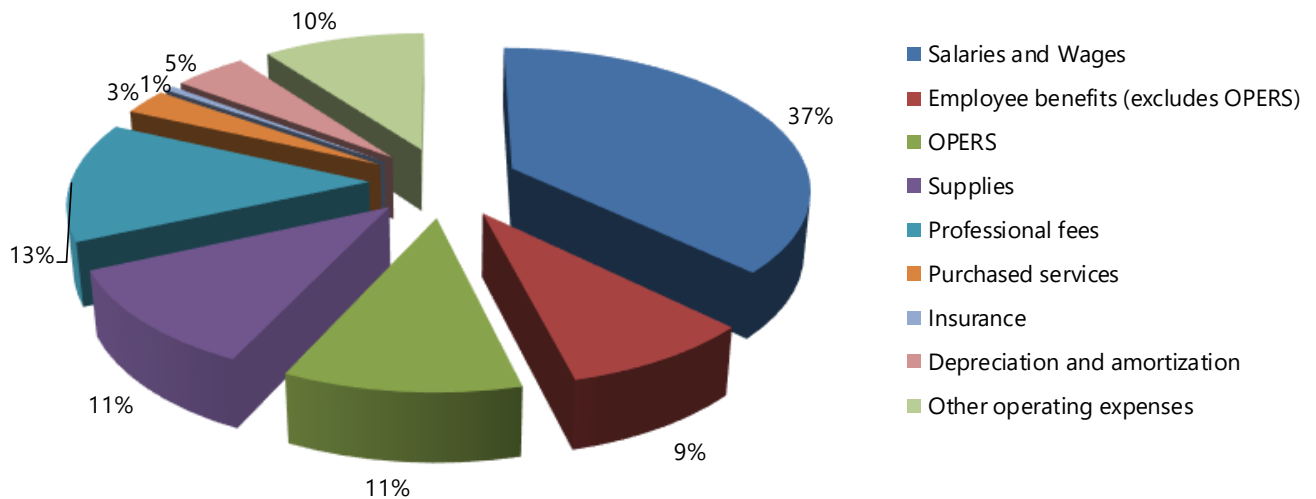
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**Operating Expenses**

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 2016 to 2017 were the result of the following factors:

- Salaries and wages expense increased \$1,496,412, or 6.5%, primarily as a result of an increase in full time equivalents and a pay rate increase of 2.0% in 2017 compared to 2016.
- Benefits expense increased \$4,672,902, or 55.9%, primarily due to increased expense relating to the OPERS Plan. The discount rate for the OPERS plan decreased from 8% to 7.5% which created an increase to operating expense of \$4,546,486 in 2017 compared to the 2016 impact of \$1,203,230.
- Supplies expense increased \$604,182, or 8.8%, primarily due to an increase in patient volumes.
- Professional fees increased \$1,109,504, or 14.3%, primarily due to the implementation of a hospitalist program during 2016 that had a full year of expenses in 2017 and increased locum usage by the Organization.

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



**Non-operating Gains (Losses)**

Non-operating gains (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)**

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**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 |               |               |
|--|---------------------|---------------|---------------|
|  | 2017                | 2016          | 2015 (*)      |
| <b>Cash provided by (used in):</b>           |                     |               |               |
| Operating activities                         | \$ 2,718,702        | \$ 5,331,224  | \$ 4,851,935  |
| Non-capital and related financing activities | 1,368,778           | (296,141)     | (208,254)     |
| Investing activities                         | 39,072              | 20,106        | 15,468        |
| Capital and related financing activities     | 5,753,150           | (4,332,784)   | (3,427,364)   |
| Total  | 9,879,702           | 722,405       | 1,231,785     |
| <b>Cash - beginning of year</b>              | 12,447,773          | 11,725,368    | 10,493,583    |
| <b>Cash - end of year</b>                    | \$ 22,327,475       | \$ 12,447,773 | \$ 11,725,368 |

(\*) 2015 amounts do not reflect the adoption of GASB No. 68

**Capital Asset and Debt Administration**

**Capital Assets**

At March 31, 2017, the Organization had a total investment of \$52,897,761 in gross capital assets and accumulated depreciation totaled \$33,890,754, resulting in a net carrying value of \$19,007,007. Depreciation and amortization expense for 2017 was \$2,995,065 compared to \$2,737,108 for 2016.

**Debt**

At March 31, 2017, the Organization had \$15,803,156 in long-term debt outstanding compared to \$4,208,177 at March 31, 2016. The Organization entered into 2016 and 2017 series bonds in order to refinance previous debt and finance the West Wing Expansion Project. 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)**

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**Economic Factors that Will Affect the Future**

Financial Strength and Stability

For the fiscal year ending March 31, 2017, the Organization prior to the GASB 68 impact the Organization had a net gain of approximately \$2,300,000. After the \$4,546,486 expense increase relating to GASB 68 the Organization incurred a net loss of approximately \$2,200,000. This fiscal year was challenging in that the Organization initiated two major projects, namely the EPIC electronic medical record implementation and the West Wing Expansion Project. Employee training and consulting costs associated with the EPIC electronic medical record system implementation, higher anesthesiologist locum tenum costs, provider practice acquisitions, higher employee staffing expenses, and consulting work to form a physician advisory council impacted the earnings for the fiscal year. Even with these added expenses, excluding the GASB No. 68 impact, the Organization exceeded budgeted change in net position by approximately \$1,500,000.

Selection and Implementation of a New Electronic Medical Record

In November 2015, the Organization completed a negotiation with representatives from The Ohio State University Health Network to initiate the purchase and installation of the EPIC electronic medical record for both the Organization and the ambulatory office environment. Implementation of the software began in January 2016, with a go-live installation on November 1, 2016 for both the Organization and the ambulatory physician offices. The new system is continuing to be refined and is projected to be used for at least nine years into the future. The implementation costs from The Ohio State University Wexner Medical Center were approximately \$2,600,000. Upon completion of the project, the Organization has committed to ongoing maintenance costs of \$70,000 per month for nine years. These expenditures will begin in August 2017.

Federal Healthcare Legislation Impact

Given polarized public views of the Patient Protection and Affordable Care Act (ACA), also known as Obamacare during the presidential election of 2016, the issue of repealing Obamacare has become a main issue of President Trump's administration. Some provisions such as the prohibition against insurers denying coverage because of patients pre-existing conditions and a provision that allows parents to provide years of additional coverage for children on their insurance policies seem to be safe towards continuing under any new federal legislation. Since the ACA has been integrated into our healthcare system, it will not be repealed or replaced overnight. Finding agreement around how to unwind it and what to replace it with will take time.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Given the uncertainty with what revised ACA legislation will finally become, the following categories of "Revenues-At-Risk" are shown as deductions from gross patient revenue and/or adjustments to contractual allowances. Medicare low volume adjustment continues to be included as part of our Medicare reimbursement structure and is no longer, at this time, a revenue-at-risk.

- a. Medicare 2% Sequestration
- b. RAC Audits
- c. MEDF-MIPS and MACRA impact

In addition, the Organization has recently received data on its continued compliance with provisions of the value based purchasing program. Current results indicate that our patient satisfaction quality scores and 30 day readmission program have resulted in no penalties being assessed against the Organization. In fact, the Organization was recently recognized by 2 separate organizations (each for the second year in a row) for its outstanding patient quality results/patient satisfaction scores, and strong financial performance.

Ohio Healthcare Legislation Issues

Amid uncertainty about the expected repeal of the Affordable Care Act, Governor John Kasich's final budget proposal maintains Medicaid health coverage for 3 million poor and disabled Ohioans, including the 700,000 childless adults added to the rolls under Obamacare.

To reduce costs, Kasich's plan for Ohio's tax funded health insurance program would result in cutting payments to hospitals and nursing homes, charging premiums to some beneficiaries (\$20-per-month for childless and non-pregnant individuals on the state's Medicaid program), and moving nursing home residents into private managed-care plans.

However, Kasich's plan includes no backup should President Trump and congressional Republicans follow through on repeal of the ACA and states lose Medicaid expansion funding.

Kasich proposes cutting nursing home payments by 3.3% in the first year and 3.9% in the second to save \$216 million in state and federal funding. Ohio hospitals would have their rates cut 2.5% in the first year of the budget and 5.7% in the second year to save the state a total of \$558 million over the two year period.

The Organization is also monitoring the status of pending litigation related to the Ohio Price Transparency Law which would require healthcare services providers to provide reasonable, good faith cost estimates to consumers before they receive non-emergency-related services. Hearings on the preliminary injunction are continuing. If the law is fully enacted, it will require significant administrative work by Organization staff to comply.

Within the last year, new 501-R IRS regulation (collection procedures) have been incorporated into the Organization's financial assistance policy.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL  
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In addition, the state of Ohio has utilized the franchise fee collected from hospitals to help offset financial deficiencies in the administration of the state's Medicaid Expansion program. The current fiscal year reflects a franchise fee expense of approximately \$678,000 to the Organization. Current Medicaid Expansion in the State of Ohio has shown slightly enhanced revenues and some reduction in charity care and bad debt expense.

Bundled Payments

The Organization continues to be heavily involved with "percentage of charges" managed care contracts and have not had significant involvement with bundling of service contracts. However, bundled payments are increasing in their usage within the healthcare sector. This payment methodology approaches care from a more holistic perspective, in which the entire episode is considered the product versus each individual service and treatment.

An example of bundled payments is when buying a ticket for a flight. "You don't pay the pilot one price, the co-pilot another price, and the flight attendants another. You're not charged for the gas. All of those costs are included in the price of your ticket."

The productization of healthcare through bundled payments poses a challenge to hospitals because it forces all parties across the care continuum to work together.

Hospital West Wing Expansion Project

During late January, 2016, the Organization announced its intention to construct a three-story facility wing that would be directly connected to the main Hospital campus building. The approximate 67,000 square foot addition began construction in the spring of 2017 with an anticipated completion date of Fall 2018. Current dollar expenditure estimates for the building and related equipment is approximately \$24 million.

Future Financial Overview

The current operating fiscal year (April 1, 2017 through March 31, 2018) will prove to be challenging (given anticipated Medicare cutbacks, dealing with other healthcare reform legislation and continuing to learn the value of the EPIC electronic medical record system), but it is attainable given every employee's commitment to providing excellent quality patient care and a continued focus on monitoring the costs of the Organization.

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

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*Specific goals for the Current Fiscal Year will focus on:*

1. Achieve a best practices operating margin
2. Optimize long-term solutions for our new electronic medical records system (EPIC)
3. Manage the construction expenses related to the West Wing Expansion Project
4. Grow volumes in specific departments through new business opportunities
5. Provide for heightened levels of cost monitoring within the MEDF organization by implementing programs related to provider productivity (staff alignment ratios, and expense synergies.)
6. Recruit and actively integrate new physicians into the MEDF organization
7. Establish new cost monitoring programs regarding labor productivity.

**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 C. Boyles, at 800 W. Main Street, Coldwater, Ohio 45828.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL**

CONSOLIDATED BALANCE SHEETS  
MARCH 31, 2017 AND 2016

| <b>ASSETS</b>   |               |               |
|---|---------------|---------------|
|   | 2017          | 2016          |
| <b>Current assets</b>   |               |               |
| Cash and cash equivalents   | \$ 1,360,123  | \$ 7,710,094  |
| Patient accounts receivable, net of uncollectible<br>accounts of \$4,412,148 in 2017 and<br>\$3,886,667 in 2016 | 9,257,040     | 7,707,566     |
| Other receivables   | 998,417       | 854,233       |
| Estimated amounts due from third party payors   | -             | 308,531       |
| Inventories   | 1,303,220     | 1,169,244     |
| Prepaid expenses and other current assets   | 266,402       | 333,059       |
| Total current assets  | 13,185,202    | 18,082,727    |
| <b>Noncurrent assets</b>  |               |               |
| Assets whose use is limited   | 20,967,352    | 4,737,679     |
| Net pension asset   | 99,795        | 88,151        |
| Other receivables   | 205,349       | 84,611        |
| Interest rate swap  | 428,576       | -             |
| Other assets  | 1,128,480     | 1,058,970     |
| Total noncurrent assets   | 22,829,552    | 5,969,411     |
| <b>Capital assets, net</b>  | 19,007,007    | 16,383,558    |
| <b>Deferred outflow of resources</b>  | 10,790,180    | 7,252,223     |
| Total assets and deferrals  | \$ 65,811,941 | \$ 47,687,919 |

*See accompanying notes to consolidated financial statements.*

# MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

## CONSOLIDATED BALANCE SHEETS MARCH 31, 2017 AND 2016

### LIABILITIES AND NET POSITION

|  | <u>2017</u>          | <u>2016</u>          |
|--|----------------------|----------------------|
| <b>Current liabilities</b>                       |                      |                      |
| Accounts payable                                 | \$ 1,620,912         | \$ 1,583,250         |
| Accrued expenses                                 | 2,463,378            | 2,686,208            |
| Estimated amounts due to third party payors      | 257,821              | -                    |
| Current portion of long-term debt                | 688,050              | 280,059              |
| Total current liabilities                        | <u>5,030,161</u>     | <u>4,549,517</u>     |
| <b>Long-term liabilities</b>                     |                      |                      |
| Compensated absences                             | 2,124,940            | 1,959,200            |
| Net pension liability                            | 30,424,353           | 22,608,056           |
| Long-term debt, net of current portion           | 15,115,106           | 3,928,118            |
| Total long-term liabilities                      | <u>47,664,399</u>    | <u>28,495,374</u>    |
| <b>Deferred inflow of resources</b>              |                      |                      |
| Deferred inflow - interest rate swap             | 428,576              | -                    |
| Deferred inflow - pension plans                  | 777,500              | 497,709              |
| Total deferred inflow of resources               | <u>1,206,076</u>     | <u>497,709</u>       |
| Total liabilities and deferrals                  | 53,900,636           | 33,542,600           |
| <b>Net position</b>                              |                      |                      |
| Unrestricted                                     | 8,682,454            | 1,944,938            |
| Invested in capital assets - net of related debt | 3,203,851            | 12,175,381           |
| Restricted - nonexpendable permanent endowments  | 25,000               | 25,000               |
| Total net position                               | <u>11,911,305</u>    | <u>14,145,319</u>    |
| Total liabilities, deferrals and net position    | <u>\$ 65,811,941</u> | <u>\$ 47,687,919</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, 2017 AND 2016

|  | 2017          | 2016          |
|--|---------------|---------------|
| <b>Operating revenue</b>               |               |               |
| Net patient service revenue            | \$ 60,919,456 | \$ 58,760,499 |
| Other operating revenue                | 1,487,463     | 1,275,182     |
| Total operating revenues               | 62,406,919    | 60,035,681    |
| <b>Operating expenses</b>              |               |               |
| Salaries and wages                     | 24,502,147    | 23,005,735    |
| Employee benefits                      | 13,035,096    | 8,362,194     |
| Supplies                               | 7,468,846     | 6,864,664     |
| Professional fees                      | 8,883,522     | 7,774,018     |
| Purchased services                     | 1,916,522     | 1,563,657     |
| Insurance                              | 374,123       | 282,071       |
| Depreciation and amortization          | 2,995,065     | 2,737,108     |
| Other operating expenses               | 6,692,258     | 6,373,051     |
| Total operating expenses               | 65,867,579    | 56,962,498    |
| <b>Operating gain (loss)</b>           | (3,460,660)   | 3,073,183     |
| <b>Nonoperating gains (losses)</b>     |               |               |
| Interest expense                       | (143,325)     | (117,914)     |
| Other gains (losses)                   | 1,369,971     | (404,970)     |
| Total nonoperating gains (losses)      | 1,226,646     | (522,884)     |
| <b>Change in net position</b>          | (2,234,014)   | 2,550,299     |
| <b>Net position, beginning of year</b> | 14,145,319    | 26,157,181    |
| Cumulative effect of accounting change | -             | (14,562,161)  |
| <b>Net position, end of year</b>       | \$ 11,911,305 | \$ 14,145,319 |

*See accompanying notes to consolidated financial statements.*

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL**

CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED MARCH 31, 2017 AND 2016

|   | 2017          | 2016          |
|---|---------------|---------------|
| <b>Cash flows from operating activities</b>                         |               |               |
| Cash received from patients and third-party payors                  | \$ 59,936,334 | \$ 56,274,963 |
| Cash payments to suppliers for services and goods                   | (25,699,360)  | (22,229,357)  |
| Cash payments to employees and related benefits                     | (33,005,735)  | (29,989,564)  |
| Other operating revenue   | 1,487,463     | 1,275,182     |
| Net cash flows from operating activities                            | 2,718,702     | 5,331,224     |
| <b>Cash flows from non-capital and related financing activities</b> |               |               |
| Other non-operating   | 1,368,778     | (296,141)     |
| <b>Cash flows from investing activities</b>                         |               |               |
| Purchases of investments  | (764,843)     | (6,240,197)   |
| Proceeds from sale of investments                                   | 764,843       | 6,240,197     |
| Investment earnings   | 39,072        | 20,106        |
| Net cash flows from investing activities                            | 39,072        | 20,106        |
| <b>Cash flows from capital and related financing activities</b>     |               |               |
| Payments on long-term debt  | (4,277,119)   | (806,661)     |
| Issuance on long-term debt  | 15,872,098    | 270,000       |
| Interest paid   | (185,436)     | (126,174)     |
| Acquisition of capital assets                                       | (5,656,393)   | (3,669,949)   |
| Net cash flows from capital and related financing activities        | 5,753,150     | (4,332,784)   |
| Net change in cash and cash equivalents                             | 9,879,702     | 722,405       |
| <b>Cash and cash equivalents, beginning of year</b>                 | 12,447,773    | 11,725,368    |
| <b>Cash and cash equivalents, end of year</b>                       | \$ 22,327,475 | \$ 12,447,773 |
| <b>Reconciliation of cash and cash equivalents</b>                  |               |               |
| Cash and cash equivalents   | \$ 1,360,123  | \$ 7,710,094  |
| Assets whose use is limited   | 20,967,352    | 4,737,679     |
| <b>Total cash and cash equivalents</b>                              | \$ 22,327,475 | \$ 12,447,773 |

*See accompanying notes to consolidated financial statements.*



# MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED MARCH 31, 2017 AND 2016

|  | 2017           | 2016         |
|--|----------------|--------------|
| <b>Cash flows from operating activities</b>  |                |              |
| Operating gain (loss)  | \$ (3,460,660) | \$ 3,073,183 |
| <b>Adjustments to reconcile operating gain (loss) to net cash from operating activities:</b> |                |              |
| Depreciation and amortization  | 2,995,065      | 2,737,108    |
| Provision for bad debts  | 2,682,426      | 2,101,940    |
| Pension expense  | 4,546,487      | 1,203,230    |
| <b>Changes in assets and liabilities</b>   |                |              |
| Patient accounts receivable  | (4,231,900)    | (3,937,049)  |
| Other receivables  | (264,922)      | 623,027      |
| Inventories  | (133,976)      | (67,667)     |
| Prepaid expenses and other current assets  | 66,657         | (61,208)     |
| Other assets   | (69,510)       | (13,336)     |
| Accounts payable   | 37,662         | 147,288      |
| Accrued expenses   | (180,719)      | 124,603      |
| Estimated third-party settlements  | 566,352        | (650,427)    |
| Compensated absences   | 165,740        | 50,532       |
| Net cash flow from operating activities  | \$ 2,718,702   | \$ 5,331,224 |

*See accompanying notes to consolidated financial statements.*

# MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2017 AND 2016

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### 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.

#### 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.

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# MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2017 AND 2016

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### Assets Whose Use is Limited

Assets whose use is limited consist of funds restricted in connection with the Organization's revenue bonds for the replacement, improvement, and expansion of facilities. Assets whose use is limited also includes 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. Permanent endowments are also included in assets whose use is limited, of which the interest is restricted for operations and capital improvements. Investment income is included in nonoperating gains (losses).

### Other Receivables

Other receivables include miscellaneous amounts due to the Organization including certain payments on behalf of physicians under various agreements. These advances are unsecured and are forgiven systematically in accordance with the agreements. Amounts to be forgiven within the next twelve months are classified as current receivables. Long-term receivables include those amounts to be forgiven more than twelve months from the balance sheet date. 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 ranging from 2 to 30 years. 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, 2017 AND 2016

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### 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 restricted for operations and capital improvements. Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

### 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.

# MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2017 AND 2016

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### 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 \$65,868,000 and \$52,962,000 during 2017 and 2016, respectively), an estimated \$198,000 and \$267,000 arose from providing services to charity patients during 2017 and 2016, 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 recognized through this program totaled approximately \$361,000 and \$110,000 for 2017 and 2016, respectively, and are reported as net patient service revenue in the financial statements.

### Federal Income Tax

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

### Electronic Health Records (EHR) Incentive Payments

In 2017 and 2016, 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 30<sup>th</sup>). 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.

# MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2017 AND 2016

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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 2017 and 2016, the Organization recognized approximately \$58,000 and \$326,000, 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 consolidated 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.

### Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 presentation in the accompanying consolidated financial statements. Such reclassifications did not impact the 2016 change in net position.

### Subsequent Events

The Organization has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued, which is July 27, 2017.

## 2. CHANGE IN ACCOUNTING PRINCIPLE

During 2017, the Organization implemented GASB Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduced the GAAP hierarchy to two categories of authoritative GAAP and addressed the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. There was no impact to these financial statement disclosures as a result of adoption of this standard.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2017 AND 2016

3. DEPOSITS AND INVESTMENTS

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

|   | 2017                 |                           | 2016                 |                           |
|---|----------------------|---------------------------|----------------------|---------------------------|
|   | Fair Value           | Amortized Historical Cost | Fair Value           | Amortized Historical Cost |
| Demand deposits and money market deposit accounts | \$ 21,562,632        | \$ 21,562,632             | \$ 6,207,576         | \$ 6,207,576              |
| Certificates of deposit                           | 764,843              | 764,843                   | 6,240,197            | 6,240,197                 |
| <b>Total</b>                                      | <b>\$ 22,327,475</b> | <b>\$ 22,327,475</b>      | <b>\$ 12,447,773</b> | <b>\$ 12,447,773</b>      |

|                                  | 2017                 |                           | 2016                 |                           |
|----------------------------------|----------------------|---------------------------|----------------------|---------------------------|
|                                  | Fair Value           | Amortized Historical Cost | Fair Value           | Amortized Historical Cost |
| Amounts summarized by fund type- |                      |                           |                      |                           |
| General funds:                   |                      |                           |                      |                           |
| Cash                             | \$ 1,360,123         | \$ 1,360,123              | \$ 7,710,094         | \$ 7,710,094              |
| Assets whose use is limited      | 20,967,352           | 20,967,352                | 4,737,679            | 4,737,679                 |
| <b>Total</b>                     | <b>\$ 22,327,475</b> | <b>\$ 22,327,475</b>      | <b>\$ 12,447,773</b> | <b>\$ 12,447,773</b>      |

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, 2017 and 2016, the Organization had \$22,491,709 and \$12,694,342, 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, 2017          |                 |                 |                 |
| Certificates of deposit | \$ 764,843      | \$ 764,843      | \$ -            |
| March 31, 2016          |                 |                 |                 |
| Certificates of deposit | \$ 6,240,197    | \$ 6,240,197    | \$ -            |

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2017 AND 2016

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.

4. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

|                                   | 2017                | 2016                |
|-----------------------------------|---------------------|---------------------|
| Gross patient accounts receivable | \$ 23,808,336       | \$ 19,614,875       |
| Less allowance for:               |                     |                     |
| Uncollectible accounts            | (4,412,148)         | (3,886,667)         |
| Contractual adjustments           | (10,139,148)        | (8,020,642)         |
| Net patient accounts receivable   | <u>\$ 9,257,040</u> | <u>\$ 7,707,566</u> |

The mix of accounts receivable and gross revenues from patients and third-party payors in 2017 and 2016 follows:

|                      | 2017                   |                  | 2016                   |                  |
|----------------------|------------------------|------------------|------------------------|------------------|
|                      | Accounts<br>Receivable | Gross<br>Revenue | Accounts<br>Receivable | Gross<br>Revenue |
| Medicare             | 33%                    | 46%              | 27%                    | 44%              |
| Medicaid             | 13%                    | 11%              | 16%                    | 10%              |
| Self-pay             | 25%                    | 2%               | 26%                    | 2%               |
| Commercial and other | 29%                    | 41%              | 31%                    | 44%              |
|                      | <u>100%</u>            | <u>100%</u>      | <u>100%</u>            | <u>100%</u>      |



**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2017 AND 2016

5. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2017 was as follows:

|                                | 2016                 | Additions           | Retirements        | 2017                 |
|--------------------------------|----------------------|---------------------|--------------------|----------------------|
| Land                           | \$ 44,300            | \$ -                | \$ -               | \$ 44,300            |
| Land improvements              | 95,927               | -                   | (3,245)            | 92,682               |
| Buildings and improvements     | 28,010,627           | 668,895             | (44,493)           | 28,635,029           |
| Equipment                      | 19,020,476           | 4,473,162           | (508,406)          | 22,985,232           |
| Construction in process        | 626,182              | 514,336             | -                  | 1,140,518            |
| Total capital assets           | <u>47,797,512</u>    | <u>5,656,393</u>    | <u>(556,144)</u>   | <u>52,897,761</u>    |
| Less accumulated depreciation  |                      |                     |                    |                      |
| Land improvements              | 78,643               | 3,384               | (1,730)            | 80,297               |
| Buildings and improvements     | 19,786,737           | 841,104             | (44,029)           | 20,583,812           |
| Equipment                      | 11,548,574           | 2,150,577           | (472,506)          | 13,226,645           |
| Total accumulated depreciation | <u>31,413,954</u>    | <u>2,995,065</u>    | <u>(518,265)</u>   | <u>33,890,754</u>    |
| Capital assets, net            | <u>\$ 16,383,558</u> | <u>\$ 2,661,328</u> | <u>\$ (37,879)</u> | <u>\$ 19,007,007</u> |

Capital asset activity for the year ended March 31, 2016 was as follows:

|                                | 2015                 | Additions         | Retirements         | 2016                 |
|--------------------------------|----------------------|-------------------|---------------------|----------------------|
| Land                           | \$ 44,300            | \$ -              | \$ -                | \$ 44,300            |
| Land improvements              | 95,927               | -                 | -                   | 95,927               |
| Buildings and improvements     | 28,590,045           | 296,667           | (876,085)           | 28,010,627           |
| Equipment                      | 17,324,944           | 2,875,792         | (1,180,260)         | 19,020,476           |
| Construction in progress       | 128,692              | 497,490           | -                   | 626,182              |
| Total capital assets           | <u>46,183,908</u>    | <u>3,669,949</u>  | <u>(2,056,345)</u>  | <u>47,797,512</u>    |
| Less accumulated depreciation  |                      |                   |                     |                      |
| Land improvements              | 75,103               | 3,540             | -                   | 78,643               |
| Buildings and improvements     | 19,708,137           | 922,010           | (843,410)           | 19,786,737           |
| Equipment                      | 10,821,016           | 1,811,558         | (1,084,000)         | 11,548,574           |
| Total accumulated depreciation | <u>30,604,256</u>    | <u>2,737,108</u>  | <u>(1,927,410)</u>  | <u>31,413,954</u>    |
| Capital assets, net            | <u>\$ 15,579,652</u> | <u>\$ 932,841</u> | <u>\$ (128,935)</u> | <u>\$ 16,383,558</u> |

# MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2017 AND 2016

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### 6. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

For 2017 and 2016, approximately 57% and 54%, respectively, 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 2014. The Organization anticipates that settlements on open Medicaid cost reports will be insignificant.

#### 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.

#### 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.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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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 \$376,097 and \$318,918 at March 31, 2017 and 2016, respectively, and is included in other assets on the consolidated balance sheets. Gains from the Cancer Network included in nonoperating gains were \$57,179 and \$43,751 in 2017 and 2016, respectively.

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 \$752,383 and \$716,327 at March 31 2017 and 2016, respectively. These balances are included within other assets. During 2017 and 2016, the Organization recognized investment income from these entities of \$36,056 and \$33,186 respectively, which is included in nonoperating gains.

8. LONG-TERM LIABILITIES

Long-term debt activity for the year March 31, 2017 was as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Current Year<br/>Additions</u> | <u>Current Year<br/>Reductions</u> | <u>Ending Balance</u> | <u>Current<br/>Portion</u> |
|--|------------------------------|-----------------------------------|------------------------------------|-----------------------|----------------------------|
| Bonds and notes payable:   |                              |                                   |                                    |                       |                            |
| Series 2008A bond payable, bearing interest at 3.50%, refunded in 2017                           | \$ 4,010,647                 | \$ -                              | \$ (4,010,647)                     | \$ -                  | \$ -                       |
| Series 2016 bond payable, bearing interest at 1.94%  | -                            | 7,072,098                         | (107,228)                          | 6,964,870             | 287,396                    |
| Series 2017 bond payable, bearing interest at 1.94%  | -                            | 8,800,000                         | (69,743)                           | 8,730,257             | 308,302                    |
| Note payable, bearing interest at 3.14%, due in monthly installments of \$7,869 through May 2018 | 197,530                      | -                                 | (89,501)                           | 108,029               | 92,352                     |
| Total leases, bonds and notes payable  | <u>\$ 4,208,177</u>          | <u>\$ 15,872,098</u>              | <u>\$ (4,277,119)</u>              | <u>\$ 15,803,156</u>  | <u>\$ 688,050</u>          |

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Long-term debt activity for the year March 31, 2016 was as follows:

|   | Beginning<br>Balance | Current Year<br>Additions | Current Year<br>Reductions | Ending Balance      | Current<br>Portion |
|---|----------------------|---------------------------|----------------------------|---------------------|--------------------|
| Bonds and notes payable:  |                      |                           |                            |                     |                    |
| Series 2008A bond payable, bearing interest at 3.50%, due in semiannual installments of \$165,684 through July 2033 | \$ 4,239,543         | \$ -                      | \$ (228,896)               | \$ 4,010,647        | \$ 190,558         |
| Series 2009 bond payable, bearing interest at 4.125%, repaid in 2016  | 505,295              | -                         | (505,295)                  | -                   | -                  |
| Note payable, bearing interest at 3.14%, due in monthly installments of \$7,869 through May 2018                    | -                    | 270,000                   | (72,470)                   | 197,530             | 89,501             |
| Total leases, bonds and notes payable   | <u>\$ 4,744,838</u>  | <u>\$ 270,000</u>         | <u>\$ (806,661)</u>        | <u>\$ 4,208,177</u> | <u>\$ 280,059</u>  |

The 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. These bonds were refunded with the issuance of the 2016 Hospital Facilities Revenue Bonds.

**2016 Hospital Facilities Revenue Bonds** - dated September 1, 2016, were issued in the amount of \$7,072,098 to refund the 2008A series bonds and finance the West Wing construction project. The bonds have monthly principal and interest payments that vary based on the variable interest rate. The bonds mature on September 7, 2038 and includes a lump-sum payment of \$1,684,494 at maturity. The interest rate on the variable rate debt was 1.94% at March 31, 2017. These bonds are secured by a pledge of certain certificates of deposits and the balance in the project service fund. The collateral balance at March 31, 2017 was approximately \$12,200,000.

**2017 Hospital Facilities Revenue Bonds** - dated January 1, 2017, were issued in the amount of \$8,800,000 to provide for additional financing for the West Wing construction project. The bonds have monthly principal and interest payments that vary based on the variable interest rate. The bonds mature on January 1, 2039 and includes a lump-sum payment of \$3,355,392 at maturity. The interest rate on the variable rate debt was 1.94% at March 31, 2017. These bonds are secured by a pledge of gross receipts of the Organization.

The 2017 and 2016 series bonds are subject to operational and financial covenants. Commencing with the fiscal year ending March 31, 2018 the Organization is required to maintain a fixed charge coverage ratio of not less than 1.35 and a ratio of total liabilities to net position ratio of not greater than 1.5 to 1.0.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**Note Payable** - The Organization entered into a \$270,000 installment note payable during 2016, proceeds from which were used to purchase an x-ray machine. The note has monthly payments of \$7,869 and a fixed interest rate of 3.14% until May 2018. The note is secured by related property with a net book value of \$316,827 at March 31, 2017.

The following is a schedule of principal and interest payments based on interest rates effective at March 31, 2017:

| Years Ended<br>March 31 | Bonds and Notes<br>Principal | Bonds and Notes<br>Interest | Interest Rate<br>Swap, Net |
|-------------------------|------------------------------|-----------------------------|----------------------------|
| 2018                    | \$ 688,050                   | \$ 268,384                  | \$ 67,263                  |
| 2019                    | 628,941                      | 256,002                     | 64,636                     |
| 2020                    | 630,279                      | 245,272                     | 61,932                     |
| 2021                    | 650,061                      | 234,296                     | 59,151                     |
| 2022                    | 669,347                      | 222,985                     | 56,285                     |
| 2023-2027               | 3,658,687                    | 933,193                     | 235,349                    |
| 2028-2032               | 3,856,472                    | 597,007                     | 150,062                    |
| 2033-2037               | -                            | 438,922                     | 110,035                    |
| 2038-2039               | 5,021,319                    | 151,750                     | 26,859                     |
| Total                   | <u>\$ 15,803,156</u>         | <u>\$ 3,347,811</u>         | <u>\$ 831,572</u>          |

9. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAPS

Contracts

The Organization has three interest rate swap agreements in effect at March 31, 2017 relating to the 2016 Hospital Facilities Revenue Refunding Bonds and 2017 Hospital Facilities Revenue Refunding Bonds.

Objectives

As a means to manage the risk associated with interest rate risk on its variable rate bonds, the Organization entered into an interest rate swap in connection with its 2016 and 2017 Hospital Facilities Revenue Refunding Bonds. These interest rate swaps are reflected at fair value in the balance sheets of \$428,576 and \$0 at March 31, 2017 and 2016, respectively. The intention of the swap agreements was to effectively change the Organization’s variable interest rate on the bonds to the fixed rates stated in the table below.

# MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2017 AND 2016

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### Terms, Fair Values and Credit Risk

The terms, fair values, and credit ratings of the outstanding swap as of March 31, 2017 are shown below. The notional amount of the swap is equal to the principal amount of the associated debt and declines with the principal amortization on the bonds.

| <u>Associated Bond Issue</u>                     | <u>Notional Amount</u> | <u>Effective Date</u> | <u>Fixed Rate</u> | <u>Variable Rate</u> | <u>Fair Value</u> | <u>Termination Date</u> | <u>Counterparty Credit Rating</u> |
|--|------------------------|-----------------------|-------------------|----------------------|-------------------|-------------------------|-----------------------------------|
| 2016 Hospital Facilities Revenue Refunding Bonds | \$ 3,811,287           | October 12, 2016      | 2.390%            | 1.94%                | \$ 113,499        | October 12, 2031        | BBB+/A-/A-                        |
| 2016 Hospital Facilities Revenue Refunding Bonds | \$ 3,153,583           | October 12, 2016      | 2.430%            | 1.94%                | \$ 110,978        | October 12, 2031        | BBB+/A-/A-                        |
| 2017 Hospital Facilities Revenue Refunding Bonds | \$ 6,748,824           | January 13, 2017      | 2.420%            | 1.94%                | \$ 204,099        | January 13, 2032        | BBB+/A-/A-                        |

The variable rate on the swap is the USD-LIBOR-BBA and the rate reset period is monthly for each swap agreement.

The counterparty carries a guarantee by an entity ("counterparty guarantor") and counterparty credit ratings are shown in the table above.

### Basis Risk

The swap and the bonds interest rates are both tied to the USD-LIBOR-BBA index, therefore basis risk relating to the swap is minimal.

### Termination Risk

The Organization or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative fair value, the Organization would be liable to the counterparty for a payment equal to the swap's fair value. The Organization believes nonperformance by the counterparty is remote.

### Swap Payments and Associated Debt

Using rates as of March 31, 2017, debt service requirements of the variable rate debt and net swap payments of the 2016 and 2017 Hospital Facilities Revenue Refunding Bonds, assuming current interest rates remain the same for the term of the bonds are disclosed in Note 8. As rates vary, variable-rate bond interest payments and net swap payments will vary.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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The Organization has determined the swap to be an effective hedge. Accordingly, the fair value of the swap has been recorded and subsequent changes in fair value will be recorded only in the consolidated balance sheet while the swap remains an effective hedge. Following is an analysis of the recording of the interest rate swap agreement:

|                               | Assets            |             |
|-------------------------------|-------------------|-------------|
|                               | 2017              | 2016        |
| Interest rate swap agreements | <u>\$ 428,576</u> | <u>\$ -</u> |
|                               | Deferred inflows  |             |
|                               | 2017              | 2016        |
| Deferred inflows              | <u>\$ 428,576</u> | <u>\$ -</u> |

**10. ACCRUED EXPENSES**

The details of accrued liabilities at March 31, 2017 and 2016 is as follows:

|                             | 2017                | 2016                |
|-----------------------------|---------------------|---------------------|
| Payroll and related amounts | \$ 1,177,012        | \$ 1,117,706        |
| Health insurance            | 656,353             | 475,000             |
| Pension                     | 450,073             | 407,763             |
| Interest                    | -                   | 42,111              |
| Franchise fee               | 57,108              | 546,138             |
| Other                       | 122,832             | 97,490              |
| Total accrued liabilities   | <u>\$ 2,463,378</u> | <u>\$ 2,686,208</u> |

**11. NET PATIENT SERVICE REVENUES**

Net patient service revenue consists of the following:

|                                   | 2017                 | 2016                 |
|-----------------------------------|----------------------|----------------------|
| Revenue:                          |                      |                      |
| Inpatient                         | \$ 29,878,360        | \$ 27,079,334        |
| Outpatient                        | 85,731,053           | 82,269,884           |
| Total patient revenue             | <u>115,609,413</u>   | <u>109,349,218</u>   |
| Revenue deductions:               |                      |                      |
| Contractual allowances            | 51,660,344           | 47,973,331           |
| Provision for bad debts           | 2,682,426            | 2,101,940            |
| Charity care                      | 347,187              | 513,448              |
| Total deductions                  | <u>54,689,957</u>    | <u>50,588,719</u>    |
| Total net patient service revenue | <u>\$ 60,919,456</u> | <u>\$ 58,760,499</u> |

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**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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12. OPERATING LEASE

The Organization has entered into an operating lease agreement for property which matures in July 2025. The following is a schedule of minimum operating lease payments by year as of March 31, 2017:

| Years Ending<br>March 31 | Minimum<br>Annual Lease<br>Payments |
|--------------------------|-------------------------------------|
| 2018                     | \$ 83,898                           |
| 2019                     | 83,898                              |
| 2020                     | 83,898                              |
| 2021                     | 83,898                              |
| 2022                     | 83,898                              |
| Thereafter               | 279,660                             |
|                          | <u>\$ 699,150</u>                   |

Total rental expense for operating leases, including those with terms of one year or less, for the years ended March 31, 2017 and 2016 were \$268,274 and \$282,159, and is included within other operating expenses in the consolidated statement of operations and changes in net position.

13. SOFTWARE LICENSING AGREEMENT.

In 2017, the Organization entered into a software licensing agreement with The Ohio State University (OSU) for the right to access and use a portion of the OSU electronic medical record system.

The agreement provided for the use of the system for a period of nine years. The initial implementation costs of \$2,637,476, payable to OSU, were paid in equal monthly installments for nine months beginning in February 2016. Additional implementation costs of \$154,775 relating to equipment and software from other parties were incurred in 2017. The implementation costs are considered an intangible assets and are included in capital assets on the consolidated balance sheets. The implementation costs are being amortized on a straight-line basis over the ten year term of the agreement. Amortization expense relating to implementation costs was \$93,075 and \$0 in 2017 and 2016, respectively.

Beginning in August 2017, the Organization will make monthly maintenance expense payments of \$69,220 for a period of nine years.



# MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2017 AND 2016

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### 14. 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– a defined contribution plan; and the Combined Plan– a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment 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. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2016.

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>, by writing to OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

#### Contribution Rates

Employee and member contribution rates are established by the OPERS Board and limited by Chapter 145 of the Ohio Revised Code. For 2016, employer rates for the State and Local Divisions were 14% of covered payroll (and 18.1% for the Law Enforcement and Public Safety Divisions). Member rates for the State and Local Divisions were 10% of covered payroll (13% for Law Enforcement and 12% for Public Safety).

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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The Organization’s contributions to the plans are as follows:

|   | 2017 (*)     | 2016 (*)     |
|---|--------------|--------------|
| Statutory required contributions                    | \$ 2,646,404 | \$ 2,451,120 |
| Contributions in relation to required contributions | 2,646,404    | 2,451,120    |
| Contribution excess/deficiency                      | <u>\$ -</u>  | <u>\$ -</u>  |

(\*) - Includes both pension and healthcare required contributions

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

In accordance with GASB Statement No. 68, employers participating in cost-sharing multiple-employer plans are required to recognize a proportionate share of the collective net pension liabilities of the plans. Although changes in the net pension liability generally are recognized as pension expense in the current period, GASB 68 requires certain items to be deferred and recognized as expense in future periods. Deferrals for differences between projected and actual investment returns are amortized to pension expense over five years. Deferrals for employer contributions subsequent to the measurement date are amortized in the following period (one year). Other deferrals are amortized over the estimated remaining service lives of both active and inactive employees (amortization periods range from 3 to 9 years).

The collective net pension assets and liabilities of the retirement systems and the System’s proportionate share of these net pension assets and liabilities, as of March 31, 2017 and 2016 are as follows:

|  | 2017                 | 2016                 |
|--|----------------------|----------------------|
| Net pension liability - all employers            | \$ 22,708,299,469    | 17,321,260,626       |
| Proportion of the net pension liability - System | 0.133979%            | 0.130522%            |
| Proportionate share of net pension liability     | <u>\$ 30,424,353</u> | <u>\$ 22,608,056</u> |
|  | 2017                 | 2016                 |
| Net pension asset - all employers                | \$ 56,073,439        | 48,662,087           |
| Proportion of the net pension asset - System     | 0.177972%            | 0.181150%            |
| Proportionate share of net pension asset         | <u>\$ 99,795</u>     | <u>\$ 88,151</u>     |

The increase in the pension liability is primarily related to a decrease in the discount rate from 8% to 7.5%.

Pension expense for the years ending March 31, 2017 and 2016 was \$6,809,145 and \$3,202,256, respectively.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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At March 31, 2017 and 2016, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | <u>2017</u>          | <u>2016</u>         |
|--|----------------------|---------------------|
| Deferred outflows of resources:  |                      |                     |
| Net difference between projected and actual earnings on pension plan assets            | \$ 4,956,342         | \$ 6,683,417        |
| Difference between expected and actual experience                                      | 42,853               | -                   |
| Actuarial assumption changes   | 4,850,305            | -                   |
| Change in proportionate share  | 333,460              | 74,030              |
| Difference between Organization contributions and proportionate share of contributions | 37,306               | -                   |
| Employer contributions subsequent to the measurement date                              | 569,914              | 494,776             |
| Total  | <u>\$ 10,790,180</u> | <u>\$ 7,252,223</u> |
|  |                      |                     |
|  | <u>2017</u>          | <u>2016</u>         |
| Deferred inflows of resources:   |                      |                     |
| Net difference between projected and actual earnings on pension plan assets            | \$ 534,956           | \$ -                |
| Difference between expected and actual experience                                      | 223,249              | 477,056             |
| Change in proportionate share  | 19,295               | 20,653              |
| Total  | <u>\$ 777,500</u>    | <u>\$ 497,709</u>   |

Net deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the years ending March 31 as follows:

|                     |                     |
|---------------------|---------------------|
| 2018                | \$ 3,953,724        |
| 2019                | 4,057,088           |
| 2020                | 1,586,623           |
| 2021                | (139,175)           |
| 2022                | (5,436)             |
| 2023 and Thereafter | (10,058)            |
| Total               | <u>\$ 9,442,766</u> |

Statutory Authority

Ohio Revised Code Chapter 145

# MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2017 AND 2016

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### Benefit Formula

Benefits are calculated on the basis of age, final average salary (FAS), and service credit. State and Local members in transition Groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for State and Local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of FAS multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for the calculation of the annual cost-of-living adjustment.

### Cost-of-Living Adjustments

Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual cost-of-living adjustment is provided on the member's base benefit.

### Measurement Date

December 31, 2016

### Actuarial Assumptions

Valuation Date: December 31, 2016

Actuarial Cost Method: Individual entry age

Investment Rate of Return: 7.50%

Inflation: 3.25%

Projected Salary Increases: 3.25% - 10.75% - Traditional Plan, 3.25% - 8.25% - Combined and Member-Directed Plans

Cost-of-Living Adjustments: 3.00% Simple through 2018, then 2.15% Simple

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL**

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Mortality Rates

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Date of Last Experience Study

Five year period ended December 31, 2015.

Investment Return Assumptions

The long term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. The following table displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

| Asset Class          | Target Allocation | Long Term Expected Return * |
|----------------------|-------------------|-----------------------------|
| Fixed Income         | 23.0%             | 2.75%                       |
| Domestic Equity      | 20.7%             | 6.34%                       |
| Real Estate          | 10.0%             | 4.75%                       |
| Private Equity       | 10.0%             | 8.97%                       |
| International Equity | 18.3%             | 7.95%                       |
| Other Investments    | 18.0%             | 4.92%                       |
| Total                | 100.0%            |                             |

\* Returns presented as arithmetic means

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL**

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Discount Rate

The discount rate used to measure the total pension liability was 7.5% for the Traditional Pension Plan, Combined Plan, and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. Due to the magnitude of the OPERS liability changes in discount rates have a significant impact to the net pension liability. Below represents the impact of a 1% increase or decrease in the discount rates.

Sensitivity of Net Pension Liability to Changes in Discount Rate

| 1% Decrease<br>6.5% | Current Rate<br>7.5% | 1% Increase<br>8.5% |
|---------------------|----------------------|---------------------|
| \$ 46,841,738       | \$ 30,424,353        | \$ 17,044,808       |

Sensitivity of Net Pension Asset to Changes in Discount Rate

| 1% Decrease<br>6.5% | Current Rate<br>7.5% | 1% Increase<br>8.5% |
|---------------------|----------------------|---------------------|
| \$ (8,899)          | \$ 99,795            | \$ 183,311          |

15. 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. Total health insurance expenses charged to operations, including an estimate of incurred but unreported claims, totaled \$3,036,113 and \$3,056,241 for the years ended March 31, 2017 and 2016, respectively.

# MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2017 AND 2016

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### 16. 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 year ended March 31, 2017 and 2016:

|                           | <u>2017</u>         | <u>2016</u>         |
|---------------------------|---------------------|---------------------|
| <b>Assets:</b>            |                     |                     |
| Total current assets      | \$ 1,038,797        | \$ 796,273          |
| Capital assets, net       | 302,481             | 336,410             |
| Other assets              | -                   | 23,725              |
|                           | <u>1,341,278</u>    | <u>1,156,408</u>    |
| <b>Liabilities:</b>       |                     |                     |
| Total current liabilities | <u>1,373,893</u>    | <u>431,644</u>      |
|                           | <u>1,373,893</u>    | <u>431,644</u>      |
| <b>Net position:</b>      |                     |                     |
| Total net position        | <u>(32,615)</u>     | <u>724,764</u>      |
|                           | <u>\$ 1,341,278</u> | <u>\$ 1,156,408</u> |

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2017 AND 2016

|  | 2017         | 2016         |
|--|--------------|--------------|
| <b>Operating revenues</b>                |              |              |
| Total operating revenues                 | \$ 5,633,026 | \$ 5,424,746 |
| <b>Operating expenses</b>                |              |              |
| Total operating expenses                 | 9,613,614    | 8,056,609    |
| <b>Loss from operations</b>              | (3,980,588)  | (2,631,863)  |
| <b>Nonoperating gains (losses)</b>       |              |              |
| Total nonoperating gains (losses)        | 73,209       | (50)         |
| <b>Transfer from affiliates</b>          | 3,150,000    | 3,025,000    |
| <b>Change in net position</b>            | (757,379)    | 393,087      |
| <b>Net position - beginning of year</b>  | 724,764      | 331,677      |
| <b>Net position - end of year</b>        | \$ (32,615)  | \$ 724,764   |
|  | 2017         | 2016         |
| <b>Cash provided by (used in):</b>       |              |              |
| Operating activities                     | \$ 193,617   | \$ 185,621   |
| Capital and related financing activities | 33,929       | (197,778)    |
| Total                                    | 227,546      | (12,157)     |
| <b>Cash - beginning of year</b>          | 44,817       | 56,974       |
| <b>Cash - end of year</b>                | \$ 272,363   | \$ 44,817    |

17. COMMITMENTS

The Organization has committed to constructing an approximately 67,000 square foot addition. The addition will focus on enhancing outpatient services, inpatient services and surgical services. Management estimates the total cost of the addition including building and selected equipment to be \$24,000,000. The addition is expected to be completed in 2018.



# MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2017 AND 2016

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### 18. 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.

### 19. 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. 82**, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, will be effective for the Organization's fiscal year ending March 31, 2018. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

# MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2017 AND 2016

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**GASB Statement No. 84, *Fiduciary Activities***, will be effective for the Organization's fiscal year ending March 31, 2020. The objective of this statement is to enhance the consistency and comparability of fiduciary activity reporting. The statement is also intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries.

**GASB Statement No. 85, *Omnibus 2017***, will be effective for the Organization's fiscal year ending March 31, 2019. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

**GASB Statement No. 87, *Leases***, will be effective for the Organization's fiscal year ending March 31, 2021. This statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provision of the contract. Under this statement the Organization will be required to recognize a lease liability and an intangible right-to-use lease asset for leases that have been traditionally classified as operating leases.

## MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

### SUPPLEMENTARY INFORMATION ON GASB 68 PENSION LIABILITIES (UNAUDITED) MARCH 31, 2017, 2016 AND 2015

| Schedule of Proportionate Share of the Net Pension Liability  | 2017                | 2016                | 2015                |
|---|---------------------|---------------------|---------------------|
| System proportion of the collective net pension liability   | 0.133979%           | 0.130522%           | 0.129625%           |
| System proportionate share of the net pension liability   | \$ 30,424,000       | \$ 22,608,000       | \$ 15,634,000       |
| System proportion of the collective net pension asset   | 0.177972%           | 0.181150%           | 0.132662%           |
| System proportionate share of the net pension asset   | \$ 100,000          | \$ 88,000           | \$ 51,000           |
| System covered-employee payroll   | \$ 18,103,000       | 17,334,000          | 16,277,000          |
| System proportionate share of the net pension liability as a percentage of its covered-employee payroll | 168.1%              | 130.4%              | 96.0%               |
| Plan fiduciary net position as a percentage of the total pension liability                              | 77.4%               | 81.2%               | 86.5%               |
| <b>Schedule of System Contributions</b>   |                     |                     |                     |
| Contractually required contribution   | \$ 2,268,000        | \$ 2,101,000        | \$ 1,996,000        |
| Contributions in relation to the contractually required contribution                                    | <u>\$ 2,268,000</u> | <u>\$ 2,101,000</u> | <u>\$ 1,996,000</u> |
| Contribution deficiency (excess)  | -                   | -                   | -                   |
| System covered employee payroll   | \$ 18,903,000       | 17,508,000          | 16,631,000          |
| Contributions as a percentage of covered-employee payroll   | 12.0%               | 12.0%               | 12.0%               |

Note: This schedule is intended to present ten years of the proportionate share of the net pension asset/liability. Currently, only those years with information available are presented.

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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**

To the Board of Governors:  
Mercer County Joint Township Community Hospital  
Coldwater, Ohio

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, 2017, 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 27, 2017.

***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 that are appropriate in the circumstances to the extent necessary to support our opinion on the 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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**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 first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

As part of reasonably assuring whether the Organization's 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***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 27, 2017



# 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  
OCTOBER 24, 2017**