MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

CPAs / ADVISORS

Dave Yost • Auditor of State

Board of Trustees
Mercer County Joint Township Community Hospital
800 West Main Street
Coldwater, OH 45828

We have reviewed the *Independent Auditor's Report* of Mercer County Joint Township Community Hospital, Mercer County, prepared by Blue & Co., LLC, for the audit period April 1, 2017 through March 31, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

September 25, 2018

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MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

TABLE OF CONTENTS
MARCH 31, 2018 AND 2017

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CPA s / ADVISORS

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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, 2018 and 2017, 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 such 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, 2018 and 2017, 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.

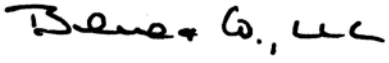
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, and schedule of pension assets, pension liabilities and pension contributions listed in the table of contents, to supplement the consolidated financial statements. Although this information is not part of the consolidated financial statements, the Governmental Accounting Standards Board considers it essential for placing the consolidated 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, to the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2018, 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.



Westerville, Ohio
July 24, 2018

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, 2018, 2017, and 2016. 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 decreased by $4,446,321 and total liabilities and deferrals decreased by $2,156,990 during the year ended March 31, 2018. Net position decreased $2,289,331 in fiscal year 2018. The decrease in net position was primarily related to the impact of Government Accounting Standards Board (GASB) Statement No. 68, which increased employee benefits expense by $2,563,408.

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 assets and 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 $22,875,286 reduction in the Organization's net position through March 31, 2018.

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.

The chart below summarizes our 2018 activity with and without the impact of GASB Statement No. 68.

	Impact in accordance with GAAP	Impact w/o GASB 68
Operating results		
Change in net position	$ (2,289,331)	$ 274,077
Net position		
Assets and deferrals	$ 61,365,620	$ 57,490,000
Liabilities and deferrals	51,743,646	24,992,740
Net position	9,621,974	32,497,260
Total liabilities and net position	$ 61,365,620	$ 57,490,000

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.

The Organization's Net Position

For the years ended March 31, 2018, 2017 and 2016 the implementation of GASB 68 significantly reduced unrestricted net position. For the year ended March 31, 2018 the Organization's expenses exceeded revenues and other support creating a decrease in net position of $2,289,331 compared to a $2,234,014 decrease in the previous year. The decrease in net position for 2018 was primarily driven by the impact of GASB 68. GASB 68 led to increases in operating expenses of $2,563,408 and $4,546,487 for 2018 and 2017, respectively.

Condensed Financial Information

The following is a comparative analysis of the major components of the balance sheets of the Organization as of March 31, 2018, 2017 and 2016:

	March 31		
	2018	2017	2016
Assets:			
Current assets	$ 14,258,724	$ 13,185,202	$ 18,082,727
Noncurrent assets	14,461,070	22,829,552	5,969,411
Capital assets, net	28,973,789	19,007,007	16,383,558
Deferred outflows-pension plans	3,672,037	10,790,180	7,252,223
Total assets and deferrals	$ 61,365,620	$ 65,811,941	$ 47,687,919
Liabilities:			
Current liabilities	$ 7,684,019	$ 5,030,161	$ 4,549,517
Long-term liabilities	38,138,157	47,664,399	28,495,374
Deferred inflows-interest rate swap	632,459	428,576	-
Deferred inflows-pension plans	5,289,011	777,500	497,709
Total liabilities and deferrals	$ 51,743,646	$ 53,900,636	$ 33,542,600
Net position:			
Unrestricted	$ (4,258,819)	$ 8,682,454	$ 1,944,938
Invested in capital assets - net of related debt	13,855,793	3,203,851	12,175,381
Restricted - nonexpendable permanent endowments	25,000	25,000	25,000
Total net position	$ 9,621,974	$ 11,911,305	$ 14,145,319

During 2018, current assets increased $1,073,522 or 8%, driven primarily by an increase in other receivables due to increased stop-loss claims receivable. Noncurrent and capital assets increased $1,598,300 during 2018 primarily due to the west wing expansion project. Deferred outflows-pension decreased $7,118,143 due to amortization of previous deferrals related to the OPERS Plan. Current liabilities increased $2,653,858 primarily due to an increase in accounts payable as a result of timing of payments and additional expense relating to the expansion project, and accrued expenses relating to health insurance payments. Long-term liabilities and deferrals decreased $4,810,848 due to a decrease in the net pension liability of $8,962,458, and an increase in the deferred inflow-pension plans of $4,511,511.

Operating Results and Changes in the Organization's Net Position

	Year Ended March 31		
	2018	2017	2016
Operating revenue			
Net patient service revenue	$ 63,406,153	$ 60,919,456	$ 58,760,499
Other operating revenue	1,356,037	1,487,463	1,275,182
Total operating revenues	64,762,190	62,406,919	60,035,681
Operating expenses			
Salaries and wages	25,669,110	24,502,147	23,005,735
Employee benefits	13,133,602 (&)	13,035,096 (^)	8,362,194 (#)
Supplies	7,157,640	7,468,846	6,864,664
Professional fees	9,570,712	8,883,522	7,774,018
Purchased services	1,469,681	1,916,522	1,563,657
Insurance	370,570	374,123	282,071
Depreciation and amortization	2,949,334	2,995,065	2,737,108
Franchise fee	692,552	677,600	657,172
Other operating expenses	6,824,943	6,014,658	5,715,879
Total operating expenses	67,838,144	65,867,579	56,962,498
Operating gain (loss)	(3,075,954)	(3,460,660)	3,073,183
Nonoperating gains (losses)			
Interest expense	(227,820)	(143,325)	(117,914)
Other gains (losses)	1,014,443	1,369,971	(404,970)
Total nonoperating gains (losses)	786,623	1,226,646	(522,884)
Change in net position	(2,289,331)	(2,234,014)	2,550,299
Net position, beginning of year	11,911,305	14,145,319	26,157,181
Cumulative effect of accounting change	-	-	(14,562,161)
Net position, end of year	$ 9,621,974	$ 11,911,305	$ 14,145,319

(&) 2018 employee benefits expense includes the GASB No. 68 impact of $2,563,408
(^) 2017 employee benefits expense includes the GASB No. 68 impact of $4,546,487
(#) 2016 employee benefits expense includes the GASB No. 68 impact of $1,203,230

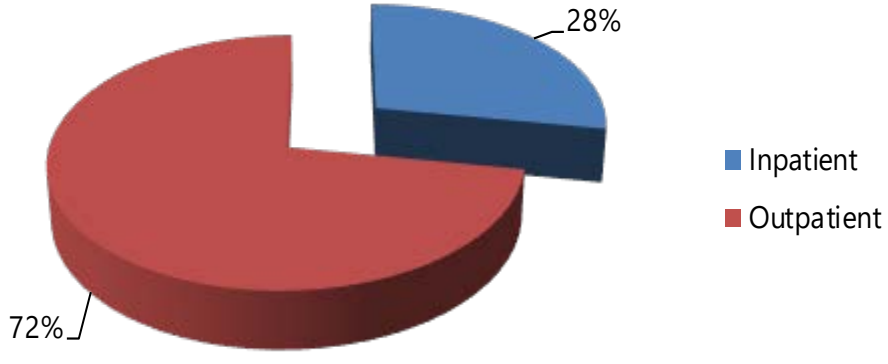
Operating Revenues

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 $2,486,697 or 4.1%, in 2018. 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 remained consistent between 2018 and 2017 at 47.3% of gross revenue.

- The following is a graphic illustration of patient revenues by source:



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 2017 to 2018 were the result of the following factors:

- Salaries and wages expense increased $1,166,963, or 4.8%, primarily as a result of an increase in full time equivalents and a pay rate increase of 2.2% in 2018 compared to 2017.

- Employee benefits expense increased $98,506, or .8%. The GASB 68 expense included in employee benefits expense decreased by $1,983,079, this decrease was offset by a $2,098,533 increase in health insurance claims experience.

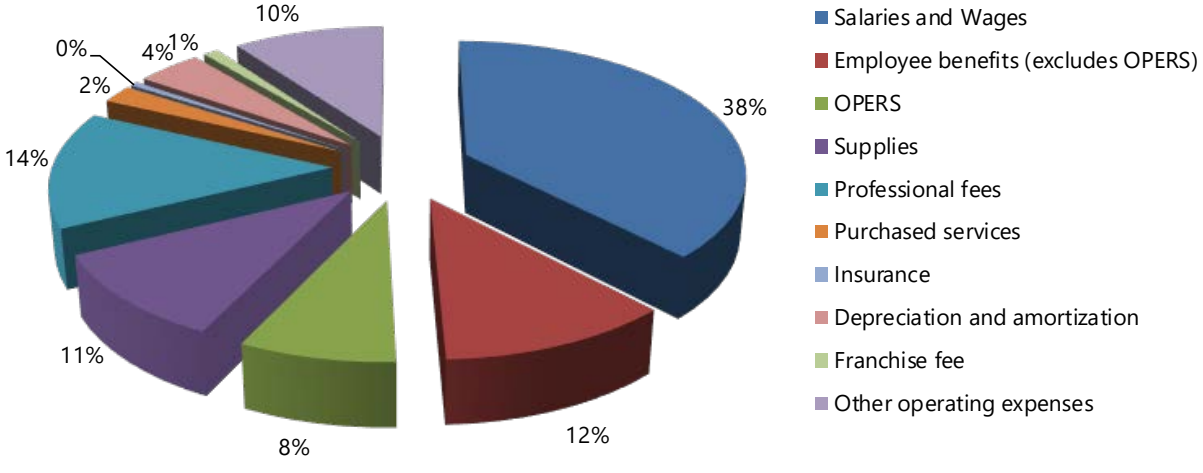
- Supplies expense decreased $311,206, or 4.2%, primarily due to a decrease in pharmaceutical drugs and a decline in average drug purchased during 2018 compared to 2017.

- Professional fees increased $687,190, or 7.7%, primarily due to an increase in coverage needed in Pain Management during 2018 and increased anesthesiologist locum usage by the Organization.

- Purchase services decreased $446,841 or 23.3%, primarily due to a reduction in legal fees.

- Other operating expenses increased $810,285 or 13.5%, primarily due to maintenance expense for the software implementation project.

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.

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		
	2018	2017	2016
Cash provided by (used in):			
Operating activities	$ 3,644,078	$ 2,718,702	$ 5,331,224
Non-capital and related financing activities	899,565	1,368,778	(296,141)
Investing activities	121,232	39,072	20,106
Capital and related financing activities	(13,835,450)	5,753,150	(4,332,784)
Total	(9,170,575)	9,879,702	722,405
Cash - beginning of year	22,327,475	12,447,773	11,725,368
Cash - end of year	$ 13,156,900 (&)	$ 22,327,475	$ 12,447,773

(&) Reduction in cash between years is related to the West Wing Expansion

Capital Asset and Debt Administration

Capital Assets

At March 31, 2018, the Organization had a total investment of $65,402,138 in gross capital assets and accumulated depreciation totaled $36,428,349, resulting in a net carrying value of $28,973,789. Depreciation and amortization expense for 2018 was $2,949,334 compared to $2,995,065 for 2017.

Debt

At March 31, 2018, the Organization had $15,117,996 in long-term debt outstanding compared to $15,803,156 at March 31, 2017. 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.

Economic Factors that Will Affect the Future

Financial Strength and Stability

For the fiscal year ending March 31, 2018, prior to the GASB 68 impact the Organization had a net gain of approximately $274,000. After offsetting this gain with the GASB 68 impact ($2,563,408 increase in pension expense) on the Organization, the Organization incurred a net loss of approximately $2,289,000. This fiscal year was challenging in that the Organization continued work on two major projects, namely the optimization of the EPIC electronic medical record and major construction work on the West Wing Expansion Project. Higher anesthesiologist locum tenum costs, significantly higher employee healthcare claims expense, increased provider practice placements, and higher employee staffing expenses, impacted the earnings for the fiscal year.

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 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 began in August 2017.

Since November 1, 2016, various departments have worked diligently to optimize the use of the EPIC system. This optimization review will continue into the upcoming fiscal year as the Organization strives to utilize best electronic medical record practices protocol to care for our patients. This EPIC electronic medical records system is projected to be used for at least the next 8-10 years.

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, repealing portions of Obamacare finally occurred in December 2017. The repeal focused on eliminating the individual mandate (requirements that everyone has health insurance starting in 2019). 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 the new federal legislation. Since the ACA has been integrated into the healthcare system, for over 8 years, it will not be totally replaced overnight. Finding agreement around how to unwind it and what to replace it with will take time.

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 high quality patient rankings and thus no penalties are being assessed against the Organization. Preliminary results indicate that the Organization may be awarded bonus incentives in 2018, but the amounts remain uncertain.

With regards to the Federal Budget discussion, President Trump signed the Bipartisan Budget Act of 2018 into law on February 9, 2018. The Act which was passed to fund the federal government and avoid short-term future government shutdowns includes a number of changes to the Internal Revenue Code. Some of the provisions included in the funding/spending bill could have an indirect or direct impact on the Organization. Listed below are some of the highlights that could impact the Organization. [1]

1. Appropriations
    a) $2 billion in both fiscal 2018 and 2019 to the **Veterans Affairs Department** to rebuild health clinics.
2. Children's Health Insurance Program
    a) **Extends funding** through fiscal 2024, tacking on four years to the reauthorization that was enacted in January.
3. Chronic Care Act
    a) Broadens opportunities for Medicare Advantage plans to offer **telehealth services** to beneficiaries.
4. Meaningful Use
    a) **Eliminates a requirement** that the CMS make health IT standards more stringent over time.
5. Medicare
    a) Kills the **Independent Payment Advisory Board.**
    b) Accelerates closure of the so-called **donut hole for Part-D** drug costs.
    c) Further slows the rollout of the **Merit-based Incentive Payment System.**

[1] Source: Modern Healthcare, February 12, 2018, page 7

6. Medicare Extenders
   a) Permanently repeals the cap for **outpatient therapy services.**
   b) Extends for five years **low-volume hospital payments.**

7. Providers
   a) Broadens ability of physicians assistants, nurse practitioners and others to participate in such things as **hospice care** and certain **rehabilitation services.**
8. Public Health
   a) **Lawmakers took a number of steps** to offset the increased healthcare spending, including **reducing the update for the physician fee schedule** in 2019, **reducing payments** for outpatient physical therapy and cutting $1.35 billion over 10 years from the **Prevention and Public Health Fund.**

Ohio Healthcare Legislation Issues

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

On July 1, 2017, Governor John R. Kasich signed into law FY 2018-2019 state budget ($133 billion two-year budget) that protects healthcare coverage for Ohioans with mental illness, drug addiction, and chronic illness while also cutting the state share of Medicaid 20% in 2018 and holding the rate of growth in per member spending below 2% each year. Governor Kasich also vetoed a Medicaid enrollment freeze provision contained within the law as well as vetoing a provision that would charge Medicaid enrollees monthly premiums through the "Healthy Ohio" program and raising taxes on health insurers to generate revenue for counties and regional transit authorities. [2]

However, Kasich's budget included no backup as President Trump and congressional Republicans followed through on repeal of the ACA whereby 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. [3]

Price Transparency Law

The Organization continues to monitor the status of legislation 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.

[2] Source: Cleveland Plain Dealer, July 1, 2017
[3] Source: The Columbus Dispatch, January 31, 2017

The law that passed unanimously a couple of years ago would allow patients to find out costs of medical procedures was never implemented due to numerous complaints from healthcare organizations as they did not have the ability to comply with the law's requirements. Thus, new legislation was introduced on November 15, 2017 that includes the following provisions: [4]

a) Requiring a healthcare provider, upon request, to provide a good-faith estimate for each scheduled service (a service or procedure scheduled at least seven days in advance).
b) Specifying that the estimate must contain the anticipated cost to the patient, as well as a notification if the provider is out-of-network.
c) Requiring a health plan issuer to provide good-faith estimate for each service that a provider seeks preauthorization.

The Organization will monitor the progress of this proposed legislation.

Franchise Fee

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 $693,000 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. In addition, the upper payment limits for 2018 were calculated to be $488.3 million statewide, which is $50 million (on 9.3%) lower than 2017 payments. Most hospitals will see a decline due to continued erosion of traditional Medicaid fee-for service volumes as the state moves more Medicaid beneficiaries into managed care programs.

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.

[4] Source: Ohio State Representative Stephen Huffman Press Release, November 15, 2017

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 April 2017 with an anticipated completion date in September 2018. Current dollar expenditure estimates for the building and related equipment is approximately $24 million.

Community Health Needs Assessment

During 2016, the Organization participated in the generation of a Community Health Improvement Plan (CHIP) report that was intended to help the Organization and community stakeholders better understand the health needs and priorities of Mercer County residents. The report will be used to track outcomes over time (May 2017 through December 2020) and to facilitate the development and implementation of strategic plans that meet the community's health needs.

A total of 2,500 addresses were randomly selected to participate in the survey with 492 responses for a margin of error of ±4.4% at the 95% confidence level. [5]

The report established 3 priorities that will be the focus of the subject area work groups. The priority 1 goal will review and establish goals related to Substance Abuse (Drugs and Alcohol), while priority 2 goal workgroup will focus on Nutrition and Weight Status with the work group for the priority 3 goal to focus on Mental Health.

Future Financial Overview

The current operating fiscal year (April 1, 2018 through March 31, 2019) will prove to be challenging (given anticipated Medicare cutbacks, dealing with other healthcare reform legislation, continuing to optimize the value of the EPIC electronic medical record system, and integrating the new West Wing into the Organization's daily operations), 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.

Specific goals for the Current Fiscal Year will focus on:

1. Achieve a best practices operating margin
2. Continue to optimize long-term solutions for our new electronic medical records system (EPIC)
3. Coordinate the completion of the West Wing Expansion Project by September 21, 2018 with an opening of the new wing for our patients to occur in October 2018.
4. Manage the construction expenses related to the West Wing Expansion Project
5. Grow volumes in specific departments through new business opportunities

[5] Source: Mercer County Community Health Needs Assessment and Improvement Plan – 2016

6. Provide for heightened levels of cost monitoring within the MEDF organization by implementing programs related to provider productivity (staff alignment ratios, and expense synergies.)
7. Recruit and actively integrate new physicians into the MEDF organization
8. Establish new cost monitoring programs regarding labor productivity and accounts receivable denial management.
9. Continue to utilize 2016 Community Health Needs Assessment to track health outcomes over time and to create the development and implementation of strategic plans that meet the community's health needs.

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, 2018 AND 2017

ASSETS

	2018	2017
Current assets		
Cash and cash equivalents	$ 1,107,258	$ 1,360,123
Patient accounts receivable, net of uncollectible accounts of $3,876,681 in 2018 and $4,412,148 in 2017	8,720,635	9,257,040
Other receivables	2,267,377	998,417
Estimated settlement amount due from third party payors	403,321	-
Inventories	1,446,010	1,303,220
Prepaid expenses and other current assets	314,123	266,402
Total current assets	14,258,724	13,185,202
Noncurrent assets		
Assets whose use is limited	12,049,642	20,967,352
Net pension asset	203,583	99,795
Other receivables	318,777	205,349
Interest rate swap	632,459	428,576
Other assets	1,256,609	1,128,480
Total noncurrent assets	14,461,070	22,829,552
Capital assets, net	28,973,789	19,007,007
Deferred outflow of resources - pension plans	3,672,037	10,790,180
Total assets and deferrals	$ 61,365,620	$ 65,811,941

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2018 AND 2017

LIABILITIES AND NET POSITION

	2018	2017
Current liabilities		
Accounts payable	$ 3,161,980	$ 1,620,912
Accrued expenses	3,908,775	2,463,378
Estimated amounts due to third party payors	-	257,821
Current portion of long-term debt	613,264	688,050
Total current liabilities	7,684,019	5,030,161
Long-term liabilities		
Compensated absences	2,171,530	2,124,940
Net pension liability	21,461,895	30,424,353
Long-term debt, net of current portion	14,504,732	15,115,106
Total long-term liabilities	38,138,157	47,664,399
Deferred inflow of resources		
Deferred inflow - interest rate swap	632,459	428,576
Deferred inflow - pension plans	5,289,011	777,500
Total deferred inflow of resources	5,921,470	1,206,076
Total liabilities and deferrals	51,743,646	53,900,636
Net position		
Unrestricted	(4,258,819)	8,682,454
Invested in capital assets - net of related debt	13,855,793	3,203,851
Restricted - nonexpendable permanent endowments	25,000	25,000
Total net position	9,621,974	11,911,305
Total liabilities, deferrals and net position	$ 61,365,620	$ 65,811,941

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, 2018 AND 2017

	2018	2017
Operating revenue		
Net patient service revenue	$ 63,406,153	$ 60,919,456
Other operating revenue	1,356,037	1,487,463
Total operating revenues	64,762,190	62,406,919
Operating expenses		
Salaries and wages	25,669,110	24,502,147
Employee benefits	13,133,602	13,035,096
Supplies	7,157,640	7,468,846
Professional fees	9,570,712	8,883,522
Purchased services	1,469,681	1,916,522
Insurance	370,570	374,123
Depreciation and amortization	2,949,334	2,995,065
Franchise fee	692,552	677,600
Other operating expenses	6,824,943	6,014,658
Total operating expenses	67,838,144	65,867,579
Operating loss	(3,075,954)	(3,460,660)
Nonoperating gains (losses)		
Interest expense	(227,820)	(143,325)
Other gains	1,014,443	1,369,971
Total nonoperating gains	786,623	1,226,646
Change in net position	(2,289,331)	(2,234,014)
Net position, beginning of year	11,911,305	14,145,319
Net position, end of year	$ 9,621,974	$ 11,911,305

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Cash received from patients and third-party payors	$ 63,281,416	$ 59,936,334
Cash payments to suppliers for services and goods	(26,246,058)	(25,699,360)
Cash payments to employees and related benefits	(34,747,317)	(33,005,735)
Other operating revenue	1,356,037	1,487,463
Net cash flows from operating activities	3,644,078	2,718,702
Cash flows from non-capital and related financing activities		
Other non-operating	899,565	1,368,778
Cash flows from investing activities		
Purchases of investments	(967,533)	(764,843)
Proceeds from sale of investments	967,533	764,843
Investment earnings	121,232	39,072
Net cash flows from investing activities	121,232	39,072
Cash flows from capital and related financing activities		
Payments on long-term debt	(685,160)	(4,277,119)
Issuance on long-term debt	-	15,872,098
Interest paid	(227,820)	(185,436)
Acquisition of capital assets	(12,922,470)	(5,656,393)
Net cash flows from capital and related financing activities	(13,835,450)	5,753,150
Net change in cash and cash equivalents	(9,170,575)	9,879,702
Cash and cash equivalents, beginning of year	22,327,475	12,447,773
Cash and cash equivalents, end of year	$ 13,156,900	$ 22,327,475
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	$ 1,107,258	$ 1,360,123
Assets whose use is limited	12,049,642	20,967,352
Total cash and cash equivalents	$ 13,156,900	$ 22,327,475

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Operating loss	$ (3,075,954)	$ (3,460,660)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	2,949,334	2,995,065
Provision for bad debts	2,776,221	2,682,426
Pension expense	2,563,408	4,546,487
Changes in assets and liabilities		
Patient accounts receivable	(2,239,816)	(4,231,900)
Other receivables	(1,382,388)	(264,922)
Inventories	(142,790)	(133,976)
Prepaid expenses and other current assets	(47,721)	66,657
Other assets	(128,129)	(69,510)
Accounts payable	1,541,068	37,662
Accrued expenses	1,445,397	(180,719)
Estimated third-party settlements	(661,142)	566,352
Compensated absences	46,590	165,740
Net cash flow from operating activities	$ 3,644,078	$ 2,718,702

See accompanying notes to consolidated financial statements.

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 net realizable value.

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 and stop-loss claim receivables. 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 acquisition 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 260 hours for sick leave.

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.

Loss from Operations

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

Pension Plan

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

Charity Care

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

Of the Organization's total reported operating expenses (approximately $67,838,000 and $65,868,000 during 2018 and 2017, respectively), an estimated $498,000 and $198,000 arose from providing services to charity patients during 2018 and 2017, 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 $74,000 and $361,000 for 2018 and 2017, 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, the Organization received EHR incentive payments under the Medicare and Medicaid programs. Medicare and Medicaid EHR incentive payments are expected in future periods. To qualify for these payments, the Organization must meet "meaningful use" criteria that become more stringent over time. The Organization periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (ending on September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Organization's cost reports. The payment calculation is based upon initial amount as adjusted for discharges, Medicare utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Organization recognizes EHR incentive payments as grant income when there is reasonable assurance that the Organization will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2018 and 2017, the Organization recognized approximately $0 and $58,000, 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.

New Accounting Standards

During 2018, the Hospital implemented GASB Statement No. 82 *Pension Issues* – an amendment of GASB Statements No. 67, No. 68, and No. 73. 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. There was no material impact to these financial statement disclosures as a result of adoption of this standard as these disclosures have been provided historically.

Reclassifications

Certain 2017 amounts have been reclassified to conform to the 2018 presentation in the accompanying consolidated financial statements. Such reclassifications did not impact the 2017 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 24, 2018.

2. DEPOSITS AND INVESTMENTS

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

	2018		2017	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Demand deposits and money market deposit accounts	$ 12,189,367	$ 12,189,367	$ 21,562,632	$ 21,562,632
Certificates of deposit	967,533	967,533	764,843	764,843
Total	$ 13,156,900	$ 13,156,900	$ 22,327,475	$ 22,327,475

	2018		2017	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-				
General funds:				
Cash	$ 1,107,258	$ 1,107,258	$ 1,360,123	$ 1,360,123
Assets whose use is limited	12,049,642	12,049,642	20,967,352	20,967,352
Total	$ 13,156,900	$ 13,156,900	$ 22,327,475	$ 22,327,475

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, 2018 and 2017, the Organization had $13,014,232 and $22,491,709, 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, 2018			
Certificates of deposit	$ 967,533	$ 967,533	$ -

	Carrying Amount	Maturities	
		< than one year	> than one year
March 31, 2017			
Certificates of deposit	$ 764,843	$ 764,843	$ -

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.

3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2018	2017
Gross patient accounts receivable	$ 20,360,348	$ 23,808,336
Less allowance for:		
Uncollectible accounts	(3,876,681)	(4,412,148)
Contractual adjustments	(7,763,032)	(10,139,148)
Net patient accounts receivable	$ 8,720,635	$ 9,257,040

The mix of accounts receivable and gross revenues from patients and third-party payors in 2018 and 2017 follows:

	2018		2017	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	26%	44%	33%	46%
Medicaid	10%	10%	13%	11%
Self-pay	32%	3%	25%	2%
Commercial and other	32%	43%	29%	41%
	100%	100%	100%	100%

4. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2018 was as follows:

	2017	Additions	Transfers	Retirements	2018
Land	$ 44,300	$ -	$ -	$ -	$ 44,300
Land improvements	92,682	5,800	-	-	98,482
Buildings and improvements	28,635,029	416,406	-	(19,068)	29,032,367
Equipment	22,985,232	416,129	280,287	(399,025)	23,282,623
Construction in process	1,140,518	12,084,135	(280,287)	-	12,944,366
Total capital assets	52,897,761	12,922,470	-	(418,093)	65,402,138
Less accumulated depreciation					
Land improvements	80,297	3,315	-	-	83,612
Buildings and improvements	20,583,812	876,529	-	(17,627)	21,442,714
Equipment	13,226,645	2,069,490	-	(394,112)	14,902,023
Total accumulated depreciation	33,890,754	2,949,334	-	(411,739)	36,428,349
Capital assets, net	$ 19,007,007	$ 9,973,136	$ -	$ (6,354)	$ 28,973,789

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

	2016	Additions	Transfers	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 progress	626,182	514,336	-	-	1,140,518
Total capital assets	47,797,512	5,656,393	-	(556,144)	52,897,761
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	31,413,954	2,995,065	-	(518,265)	33,890,754
Capital assets, net	$ 16,383,558	$ 2,661,328	$ -	$ (37,879)	$ 19,007,007

5. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

For 2018 and 2017, approximately 54% and 57%, 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 2015. 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.

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, percent of established charges, and prospectively determined daily rates.

6. OTHER ASSETS

The Organization is a member of the West Central Ohio Regional Healthcare Alliance, Ltd. (WCORHA) along with four other area hospitals. The Organization along with three other members of WCORHA 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 $441,799 and $376,097 at March 31, 2018 and 2017, respectively, and is included in other assets on the consolidated balance sheets. Gains from the Cancer Network included in nonoperating gains were $65,702 and $57,179 in 2018 and 2017, 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 $734,060 and $752,383 at March 31 2018 and 2017, respectively. These balances are included within other assets. During 2018 and 2017, the Organization recognized investment income (loss) from these entities of ($18,323) and $36,056 respectively, which is included in nonoperating gains (losses).

7. LONG-TERM LIABILITIES

Long-term debt activity for the year ending March 31, 2018 was as follows:

	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Bonds and notes payable:					
Series 2016 bond payable, bearing interest at 2.53%	$ 6,964,870	$ -	$ (287,396)	$ 6,677,474	$ 297,448
Series 2017 bond payable, bearing interest at 2.53%	8,730,257	-	(289,735)	8,440,522	315,816
Note payable, bearing interest at 3.14%, repaid in 2018	108,029	-	(108,029)	-	-
Total leases, bonds and notes payable	$ 15,803,156	$ -	$ (685,160)	$ 15,117,996	$ 613,264

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

	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
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	$ 4,208,177	$ 15,872,098	$ (4,277,119)	$ 15,803,156	$ 688,050

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 a portion of 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 2.53% at March 31, 2018. 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, 2018 was approximately $10,436,000.

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 2.53% at March 31, 2018. 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. 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.

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 was paid in full as of March 31, 2018.

The following is a schedule of principal and interest payments based on interest rates effective at March 31, 2018:

Years Ended March 31	Bonds and Notes Principal	Bonds and Notes Interest	Interest Rate Swap, Net
2019	$ 613,264	$ 375,416	$ (16,977)
2020	630,279	359,699	(16,263)
2021	650,061	343,530	(15,529)
2022	669,347	326,861	(14,772)
2023	689,246	309,697	(13,992)
2024-2028	3,767,939	1,272,512	(57,415)
2029-2033	3,057,974	781,867	(35,104)
2034-2038	-	637,546	(28,562)
2039	5,039,886	92,052	(4,087)
Total	$ 15,117,996	$ 4,499,180	$ (202,701)

8. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAPS

Contracts

The Organization has three interest rate swap agreements in effect at March 31, 2018 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 $632,459 and $428,576 at March 31, 2018 and 2017, 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.

Terms, Fair Values and Credit Risk

The terms, fair values, and credit ratings of the outstanding swap as of March 31, 2018 are shown below. The notional amount of the swap is equal to or less than the principal amount of the associated debt and declines with the principal amortization on the bonds.

Associated Bond Issue	Notional Amount	Effective Date	Fixed Rate	Variable Rate	Fair Value	Termination Date	Counterparty Credit Rating
2016 Hospital Facilities Revenue Refunding Bonds	$ 3,636,434	October 12, 2016	2.390%	2.53%	$ 168,374	October 12, 2031	BBB+/A-/A-
2016 Hospital Facilities Revenue Refunding Bonds	$ 3,041,040	October 12, 2016	2.430%	2.53%	$ 159,963	October 12, 2031	BBB+/A-/A-
2017 Hospital Facilities Revenue Refunding Bonds	$ 6,440,521	January 13, 2017	2.420%	2.53%	$ 304,122	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, 2018, 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 7. As rates vary, variable-rate bond interest payments and net swap payments will vary.

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	
	2018	2017
Interest rate swap agreements	$ 632,459	$ 428,576

	Deferred inflows	
	2018	2017
Deferred inflows	$ 632,459	$ 428,576

9. ACCRUED EXPENSES

The details of accrued liabilities at March 31, 2018 and 2017 is as follows:

	2018	2017
Payroll and related amounts	$ 1,215,893	$ 1,177,012
Health insurance	2,000,564	656,353
Pension	525,975	450,073
Franchise fee	58,742	57,108
Other	107,601	122,832
Total accrued liabilities	$ 3,908,775	$ 2,463,378

10. NET PATIENT SERVICE REVENUES

Net patient service revenue consists of the following:

	2018	2017
Revenue:		
Inpatient	$ 33,432,614	$ 29,878,360
Outpatient	86,891,807	85,731,053
Total patient revenue	120,324,421	115,609,413
Revenue deductions:		
Contractual allowances	53,259,494	51,660,344
Provision for bad debts	2,776,221	2,682,426
Charity care	882,553	347,187
Total deductions	56,918,268	54,689,957
Total net patient service revenue	$ 63,406,153	$ 60,919,456

11. 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, 2018:

Years Ending March 31	Minimum Annual Lease Payments
2019	$ 83,898
2020	83,898
2021	83,898
2022	83,898
2023	83,898
Thereafter	195,762
	$ 615,252

Total rental expense for operating leases, including those with terms of one year or less, for the years ended March 31, 2018 and 2017 were $128,332 and $268,274, and is included within other operating expenses in the consolidated statement of operations and changes in net position.

12. 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 $255,956 and $93,075 in 2018 and 2017, respectively.

Beginning in August 2017, the Organization began making monthly maintenance expense payments of $69,220 for a period of nine years. The monthly maintenance expense is subject to adjustment annually based on volumes and other factors. Management does not anticipate substantial adjustments to the maintenance expense over the remaining term of the contract.

13. 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, multi-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 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 is GASB Statement 45. Please see the Plan Statement in the OPERS 2016 Comprehensive Annual Financial Report for details.

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

OPERS issues a stand-along financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial/reports.shtml#CAFR, 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 2017, 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).

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0% during the calendar year 2017. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 was 4.0%.

The Organization's contributions to the plans are as follows:

	2018 (*)	2017 (*)
Statutory required contributions	$ 2,695,886	$ 2,646,404
Contributions in relation to required contributions	2,695,886	2,646,404
Contribution excess/deficiency	$ -	$ -

(*) - Includes both pension and healthcare required contributions

Pension Assets, 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 assets and liabilities of the plans. Although changes in the net pension assets and liabilities generally are recognized as pension income/expense in the current period, GASB 68 requires certain items to be deferred and recognized as income/expense in future periods. Deferrals for differences between projected and actual investment returns are amortized to pension income/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 Organization's proportionate share of these net pension assets and liabilities, as of March 31, 2018 and 2017 are as follows:

	2018	2017
Net pension liability - all employers	$ 15,688,061,327	22,708,299,469
Proportion of the net pension liability - Organization	0.136804%	0.133979%
Proportionate share of net pension liability	$ 21,461,895	$ 30,424,353

	2018	2017
Net pension asset - all employers	$ 139,622,518	56,073,439
Proportion of the net pension asset - Organization	0.145810%	0.177972%
Proportionate share of net pension asset	$ 203,583	$ 99,795

The decrease in the pension liability is primarily due to actual earnings on investments being greater than projected earnings on investments.

Pension expense for the years ending March 31, 2018 and 2017 was $5,066,731 and $6,809,145, respectively.

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

	2018	2017
Deferred outflows of resources:		
Net difference between projected and actual earnings on pension plan assets	$ -	$ 4,956,342
Difference between expected and actual experience	25,928	42,853
Actuarial assumption changes	2,533,479	4,850,305
Change in proportionate share	469,704	333,460
Difference between Organization contributions and proportionate share of contributions	28,937	37,306
Employer contributions subsequent to the measurement date	613,989	569,914
Total	$ 3,672,037	$ 10,790,180

	2018	2017
Deferred inflows of resources:		
Net difference between projected and actual earnings on pension plan assets	$ 4,785,600	$ 534,956
Difference between expected and actual experience	486,016	223,249
Change in proportionate share	17,395	19,295
Total	$ 5,289,011	$ 777,500

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

2019	$	(2,102,641)
2020		365,409
2021		2,044,726
2022		1,910,804
2023		6,095
2024 and Thereafter		6,571
Total	$	2,230,964

Statutory Authority

Ohio Revised Code Chapter 145

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, 2017

Actuarial Assumptions

Valuation Date: December 31, 2017
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

Mortality Rates

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

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

Asset Class	Target Allocation	Long Term Expected Return *
Fixed Income	23%	2%
Domestic Equity	19%	6%
Real Estate	10%	5%
Private Equity	10%	9%
International Equity	20%	8%
Other Investments	18%	5%
Total	100%	

* Returns presented as arithmetic means

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 6.5%	Current Rate 7.5%	1% Increase 8.5%
$ 38,110,858	$ 21,461,895	$ 7,581,678

Sensitivity of Net Pension Asset to Changes in Discount Rate

1% Decrease 6.5%	Current Rate 7.5%	1% Increase 8.5%
$ (111,750)	$ 203,583	$ 270,554

14. 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 $150,000. Total health insurance expenses charged to operations, including an estimate of incurred but unreported claims, totaled $5,134,999 and $3,036,113 for the years ended March 31, 2018 and 2017, respectively.

15. BLENDED COMPONENT UNIT

The consolidated financial statements include 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, 2018 and 2017:

	2018	2017
Assets:		
Total current assets	$ 1,242,597	$ 1,038,797
Capital assets, net	295,329	302,481
Other assets	80,750	-
Total assets	1,618,676	1,341,278
Liabilities:		
Total current liabilities	1,349,410	1,373,893
Total liabilities	1,349,410	1,373,893
Net position:		
Total net position	269,266	(32,615)
Total liabilities and net position	$ 1,618,676	$ 1,341,278

	2018	2017
Operating revenues		
Total operating revenues	$ 6,008,875	$ 5,633,026
Operating expenses		
Total operating expenses	10,200,479	9,613,614
Loss from operations	(4,191,604)	(3,980,588)
Nonoperating gains		
Total nonoperating gains	343,485	73,209
Transfer from affiliates	4,150,000	3,150,000
Change in net position	301,881	(757,379)
Net position - beginning of year	(32,615)	724,764
Net position - end of year	$ 269,266	$ (32,615)

	2018	2017
Cash provided by (used in):		
Operating activities	$ (275,241)	$ 193,617
Capital and related financing activities	7,152	33,929
Total	(268,089)	227,546
Cash - beginning of year	272,363	44,817
Cash - end of year	$ 4,274	$ 272,363

16. 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. As of March 31, 2018, approximately $16,100,000 has been capitalized relating to this project and an additional $7,900,000 is expected to be spent. The addition is expected to be completed in calendar year 2018.

17. 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.

18. 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* issued June 2015, will be effective for periods beginning after June 15, 2017. This standard, which is companion to Statement 74, establishes new reporting requirements for employers participating in OPEB plans. Similar to Statement 68, it will require employers in cost-sharing, multi-employer plans to record a liability (and related deferrals) for the employer's pro-rata share of net OPEB liabilities. It also expands disclosure and supplementary reporting requirements for employers participating in OPEB plans.

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.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements,* will be effective for the Organization's fiscal year ending March 31, 2020. The objective of this statement is to improve consistency of information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional information about debt.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

SUPPLEMENTARY INFORMATION ON GASB 68 PENSION ASSETS, PENSION LIABILITIES, AND PENSION CONTRIBUTIONS (UNAUDITED)
MARCH 31, 2018, 2017, 2016 AND 2015

Schedule of Proportionate Share of the Net Pension Liability	2018	2017	2016	2015
Organization proportion of the collective net pension liability	0.136804%	0.133979%	0.130522%	0.129625%
Organization proportionate share of the net pension liability	$ 21,462,000	$ 30,424,000	$ 22,608,000	$ 15,634,000
Organization proportion of the collective net pension asset	0.145810%	0.177972%	0.181150%	0.001327%
Organization proportionate share of the net pension asset	$ 204,000	$ 100,000	$ 88,000	$ 51,000
Organization covered payroll	$ 19,283,000	18,103,000	17,334,000	16,277,000
Organization proportionate share of the net pension liability as a percentage of its covered payroll	111.3%	168.1%	130.4%	96.0%
Plan fiduciary net position as a percentage of the total pension liability	84.9%	77.4%	81.2%	86.5%
Schedule of System Contributions				
Contractually required contribution	$ 2,503,000	$ 2,268,000	$ 2,101,000	$ 1,996,000
Contributions in relation to the contractually required contribution	$ 2,503,000	$ 2,268,000	$ 2,101,000	$ 1,996,000
Contribution deficiency (excess)	-	-	-	-
Covered payroll	$ 19,256,000	18,903,000	17,508,000	16,631,000
Contributions as a percentage of covered payroll	13.0%	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.

CPA s / ADVISORS

blue

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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, 2018, 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 24, 2018.

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.

Westerville, Ohio
July 24, 2018

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 9, 2018

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