MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2012 AND 2011

Dave Yost · Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Mercer County Joint Township Community Hospital, Mercer County, prepared by Blue & Co., LLC, for the audit period April 1, 2011 through March 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost
Auditor of State

October 16, 2012

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MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

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CPAS ADVISORS

blue

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheet for Mercer County Joint Township Community Hospital (the "Organization"), as of March 31, 2012 and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The 2011 financial statements of the Organization were audited by other auditors, whose report dated September 26, 2011, expressed an unqualified opinion on those statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of March 31, 2012, and its consolidated results of operations, changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2012, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through vii be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Blue & Co., LLC

June 27, 2012

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, 2012 and 2011. The financial statements reflect consolidated information for the Hospital and the Medical Educational Development Foundation Physicians Corporation. Management is responsible for the completeness and fairness of the financial statements and the related footnote disclosures along with this discussion and analysis.

Financial Highlights

The Organization's total assets increased by $980,328 and total liabilities decreased by $355,293 during the year ended March 31, 2012. Net assets increased $1,335,621 or 7.6%, in fiscal year 2012. The increase in net assets resulted primarily from the Organization's growth in operating revenues of $3,790,200 and control of operating expenses, which increased $1,828,080.

Using This Annual Report

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

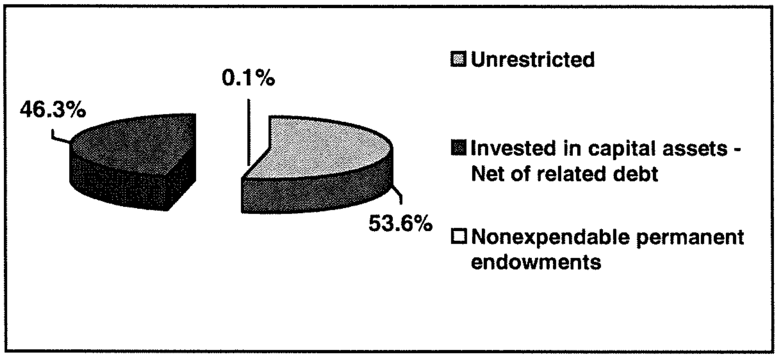
The Balance Sheet and Statement of Operations and Changes in Net Assets

One of the most important questions asked about the Organization's finances is, "Is the Organization as a whole better off or worse off as a result of last year's activities?" The balance sheet and statement of operations and changes in net assets report information about the Organization's resource and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Organization's net assets and changes in them. You can think of the Organization's net assets - 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 assets 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 Assets

The following chart provides a breakdown of net assets by category at March 31, 2012.



For the year ended March 31, 2012, the Organization's revenues and other support exceeded expenses creating an increase in net assets of $1,335,621 compared to a $580,327 decrease in the previous year.

Condensed Financial Information

The following is a comparative analysis of the major components of the balance sheets of the Organization as of March 31, 2012, 2011 and 2010:

	March 31		
	2012	2011	2010
Assets:			
Current assets	$ 9,494,183	$ 8,126,602	$ 9,152,418
Noncurrent assets	4,844,411	4,655,021	4,771,141
Capital assets, net	15,555,540	16,132,183	17,014,219
Total assets	$ 29,894,134	$ 28,913,806	$ 30,937,778
Liabilities:			
Current liabilities	$ 2,739,207	$ 2,938,568	$ 4,175,710
Long-term liabilities	8,179,484	8,335,416	8,541,919
Total liabilities	$ 10,918,691	$ 11,273,984	$ 12,717,629
Net assets:			
Unrestricted	$ 10,168,203	$ 8,212,415	$ 7,943,379
Invested in capital assets - net of related debt	8,782,240	9,402,407	10,251,770
Restricted - nonexpendable permanent endowments	25,000	25,000	25,000
Total net assets	$ 18,975,443	$ 17,639,822	$ 18,220,149

During 2012, current assets increased $1,367,581, or 16.8%, driven by an increase in cash and cash equivalents. Noncurrent and capital assets decreased $387,253, or 1.9%, during 2012 primarily due to a decrease in capital assets. Total liabilities decreased $355,293, or 3.2%, during the year due to a decrease in accounts payable during 2012. Net assets invested in capital assets, net of related debt, decreased primarily due to current year depreciation exceeding fixed asset additions.

Operating Results and Changes in the Organization's Net Assets

Operating Results and Changes in Net Assets

	Year Ended		
	2012	2011	2010
Operating revenue			
Net patient service revenue	$ 45,727,178	$ 41,598,402	$ 40,794,372
Other operating revenue	1,106,942	1,445,518	2,324,816
Total operating revenues	46,834,120	43,043,920	43,119,188
Operating expenses			
Salaries and wages	18,726,517	18,306,080	18,526,923
Employee benefits	7,635,423	6,785,128	6,611,916
Supplies	5,201,107	5,234,129	5,455,347
Professional fees	4,752,128	4,463,628	4,759,953
Purchased services	1,393,976	1,063,694	973,620
Insurance	245,669	428,421	244,295
Depreciation and amortization	1,943,480	2,082,175	2,068,543
Other operating expenses	5,303,709	5,010,674	4,851,895
Total operating expenses	45,202,009	43,373,929	43,492,492
Operating gain (loss)	1,632,111	(330,009)	(373,304)
Nonoperating gains (losses)			
Interest expense	(214,041)	(225,828)	(226,906)
Other gains (losses)	(82,449)	(24,490)	19,778
Total nonoperating gains (losses)	(296,490)	(250,318)	(207,128)
Change in net assets	1,335,621	(580,327)	(580,432)
Net assets, beginning of year	17,639,822	18,220,149	18,800,581
Net assets, end of year	$ 18,975,443	$ 17,639,822	$ 18,220,149

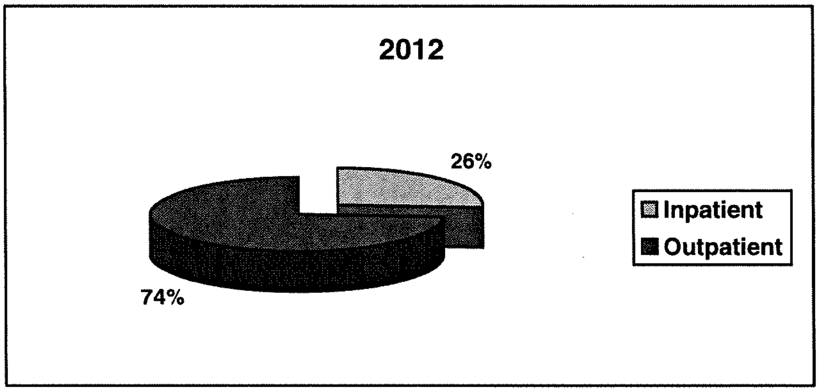
Operating Revenues

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 considered a contract for services.

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased $4,128,776, or 9.9%, in 2012. This was attributable to changes in patient volumes and rate increases offset by deductions from revenue. Gross patient revenue is reduced by revenue deductions in determining net patient revenue. These deductions include amounts not paid to the Organization under contractual arrangements primarily with Medicare, Medicaid, and commercial payors as well as amounts related to self-pay patients that qualify for charity write-offs based on pre-established financial need criteria and bad debts. These revenue deductions decreased from 49.4% in 2011 to 47.7% of gross revenue in 2012.

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

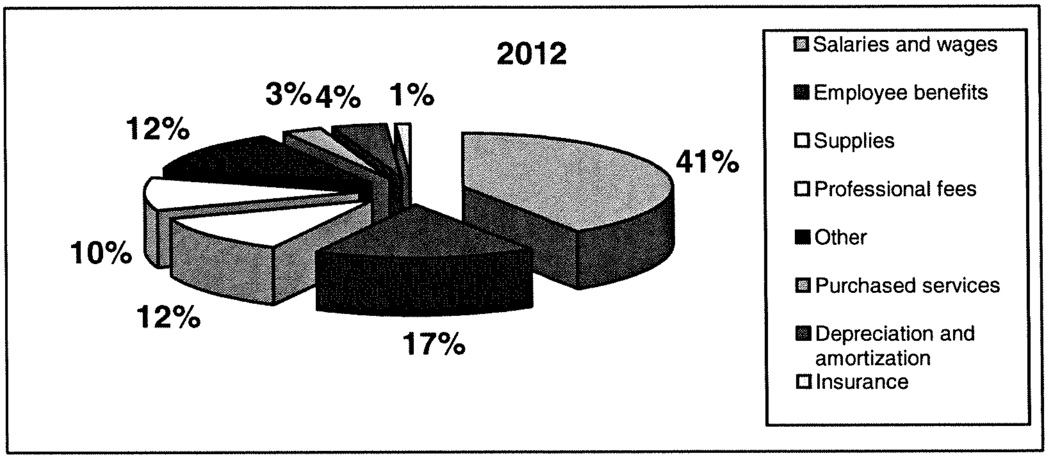


Operating Expenses

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 2011 to 2012 were the result of the following factors:

- Salaries and wages increased $420,437, or 2.3%, primarily as a result of more physicians in 2012 compared to 2011.
- Benefits expense increased approximately $850,295, or 12.5%, primarily due to an increase in health insurance claims.
- Professional fees expenses increased $288,500, or 6.5%, due to inflation and the Organization hiring certain employees rather than utilizing temporary staffing.
- Purchased services expense increased $330,282, or 31.1%, due to new laboratory and radiology services and increased consulting fees.
- Other operating expenses increased $293,035, or 5.8%, primarily as a result of increased franchise fees.

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



Non-operating Gains (Losses)

Non-operating gains and losses are all sources and uses that are primarily non-exchange in nature. They consist primarily of interest expense, joint venture gains (losses), contributions and interest income. The change in other non-operating gains (losses) from 2011 to 2012 was primarily due to West Central Ohio Regional Healthcare Alliance (WCORHA) losses, lower interest expense and increased contributions.

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 December 31		
	2012	2011	2010
Cash provided by (used in):			
Operating activities	$ 2,953,879	$ 1,050,063	$ 1,483,554
Non-capital and related financing activities	(107,831)	(47,316)	8,170
Investing activities	25,382	22,826	56,608
Capital and related financing activities	(1,538,201)	(1,536,914)	(1,644,484)
Total	1,333,229	(511,341)	(96,152)
Cash - beginning of year	4,840,092	5,351,433	5,447,585
Cash - end of year	$ 6,173,321	$ 4,840,092	$ 5,351,433

Capital Asset and Debt Administration

Capital Assets

At March 31, 2012, the Organization had a total investment of $42,983,999 in gross capital assets and accumulated depreciation totaled $27,428,459, resulting in a net carrying value of $15,555,540. Depreciation expense for 2012 was 1,936,604 compared to $2,069,576 for 2011.

Debt

At March 31, 2012, the Organization had $6,773,300 in long-term debt outstanding as compared to $6,729,776 at March 31, 2011. 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

During the most recent fiscal year, the Hospital experienced a significant improvement in its financial strength and stability. Much of this improvement was a result of a number of process redesign initiatives that focused on (1) enhancing various revenue cycle management programs, (2) implementing a documentation and coding project that led to case mix numbers more reflective of actual patient acuity, (3) installing a formal patient utilization/case management oversight review process, (4) installing increased accountability of department revenues and expenses, and (5) finalizing labor contract negotiations that moved the organization closer to industry norms of compensation and benefits. These process improvement initiatives along with aligning our work force to work volumes without layoffs via attrition and reallocating resources have established a foundation that serves as a strategy to help offset the many financial challenges that face a small community hospital such as Mercer County Joint Township Community Hospital.

The Hospital has also secured resolution of outstanding insurance claims and is actively working on renegotiating managed care contracts and enrolling in new managed Medicaid plans to enhance overall Hospital patient revenue.

Healthcare was disproportionately targeted for cuts in the 2011 Federal budget deficit debates. The Hospital continues to redesign processes, identify and provide cost effective services throughout the continuum of care as well as maintaining excellent acute care services. Significant infrastructure investments in physical, plant and technology will be required. Although the future of healthcare reform legislation is uncertain, the Hospital has identified areas of revenue at risk and initiated improvement strategies to minimize the potential for lost revenues.

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 Chief Financial Officer at 800 W. Main Street, Coldwater, Ohio 45828.

George C. Boyles
Vice President of Finance and Chief Financial Officer

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2012 AND 2011

ASSETS

	2012	2011
Current assets		
Cash and cash equivalents	$ 2,349,552	$ 1,031,324
Patient accounts receivable, net of uncollectible accounts of $2,861,341 in 2012 and $2,681,284 in 2011	5,483,274	5,690,556
Other receivables	393,223	262,282
Inventories	815,554	733,172
Prepaid expenses and other current assets	452,580	409,268
Total current assets	9,494,183	8,126,602
Assets whose use is limited	3,823,769	3,808,768
Capital assets, net	15,555,540	16,132,183
Other receivables	81,884	-
Other assets	938,758	846,253
Total assets	$ 29,894,134	$ 28,913,806

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2012 AND 2011

LIABILITIES AND NET ASSETS

	2012	2011
Current liabilities		
Accounts payable	$ 670,988	$ 1,147,301
Accrued expenses	1,461,623	1,241,660
Estimated third-party settlements	48,798	128,192
Current portion of long-term debt	557,798	421,415
Total current liabilities	2,739,207	2,938,568
Compensated absences	1,963,982	2,027,055
Long-term debt, net of current portion	6,215,502	6,308,361
Total liabilities	10,918,691	11,273,984
Net assets		
Unrestricted	10,168,203	8,212,415
Invested in capital assets - net of related debt	8,782,240	9,402,407
Restricted - nonexpendable permanent endowments	25,000	25,000
Total net assets	18,975,443	17,639,822
Total liabilities and net assets	$ 29,894,134	$ 28,913,806

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED MARCH 31, 2012 AND 2011

	2012	2011
Operating revenue		
Net patient service revenue	$ 45,727,178	$ 41,598,402
Other operating revenue	1,106,942	1,445,518
Total operating revenues	46,834,120	43,043,920
Operating expenses		
Salaries and wages	18,726,517	18,306,080
Employee benefits	7,635,423	6,785,128
Supplies	5,201,107	5,234,129
Professional fees	4,752,128	4,463,628
Purchased services	1,393,976	1,063,694
Insurance	245,669	428,421
Depreciation and amortization	1,943,480	2,082,175
Other operating expenses	5,303,709	5,010,674
Total operating expenses	45,202,009	43,373,929
Operating gain (loss)	1,632,111	(330,009)
Nonoperating gains (losses)		
Interest expense	(214,041)	(225,828)
Other gains (losses)	(82,449)	(24,490)
Total nonoperating gains (losses)	(296,490)	(250,318)
Change in net assets	1,335,621	(580,327)
Net assets, beginning of year	17,639,822	18,220,149
Net assets, end of year	$ 18,975,443	$ 17,639,822

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2012 AND 2011

	2012	2011
Cash flows from operating activities		
Cash received from patients and third-party payors	$ 45,855,066	$ 40,844,291
Cash payments to suppliers for services and goods	(17,803,079)	(21,424,662)
Cash payments to employees and related benefits	(26,205,050)	(19,815,084)
Other operating revenue	1,106,942	1,445,518
Net cash flows from operating activities	2,953,879	1,050,063
Cash flows from non-capital and related financing activities		
Other non-operating	(107,831)	(47,316)
Cash flows from investing activities		
Purchases of investments	(1,344,781)	(1,334,636)
Proceeds from sale of investments	1,344,781	1,334,636
Investment earnings	25,382	22,826
Net cash flows from investing activities	25,382	22,826
Cash flows from capital and related financing activities		
Payments on long-term debt	(450,025)	(518,332)
Interest paid	(214,041)	(225,828)
Proceeds from sale of capital assets	-	300
Acquisition of capital assets	(874,135)	(793,054)
Net cash flows from capital and related financing activities	(1,538,201)	(1,536,914)
Net change in cash and cash equivalents	1,333,229	(511,341)
Cash and cash equivalents, beginning of year	4,840,092	5,351,433
Cash and cash equivalents, end of year	$ 6,173,321	$ 4,840,092

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2012 AND 2011

	2012	2011
Cash flows from operating activities		
Operating gain (loss)	$ 1,632,111	$ (330,009)
Adjustments to reconcile operating gain (loss) to net cash from operating activities:		
Depreciation	1,936,604	2,069,576
Amortization	6,876	12,599
Loss on disposal of equipment	7,723	5,214
Provision for bad debts	2,785,204	2,777,933
Changes in assets and liabilities		
Patient accounts receivable	(2,577,922)	(2,245,670)
Other receivables	(212,825)	126,066
Inventories	(82,382)	(4,884)
Prepaid expenses and other current assets	(43,312)	(35,449)
Other assets	(99,381)	-
Accounts payable	(476,313)	(590,657)
Accrued expenses	219,963	(718,911)
Estimated third-party settlements	(79,394)	(15,745)
Compensated absences	(63,073)	-
Net cash flow from operating activities	$ 2,953,879	$ 1,050,063
Noncash investing and financing transactions:		
Assets acquired under capital lease obligation	$ 493,549	$ -
Note payable incurred for building purchase	$ -	$ 400,000

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 under the direction of an 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 (MEDF) Physicians Corporation. 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.

Assets Whose Use is Limited

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

Inventories

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

Enterprise Fund Accounting

The Organization uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* as amended, the Organization has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Unamortized Financing Costs

Costs incurred in obtaining long-term bond financing are being amortized over the period the obligations are outstanding. These amounts are included in Other assets. Amortization expense totaled $6,876 and $12,599 in 2012 and 2011, respectively.

Capital Assets

Capital assets are recorded at cost or, if donated, at fair value at the date of receipt. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which range from three to fifty years. Equipment under capital leases is amortized on the straight-line method over the related lease term. Such amortization is included in depreciation in the financial statements. Costs of the maintenance and repairs are charged to expense when incurred.

Other Receivables

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

Compensated Absences

Paid time off is charged to operations when earned. The earned and unused benefits are recorded as a liability in the financial statements. Employees accumulate vacation days and sick leave benefits at varying rates depending on years of service. Payment of accrued vacation days and accrued sick leave is based on the employee's rate of pay at the time of termination. Upon termination the maximum payout shall not exceed 240 hours for vacation time and 240 hours for sick leave.

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 Assets

Net assets of the Organization are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted nonexpendable net assets equal the principal portion of a permanent endowment received in 2006 for which the income is unrestricted as to use. Unrestricted net assets are remaining nets assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Income from Operations

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

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 $45,202,000 and $43,374,000 during 2012 and 2011, respectively), an estimated $591,000 and $670,000 arose from providing services to charity patients during 2012 and 2011, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Organization's total operating expenses divided by gross patient service revenue. The Organization participates in the Hospital Care Assurance Program (HCAP) which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled approximately $187,000 and $196,000 for 2012 and 2011, respectively.

Federal Income Tax

As a political subdivision, the Organization is exempt from taxation under Section 115 of the Internal Revenue Code.

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform with the 2012 presentation.

Subsequent Events

The Organization has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued, which is June 27, 2012.

2. DEPOSITS AND INVESTMENTS

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

	2012		2011	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Demand deposits and money market accounts	$ 4,828,540	$ 4,828,540	$ 3,505,456	$ 3,505,456
Certificates of deposit	1,344,781	1,344,781	1,334,636	1,334,636
Total	$ 6,173,321	$ 6,173,321	$ 4,840,092	$ 4,840,092

	2012		2011	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-				
General funds:				
Cash	$ 2,349,552	$ 2,349,552	$ 1,031,324	$ 1,031,324
Assets whose use is limited	3,823,769	3,823,769	3,808,768	3,808,768
Total	$ 6,173,321	$ 6,173,321	$ 4,840,092	$ 4,840,092

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, 2012 and 2011, the Organization had $5,914,552 and $4,590,092, 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, 2012			
Certificates of deposit	$ 1,344,781	$ 1,344,781	$ -

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 Section 135.32 of 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:

	2012	2011
Gross patient accounts receivable	$ 13,734,548	$ 13,474,537
Less allowance for:		
Uncollectible accounts	(2,861,341)	(2,681,284)
Contractual adjustments	(5,389,933)	(5,102,697)
Net patient accounts receivable	$ 5,483,274	$ 5,690,556

The mix of accounts receivable and gross revenues from patients and third-party payors in 2012 and 2011 follows:

	2012		2011	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	28%	41%	28%	41%
Medicaid	7%	8%	7%	8%
Self-pay	28%	5%	27%	5%
Commercial and other	37%	46%	38%	46%
	100%	100%	100%	100%

4. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2012 was as follows:

	2011	Additions	Retirements	2012
Land	$ 44,300	$ -	$ -	$ 44,300
Land improvements	83,890	-	-	83,890
Buildings and improvements	27,700,715	78,016	(12,277)	27,766,454
Equipment	15,058,014	1,289,668	(1,258,327)	15,089,355
Total capital assets	42,886,919	1,367,684	(1,270,604)	42,983,999
Less accumulated depreciation				
Land improvements	64,662	3,030	-	67,692
Buildings and improvements	16,552,993	943,694	(12,277)	17,484,410
Equipment	10,137,081	989,880	(1,250,604)	9,876,357
Total accumulated depreciation	26,754,736	1,936,604	(1,262,881)	27,428,459
Capital assets, net	$ 16,132,183	$ (568,920)	$ (7,723)	$ 15,555,540

Capital asset activity for the year ended March 31, 2011 was as follows:

	2010	Additions	Retirements	2011
Land	$ 44,300	$ -	$ -	$ 44,300
Land improvements	81,210	2,680	-	83,890
Buildings and improvements	27,159,863	674,520	(133,668)	27,700,715
Equipment	14,689,071	515,854	(146,911)	15,058,014
Total capital assets	41,974,444	1,193,054	(280,579)	42,886,919
Less accumulated depreciation				
Land improvements	61,775	2,887	-	64,662
Buildings and improvements	15,810,157	871,957	(129,121)	16,552,993
Equipment	9,088,293	1,194,732	(145,944)	10,137,081
Total accumulated depreciation	24,960,225	2,069,576	(275,065)	26,754,736
Capital assets, net	$ 17,014,219	$ (876,522)	$ (5,514)	$ 16,132,183

5. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

Approximately 49% 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 2008 and Medicaid cost reports have been settled through 2007.

Medicare

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

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.

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

6. OTHER ASSETS

The Organization is a member of the West Central Ohio Regional Healthcare Alliance, Ltd. (WCORHA) along with four other area hospitals. WCORHA operates a cancer center. The Organization has a 20% ownership in WCORHA which is accounted for on the equity method. The carrying amount of the Organization's equity interest in this entity is $0 at March 31, 2012 and 2011. Losses from WCORHA included in nonoperating gains (losses) were $234,368 and $70,000 in 2012 and 2011, respectively. The Organization also has a $200,000 note receivable from WCORHA included in other assets. The note carried interest at 2.77% at both March 31, 2012 and 2011. Interest income related to this note for 2012 and 2011 was approximately $6,500 and $12,000, respectively and is included within non-operating revenues on the statements of operations and changes in net assets. Accrued interest receivable related to this note was $92,273 and $85,766 in 2012 and 2011, 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 $426,770 and $378,330 at March 31 2012 and 2011, respectively. These balances are included within other assets. During 2012 and 2011, the Organization recognized investment income from these entities of $48,440 and $0, respectively, which is included in nonoperating gains (losses).

7. LONG-TERM LIABILITIES

Long-term debt activity for the year March 31, 2012 was as follows:

	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Leases, bonds and notes payable:					
Note payable, bearing interest at 6.5%, due in monthly installments of $4,443 through November 2014	$ 173,303	$ -	$ (43,330)	$ 129,973	$ 46,231
Note payable, bearing interest at 3.95%, due in monthly installments of $4,000 through December 2019	353,092	-	(34,675)	318,417	36,072
Series 2008A bond payable, bearing interest at 4.125%, due in semiannual installments of $165,684 through July 2033	4,803,465	-	(132,561)	4,670,904	138,134
Series 2009 bond payable, bearing interest at 4.125%, due in semiannual installments of $133,415 through February 2017	1,399,916	-	(210,584)	1,189,332	219,437
Capital lease obligation, bearing interest at 3.32%, due in monthly installments of $10,964 through February 2016	-	493,549	(28,875)	464,674	117,924
Total leases, bonds and notes payable	$ 6,729,776	$ 493,549	$ (450,025)	$ 6,773,300	$ 557,798

Long-term debt activity for the year March 31, 2011 was as follows:

	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Leases, bonds and notes payable:					
Note payable, bearing interest at 6.5%, due in monthly installments of $4,443 through November 2014	$ 213,913	$ -	$ (40,610)	$ 173,303	$ 43,330
Note payable, bearing interest at 3.95%, due in monthly installments of $4,000 through December 2019	-	400,000	(46,908)	353,092	34,675
Series 2008A bond payable, bearing interest at 4.125%, due in semiannual installments of $165,684 through July 2033	4,931,759	-	(128,294)	4,803,465	132,826
Series 2009 bond payable, bearing interest at 4.125%, due in semiannual installments of $133,415 through February 2017	1,601,702	-	(201,786)	1,399,916	210,584
Capital lease obligation, bearing interest at 4.42%, due in monthly installments of $9,361 through February 2011	100,734		(100,734)	-	-
Total leases, bonds and notes payable	$ 6,848,108	$ 400,000	$ (518,332)	$ 6,729,776	$ 421,415

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

2008A Hospital Facilities Revenue Bonds - dated July 1, 2008, were issued in the amount of $5,000,000 for the purpose of constructing an emergency room. The bonds have annual payments of $331,368 and a variable interest rate 4.125% until June 2013. Every five years thereafter, until the bonds mature the interest rate is adjusted based on 90% of the average 5-year constant maturity Treasury note. The bonds mature on July 1, 2033, and are subject to redemption at the option of the issuer on any interest payment date. The bonds are secured by all pledged receipts of the Organization.

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

In December 2009, the Organization entered into a note payable for $227,019, proceeds from which were used to purchase a patient monitoring system. The loan bears interest at 6.5% with monthly payments of $4,443 through November 2014 and is secured by the equipment.

In April 2010, the Organization entered into a note payable for $400,000, proceeds from which were used to purchase a building. The loan bears interest at 3.95% with monthly payments of $4,000 through December 2019 and is secured by the building.

The Organization entered into a capital lease for a CT Scanner in February 2012. This lease includes imputed interest at 3.32% with monthly payments of $10,964 through February 2016. Depreciation of the asset under the capital lease is included in depreciation expense. This agreement is secured by the equipment.

The following is a schedule of principal and interest payments:

	Long-term Debt	
Years Ended March 31	Principal	Interest
2013	$ 557,798	$ 273,287
2014	581,352	249,733
2015	587,721	225,299
2016	544,031	202,403
2017	459,771	182,367
2018-2022	1,045,942	740,748
2023-2027	1,134,003	522,840
2028-2032	1,393,266	263,578
2033-2034	469,416	19,985
Total	$ 6,773,300	$ 2,680,240

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

	2012
Cost of equipment under capital lease	$ 493,549
Lease accumulated depreciation	16,452
Net carrying amount	$ 477,097

8. ACCRUED LIABILITIES

The details of accrued liabilities at March 31, 2012 and 2011 are as follows:

	2012	2011
Payroll and related amounts	$ 388,148	$ 543,767
Health insurance	554,729	113,142
Workers' compensation premiums	44,260	38,242
Pension	324,513	318,949
Other	149,973	227,560
Total accrued liabilities	$ 1,461,623	$ 1,241,660

9. NET PATIENT SERVICE REVENUES

Net patient service revenue consists of the following:

	2012	2011
Revenue:		
Inpatient	$ 22,406,139	$ 21,442,251
Outpatient	64,955,284	60,833,557
Total patient revenue	87,361,423	82,275,808
Revenue deductions:		
Contractual allowances	37,707,729	36,629,289
Provision for bad debts	2,785,204	2,777,933
Charity care	1,141,312	1,270,184
Total deductions	41,634,245	40,677,406
Total net patient service revenue	$ 45,727,178	$ 41,598,402

10. OPERATING LEASES

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

Years Ending March 31		
2013	$	17,604
2014		17,604
2015		17,604
2016		17,604
2017		13,203
Total	$	83,619

Total rental expense for operating leases, including those with terms of one month or less, for the years ended March 31, 2012 and 2011 was $331,586 and $354,362, respectively, and were included within other expenses on the statements of operations and changes in net assets.

11. PENSION PLAN

The Organization contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost sharing multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan. The Combined Plan is a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For calendar year 2011, member and employer contribution rates were consistent across all three plans. The calendar year 2011 member contribution rates were 10.0% of covered payroll for members in state and local classifications.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In calendar year 2011, state and local employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Retirement Board is also authorized to establish rules for the retiree, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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

Years	Contribution
2012	$ 2,177,608
2011	$ 2,182,501
2010	$ 2,179,652

Organization contributions made to fund post-employment healthcare benefits approximated $622,000, $740,000 and $850,000 for 2012, 2011 and 2010, respectively, which are included in the table above.

The Health Care Preservation Plan adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

12. 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 $100,000 and an annual aggregate deductible and covered expenses of $4,759,751. Total health insurance expenses charged to operations, including an estimate of incurred but unreported claims, totaled $4,603,358 and $4,017,642 for the years ended March 31, 2012 and 2011, respectively.

13. 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.

CPAs ADVISORS

blue

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the consolidated financial statements of Mercer County Joint Township Community Hospital (the Organization) as of and for the year ended March 31, 2012, and have issued our report thereon dated June 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weakness have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in 2012-1 through 2012-4 in the accompanying schedule of findings and responses to be material weaknesses.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to the Organization's management in a separate letter dated June 27, 2012.

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

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

Blue & Co., LLC

June 27, 2012

Mercer County Joint Township Community Hospital
Schedule of Findings and Responses
Year Ended March 31, 2012

2012-1: Self-Insured Health Plan Accrual

Condition: The Organization provides health insurance to participating employees under a plan that is partially self-insured. The liability results from being self-insured and is composed of claims incurred and reported as well as estimated incurred but unreported claims.

Criteria: An incurred but not reported reserve related to health claims should be recorded.

Cause: The Organization has not historically recorded the estimate for incurred but unreported claims.

Effect: The effect of excluding the incurred but unreported health claims was to understate health claims expense and understate liabilities. The resulting misstatement was corrected during the audit.

Recommendation: We recommend that management evaluate and adjust the estimate for incurred but unreported health claims through the evaluation of claims lag information and industry averages as part of its monthly financial close process.

Management's Response: We will monitor and adjust the month end health claims accrual for incurred but not reported claims as part of the monthly financial statement close process.

2012-2: Long-Term Debt Reconciliation

Condition: The Organization's general ledger balance for a long-term debt agreement did not agree to the amount confirmed by the lending institution.

Criteria: Accounting records should accurately reflect obligations owed by the Organization.

Cause: The Organization was using an inaccurate amortization schedule related to this debt agreement.

Effect: The debt balance on the general ledger was overstated. The resulting misstatement was corrected during the audit.

Recommendation: We recommend obtaining or generating an updated amortization schedule that accurately amortizes the debt balance based upon the payment terms and expiration period in effect.

Management's Response: We will obtain and use an updated amortization schedule in our accounting for the debt agreement related to this comment.

Mercer County Joint Township Community Hospital
Schedule of Findings and Responses
Year Ended March 31, 2012

2012-3: Joint Venture Accounting

Condition: The Organization has entered into joint venture agreements which give it ownership interests in entities that require the equity method accounting. The Organization did not utilize equity method accounting with respect to joint ventures.

Criteria: The equity method of accounting consists of recording the initial investment in joint ventures at cost, with a subsequent adjustment to the investment account to recognize the Organization's equity share in the joint ventures.

Cause: The Organization did not update its initial investment in the joint ventures.

Effect: The Organization's accounting records did not properly reflect the interest in joint ventures. The investment balance and investment income were understated. The resulting misstatement was corrected during the audit.

Recommendation: We recommend obtaining the joint venture financial statements on a periodic basis and adjusting the Organization's investment accounts accordingly.

Management's Response: We will obtain and analyze the joint venture financial statements periodically throughout the year and adjust the related investment accounts as part of the reporting process.

2012-4: Physician Agreements

Condition: The Organization has agreements with medical students that require payment of education loans by the Organization in exchange for a commitment by the students to practice medicine in a manner and for the terms as defined in the agreements. The students vest, or earn forgiveness, of the paid amounts paid over specified service terms.

Criteria: Amounts paid under these agreements are recoverable in the event of non-performance by the student and represent an asset to the Organization.

Cause: The Organization expensed the payments as made rather than amortizing the amounts paid over the forgiveness period as defined in the related agreements.

Effect: Expenses were overstated and assets were understated. The resulting misstatement was corrected during the audit.

Recommendation: Physician agreements should be reviewed for these arrangements and payments accounted for and amortized over the forgiveness period as stipulated by the underlying agreements

Management's Response: We will enhance our review of future agreements for these types of terms and amortize amounts paid over the respective forgiveness periods.

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
NOVEMBER 8, 2012

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