

**MERCER COUNTY JOINT TOWNSHIP
COMMUNITY HOSPITAL**

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

CPAs / ADVISORS





Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Mercer County Joint Township Community Hospital, Mercer County, prepared by Blue & Co., LLC, for the audit period April 1, 2015 through March 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

October 28, 2016

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MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

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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 year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Organization as of March 31, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Change in Accounting Principle and Correction of an Error

As discussed in Note 2 to the financial statements, in 2016, the Organization adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of Governmental Accounting Standards Board Statement No. 68*. Our opinion is not modified with respect to this matter. Additionally, as discussed in note 2 to the financial statements, the previously issued 2016 and 2015 financial statements have been restated to correct a misstatement.

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 the *Supplementary Information on GASB 68 Pension Liabilities*, listed in the table of contents, to supplement the basic consolidated financial statements. Although this information is not part of the basic consolidated financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2016, 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.

Bene G., LLC

Columbus, Ohio

July 12, 2016, except for changes discussed in Note 2, as to which the date is October 20, 2016

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

The discussion and analysis of the Mercer County Joint Township Community Hospital (the Organization) consolidated financial statements provides an overview of the Organization's financial activities for the years ended March 31, 2016, and 2015. The financial statements reflect consolidated information for the Mercer County Joint Township Community Hospital (the Hospital) and the Medical Educational Development Foundation Physicians Corporation (MEDF). Management is responsible for the completeness and fairness of the consolidated financial statements and the related footnote disclosures along with this discussion and analysis.

Financial Highlights

The Organization's total assets and deferrals increased by \$10,529,509 and total liabilities and deferrals increased by \$22,541,371 during the year ended March 31, 2016. Net position decreased \$12,011,862 in fiscal year 2016. The decrease in net position resulted primarily from the Organization's adoption of new Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. This new standard requires governmental employers participating in defined-benefit pension plans to recognize liabilities for plans whose actuarial liabilities exceed the plan's net assets.

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 Balance Sheet and Statement of Operations and Changes in Net Position

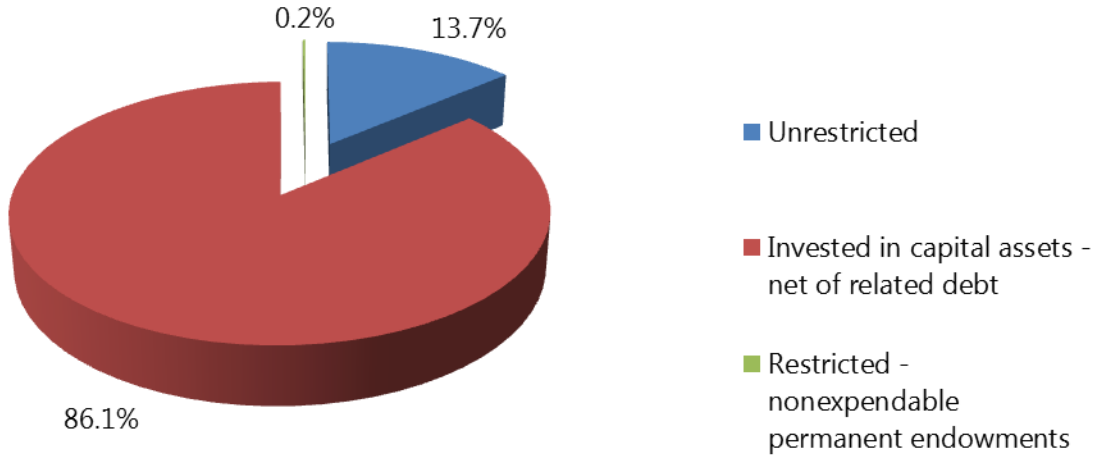
One of the most important questions asked about the Organization's finances is, "Is the Organization as a whole better off or worse off as a result of last year's activities?" The consolidated balance sheet and consolidated statement of operations and changes in net position report information about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

These two statements report the Organization's net position and changes in them. You can think of the Organization's net position - the difference between assets and liabilities - as one way to measure the Organization's financial health, or financial position. Over time, increases or decreases in the Organization's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Organization's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Organization.

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

The Organization's Net Position

The following chart provides a breakdown of net position by category at March 31, 2016.



For the year ended March 31, 2016 the implementation of GASB 68 significantly reduced unrestricted net position. For the year ended March 31, 2016 and 2015, the Organization's revenues and other support exceeded expenses.

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

Condensed Financial Information

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

	March 31	
	2016	2015 (*)
Assets:		
Current assets	\$ 18,082,727	\$ 15,105,754
Noncurrent assets	5,969,411	6,473,004
Capital assets, net	16,383,558	15,579,652
Deferred outflows-pension	7,252,223	-
	<u>\$ 47,687,919</u>	<u>\$ 37,158,410</u>
Liabilities:		
Current liabilities	\$ 4,549,517	\$ 4,751,211
Long-term liabilities	28,495,374	6,250,018
Deferred inflows-pension	497,709	-
	<u>\$ 33,542,600</u>	<u>\$ 11,001,229</u>
Net position:		
Unrestricted	\$ 1,944,938	\$ 15,297,367
Invested in capital assets - net of related debt	12,175,381	10,834,814
Restricted - nonexpendable permanent endowments	25,000	25,000
	<u>\$ 14,145,319</u>	<u>\$ 26,157,181</u>

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

During 2016, current assets increased \$2,976,973 or 20%, driven primarily by an increase in cash and cash equivalents and patient accounts receivable. Noncurrent and capital assets increased \$300,313 during 2016 primarily due to capital asset purchases. Deferred outflows-pension increased \$7,252,223 relating the adoption of GASB 68. Total liabilities increased \$22,541,371 during the year due to the new net pension liability.

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

Operating Results and Changes in the Organization's Net Position

	Year Ended March 31	
	2016	2015 (*)
Operating revenue		
Net patient service revenue	\$ 58,760,499	\$ 53,609,945
Other operating revenue	1,275,182	2,306,197
Total operating revenues	60,035,681	55,916,142
Operating expenses		
Salaries and wages	23,005,735	21,141,198
Employee benefits	8,362,194	8,404,631
Supplies	6,864,664	6,504,382
Professional fees	7,774,018	6,467,887
Purchased services	1,563,657	1,383,673
Insurance	282,071	266,505
Depreciation and amortization	2,737,108	2,578,338
Other operating expenses	6,373,051	5,946,079
Total operating expenses	56,962,498	52,692,693
Operating gain	3,073,183	3,223,449
Nonoperating gains (losses)		
Interest expense	(117,914)	(209,013)
Other gains (losses)	(404,970)	(283,885)
Total nonoperating gains (losses)	(522,884)	(492,898)
Change in net position	2,550,299	2,730,551
Net position, beginning of year	26,157,181	23,426,630
Cumulative effect of accounting change	(14,562,161)	-
Net position, end of year	\$ 14,145,319	\$ 26,157,181

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

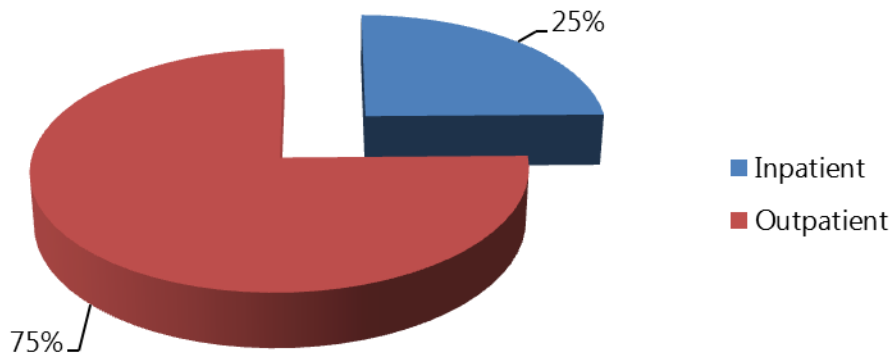
**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Operating Revenues

Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as inpatient services, outpatient services, physician offices, and the cafeteria. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are not to be utilized for long-term purposes.

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased \$5,150,554 or 9.6%, in 2016. 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 47.0% in 2015 to 46.3% of gross revenue in 2016.
- The following is a graphic illustration of patient revenues by source:



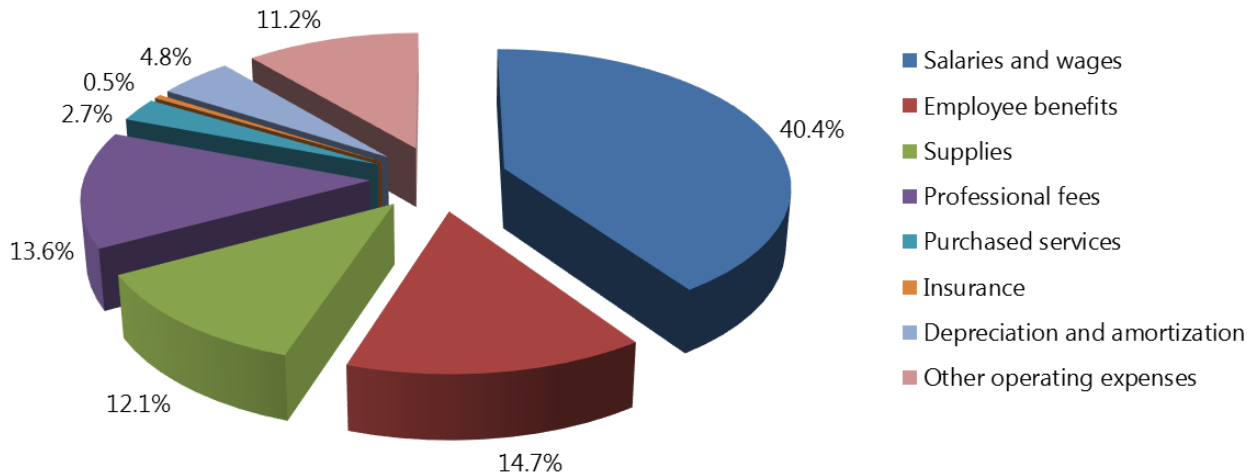
**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Organization. The significant operating expense changes from 2015 to 2016 were the result of the following factors:

- Salaries and wages expense increased \$1,864,537, or 8.8%, primarily as a result of an increase in full time equivalents and a pay rate increase of 3.0% in 2016 compared to 2015.
- Supplies expense increased \$360,282, or 5.5%, primarily due to an increase in patient volumes.
- Professional fees increased \$1,306,131, or 20.2%, primarily due to the implementation of a hospitalist program during 2016, increased surgical volumes, and increased volumes in rehabilitation services.

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



Non-operating Losses

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

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

Statement of Cash Flows

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

- An entity's ability to generate future net cash flows
- Its ability to meet its obligations as they come due
- Its needs for external financing

	Year Ended March 31	
	2016	2015 (*)
Cash provided by (used in):		
Operating activities	\$ 5,331,224	\$ 4,851,935
Non-capital and related financing activities	(296,141)	(208,254)
Investing activities	20,106	15,468
Capital and related financing activities	(4,332,784)	(3,427,364)
 Total	 722,405	 1,231,785
 Cash - beginning of year	 11,725,368	 10,493,583
 Cash - end of year	 \$ 12,447,773	 \$ 11,725,368

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

Capital Asset and Debt Administration

Capital Assets

At March 31, 2016, the Organization had a total investment of \$47,797,512 in gross capital assets and accumulated depreciation totaled \$31,413,954, resulting in a net carrying value of \$16,383,558. Depreciation expense for 2016 was \$2,737,108 compared to \$2,578,338 for 2015.

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

Debt

At March 31, 2016, the Organization had \$4,208,177 in long-term debt outstanding compared to \$4,744,838 at March 31, 2015. 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

During 2016, the Organization continued to experience a significant improvement in its financial strength and stability. Much of this improvement resulted from (1) higher out-patient and surgical volumes, (2) managing overall total Organization costs, (3) improving business process redesigns, where needed, (4) focusing on improving financial ratios, (5) implementation of new patient services, (6) fostering enhanced physician relationships, and (7) incorporating employee accountability into the day-to-day operations. These improvement initiatives, along with aligning our work force to service volumes (without layoffs), have established a foundation that serves as a strategy to help offset the many financial challenges that face a small community Organization such as Mercer County Joint Township Community Hospital.

With the Organization adopting, in 2016, the new GASB Statement No. 68, Accounting and Financial Reporting for Pensions, this new standard requires governmental employers participating in defined-benefit pension plans to recognize liabilities for plans whose actuarial liabilities exceed the plan's net assets. Although the liabilities recognized under GASB 68 meet the definition of a "liability" in its conceptual framework for accounting standards, they do not represent legal claims of the Organization's resources, and there are no cash flows associated with the recognition of net pension liabilities, deferrals and expense.

Operational Modifications/Process Redesigns

During the fiscal year, the Hospital successfully coordinated the development of a comprehensive team to deal with the issues associated with implementing the ICD-10 new coding system. Very few problems were experienced and the Hospital did not see a significant delay in cash receipts.

In November 2015, the Hospital 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 Hospital and ambulatory office environment. Implementation of the software has begun with a Hospital and ambulatory (physician offices) go-live installation by November 1, 2016.

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

Bundled Payments

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.

Healthcare Environment

The healthcare environment has and is scheduled to continue to change as the federal and state regulatory processes attempt to work with provisions of the Patient Protection and Affordable Care Act that was enacted in March 2010. Some of the provisions, which now are in effect, include reduced level of anticipated revenues to the Organization. These "revenue at risk" programs include value-based purchasing, thirty day readmissions, medicare sequestration, medical low volume adjustment, increased medicare recovery audit contractor (RAC) audits, home care revenue reductions, and potential physician revenue reductions. The Hospital has been able to concentrate on its overall quality metric scores and has experienced no penalties being assessed against the Hospital. Although the future of healthcare reform legislation continues to remain uncertain, the Organization has identified areas of revenue at risk and initiated improvement strategies to minimize the potential for lost revenues.

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

In addition, the state of Ohio, has utilized the franchise fee collected from Organizations to help offset financial deficiencies in the administration of the state's Medicaid program. Subsequent to March 31, 2016, the Organization's annual franchise fees were paid in the amount of a \$652,655.

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

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 54,000 square foot addition will begin to be constructed in the fall of 2016 with an anticipated completion date of February 2018. Current dollar expenditure estimates for the building and related equipment is approximately \$24 million.

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 SHEET MARCH 31, 2016

ASSETS

	<u>2016</u>
Current assets	
Cash and cash equivalents	\$ 7,710,094
Patient accounts receivable, net of uncollectible accounts of \$3,886,667	7,707,566
Other receivables	854,233
Estimated amounts due from third party payors	308,531
Inventories	1,169,244
Prepaid expenses and other current assets	333,059
Total current assets	<u>18,082,727</u>
Noncurrent assets	
Assets whose use is limited	4,737,679
Net pension asset	88,151
Other receivables	84,611
Other assets	1,058,970
Total noncurrent assets	<u>5,969,411</u>
Capital assets, net	16,383,558
Deferred outflow of resources	
Pension contributions subsequent to the measurement date	494,776
Net difference between projected and actual earnings on pension plan investments	6,683,417
Effect on change in allocation percentage	74,030
Total deferred outflow of resources	<u>7,252,223</u>
Total assets and deferrals	<u><u>\$ 47,687,919</u></u>

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED BALANCE SHEET MARCH 31, 2016

LIABILITIES AND NET POSITION

	2016
Current liabilities	
Accounts payable	\$ 1,583,250
Accrued expenses	2,686,208
Estimated amounts due to third party payors	-
Current portion of long-term debt	280,059
Total current liabilities	<u>4,549,517</u>
Long-term liabilities	
Compensated absences	1,959,200
Net pension liability	22,608,056
Long-term debt, net of current portion	3,928,118
Total long-term liabilities	<u>28,495,374</u>
Deferred inflow of resources	
Difference between expected and actual experience	477,056
Effect on change in allocation percentage	20,653
Total deferred inflow of resources	<u>497,709</u>
Total liabilities and deferrals	33,542,600
Net position	
Unrestricted	1,944,938
Invested in capital assets - net of related debt	12,175,381
Restricted - nonexpendable permanent endowments	25,000
Total net position	<u>14,145,319</u>
Total liabilities, deferrals and net position	<u><u>\$ 47,687,919</u></u>

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED MARCH 31, 2016

	2016
Operating revenue	
Net patient service revenue	\$ 58,760,499
Other operating revenue	1,275,182
Total operating revenues	<u>60,035,681</u>
Operating expenses	
Salaries and wages	23,005,735
Employee benefits	8,362,194
Supplies	6,864,664
Professional fees	7,774,018
Purchased services	1,563,657
Insurance	282,071
Depreciation and amortization	2,737,108
Other operating expenses	6,373,051
Total operating expenses	<u>56,962,498</u>
Operating gain	3,073,183
Nonoperating losses	
Interest expense	(117,914)
Other losses	(404,970)
Total nonoperating losses	<u>(522,884)</u>
Change in net position	2,550,299
Net position, beginning of year	26,157,181
Cumulative effect of accounting change	(14,562,161)
Net position, end of year	<u><u>\$ 14,145,319</u></u>

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED MARCH 31, 2016

	<u>2016</u>
Cash flows from operating activities	
Cash received from patients and third-party payors	\$ 56,274,963
Cash payments to suppliers for services and goods	(22,229,357)
Cash payments to employees and related benefits	(29,989,564)
Other operating revenue	<u>1,275,182</u>
Net cash flows from operating activities	5,331,224
 Cash flows from non-capital and related financing activities	
Other non-operating	(296,141)
 Cash flows from investing activities	
Purchases of investments	(6,240,197)
Proceeds from sale of investments	6,240,197
Investment earnings	<u>20,106</u>
Net cash flows from investing activities	20,106
 Cash flows from capital and related financing activities	
Payments on long-term debt	(806,661)
Issuance on long-term debt	270,000
Interest paid	(126,174)
Proceeds from the sale of capital assets	-
Acquisition of capital assets	<u>(3,669,949)</u>
Net cash flows from capital and related financing activities	<u>(4,332,784)</u>
 Net change in cash and cash equivalents	722,405
 Cash and cash equivalents, beginning of year	<u>11,725,368</u>
Cash and cash equivalents, end of year	<u><u>\$ 12,447,773</u></u>
 Reconciliation of cash and cash equivalents	
Cash and cash equivalents	\$ 7,710,094
Assets whose use is limited	<u>4,737,679</u>
 Total cash and cash equivalents	<u><u>\$ 12,447,773</u></u>

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED MARCH 31, 2016

	<u>2016</u>
Cash flows from operating activities	
Operating gain	\$ 3,073,183
Adjustments to reconcile operating gain to net cash from operating activities:	
Depreciation and amortization	2,737,108
Provision for bad debts	2,101,940
Pension expense	1,203,230
Changes in assets and liabilities	
Patient accounts receivable	(3,937,049)
Other receivables	623,027
Inventories	(67,667)
Prepaid expenses and other current assets	(61,208)
Other assets	(13,336)
Accounts payable	147,288
Accrued expenses	124,603
Estimated third-party settlements	(650,427)
Compensated absences	50,532
Net cash flow from operating activities	<u>\$ 5,331,224</u>

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity/Basis of Consolidation

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

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

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. The Organization follows the "business-type" activities reporting requirements of GASB Statement No. 34.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

Inventories

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

Assets Whose Use is Limited

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

Other Receivables

Other receivables include miscellaneous amounts due to the Organization including certain payments on behalf of physicians under various agreements. These advances are unsecured and are forgiven systematically in accordance with the agreements. Amounts to be forgiven within the next twelve months are classified as current receivables. Long-term receivables include those amounts to be forgiven more than twelve months from the balance sheet date. Should the arrangement between the Organization and the physician be terminated prior to the end date agreed upon by both parties, the Organization will pursue collection of any outstanding advances.

Capital Assets

Capital assets are recorded at cost or, if donated, at fair value at the date of receipt. Depreciation is computed by the straight-line method over the estimated useful lives of the assets ranging from 2 to 30 years. Costs of the maintenance and repairs are charged to expense when incurred.

Enterprise Fund Accounting

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

Compensated Absences

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

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

Patient Accounts Receivable and Net Patient Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others. Retroactive adjustments to these estimated amounts are recorded in future periods as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

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

Restricted Resources

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

Net Position

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

Income from Operations

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

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

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 \$56,962,000 during 2016), an estimated \$267,000 arose from providing services to charity patients during 2016. 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 \$110,000 for 2016, and is 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 2016, the Organization received EHR incentive payments under the Medicare and Medicaid programs. Medicare and Medicaid EHR incentive payments are expected in future periods. To qualify for these payments, the Organization must meet "meaningful use" criteria that become more stringent over time. The Organization periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (ending on September 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.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The Organization recognizes EHR incentive payments as grant income when there is reasonable assurance that the Organization will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2016, the Organization recognized approximately \$326,000 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.

Implementation of GASB Statement No. 68

In fiscal year 2016, the Organization implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71. GASB Statement No. 68 requires employers participating in cost-sharing multiple-employer pension plans to recognize a proportionate share of the net pension liabilities of the plans. The Organization participates in the Public Employees Retirement System of Ohio. A proportionate share of the net pension liabilities of the retirement system has been allocated to the Organization, based on retirement plan contributions for Organization employees. The cumulative effect of adopting GASB Statement No. 68 was a \$14,562,161 reduction in the Organization's net position as of March 31, 2015. Balances reported for the year ended March 31, 2015 have not been restated due to limitations on the information available from the retirement system. Additional information regarding net pension liabilities, related deferrals and pension expense is provided in Note 2.

Subsequent Events

The Organization has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued, which is July 12, 2016, except for changes discussed in Note 2, as to which the date is October 20, 2016.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2016

2. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2016, the Organization implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following cumulative effect on net position as a result of the accounting change:

	<u>2016</u>
Net pension asset	\$ 88,151
Net pension liability	(22,608,056)
Pension expense	1,203,230
Deferred inflows	(497,709)
Deferred outflows	<u>7,252,223</u>
Cumulative effect of accounting change	<u>\$ (14,562,161)</u>

The Organization has restated the previously issued 2016 and 2015 financial statements to remove the comparative 2015 financial statements. The 2015 financial statements were removed as it was not practical to determine the effects of GASB No. 68 as no evaluation was performed as of December 31, 2013. As noted above, the cumulative effect of the accounting change on the beginning net position for 2016 was a decrease of \$14,562,161 from \$26,157,181 to \$11,595,020.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

3. DEPOSITS AND INVESTMENTS

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

	2016	
	Fair Value	Amortized Historical Cost
Demand deposits and money market deposit accounts	\$ 6,207,576	\$ 6,207,576
Certificates of deposit	6,240,197	6,240,197
Total	\$ 12,447,773	\$ 12,447,773

	2016	
	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-		
General funds:		
Cash	\$ 7,710,094	\$ 7,710,094
Assets whose use is limited	4,737,679	4,737,679
Total	\$ 12,447,773	\$ 12,447,773

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, 2016, the Organization had \$12,694,342 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, 2016			
Certificates of deposit	\$ 6,240,197	\$ 6,240,197	\$ -

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

4. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2016
	<u> </u>
Gross patient accounts receivable	\$ 19,614,875
Less allowance for:	
Uncollectible accounts	(3,886,667)
Contractual adjustments	<u>(8,020,642)</u>
	<u> </u>
Net patient accounts receivable	<u>\$ 7,707,566</u>

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

	2016	
	<u> </u>	<u> </u>
	Accounts	Gross
	Receivable	Revenue
Medicare	27%	44%
Medicaid	16%	10%
Self-pay	26%	2%
Commercial and other	31%	44%
	<u>100%</u>	<u>100%</u>

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2016

5. CAPITAL ASSETS

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

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

6. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

Approximately 54% of the Organization’s revenues from patient services are received from the Medicare and Medicaid programs. The Organization has agreements with these payors that provide for reimbursement to the Organization at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Organization’s established rates for services and amounts reimbursed by third-party payors.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements. Medicare cost reports have been settled through 2014 and Medicaid cost reports have been settled through 2009.

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.

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Medicaid

Inpatient, acute-care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Capital costs relating to Medicaid inpatients are paid on a cost-reimbursement method. The Organization is reimbursed for outpatient services on an established fee-for-service methodology.

The Medicaid payment system in Ohio is prospective, whereby rates for the following state fiscal year beginning July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant change in rates, or the payment system itself, could have a material impact on the future Medicaid funding to providers.

Commercial Payors

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

7. OTHER ASSETS

The Organization is a member of the West Central Ohio Regional Healthcare Alliance, Ltd. along with four other area hospitals which assist in the daily operations of the Cancer Network of West Central Ohio ("Cancer Network"). In regards to the Cancer Network, the Organization maintains a 25% ownership which is accounted for on the equity method. The carrying amount of the Organization's equity interest in this entity is \$318,918 at March 31, 2016. Gains from the Cancer Network included in nonoperating losses were \$43,751 in 2016.

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 \$716,327 at March 31 2016. These balances are included within other assets. During 2016, the Organization recognized investment income from these entities of \$33,186 which is included in nonoperating losses.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8. LONG-TERM LIABILITIES

Long-term debt activity for the year March 31, 2016 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%, due in semiannual installments of \$165,684 through July 2033	\$ 4,239,543	\$ -	\$ (228,896)	\$ 4,010,647	\$ 190,558
Series 2009 bond payable, bearing interest at 4.125%, repaid in 2016	505,295	-	(505,295)	-	-
Note payable, bearing interest at 3.14%, due in monthly installments of \$7,869 through May 2018	-	270,000	(72,470)	197,530	89,501
Total leases, bonds and notes payable	<u>\$ 4,744,838</u>	<u>\$ 270,000</u>	<u>\$ (806,661)</u>	<u>\$ 4,208,177</u>	<u>\$ 280,059</u>

The bonds and notes payable are summarized as follows:

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

2009 Hospital Facilities Revenue Bonds - dated February 1, 2009, were issued in the amount of \$1,800,000 to finance new imaging equipment. These bonds were repaid in 2016.

Note Payable - The Organization entered into a \$270,000 installment note payable during 2016, proceeds from which were used to purchase an x-ray machine. The note has monthly payments of \$7,869 and a fixed interest rate of 3.14% until May 2018. The note is secured by related property with a net book value of \$385,473 at March 31, 2016.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The following is a schedule of principal and interest payments based on interest rates effective at March 31, 2016:

Years Ended March 31	Long-term Debt	
	Principal	Interest
2017	\$ 280,059	\$ 144,657
2018	289,688	135,028
2019	220,031	125,999
2020	211,623	118,671
2021	219,149	111,144
2022-2026	1,218,358	433,109
2027 - 2031	1,450,995	200,472
2032- 2034	318,274	8,409
Total	<u>\$ 4,208,177</u>	<u>\$ 1,277,489</u>

9. ACCRUED EXPENSES

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

	2016
Payroll and related amounts	\$ 1,117,706
Health insurance	475,000
Workers' compensation premiums	-
Pension	407,763
Interest	42,111
Franchise fee	546,138
Other	97,490
Total accrued liabilities	<u>\$ 2,686,208</u>

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

10. NET PATIENT SERVICE REVENUES

Net patient service revenue consists of the following:

	<u>2016</u>
Revenue:	
Inpatient	\$ 27,079,334
Outpatient	82,269,884
Total patient revenue	<u>109,349,218</u>
Revenue deductions:	
Contractual allowances	47,973,331
Provision for bad debts	2,101,940
Charity care	513,448
Total deductions	<u>50,588,719</u>
 Total net patient service revenue	 <u><u>\$ 58,760,499</u></u>

11. OPERATING LEASES

The Organization has entered into operating lease agreements for equipment that expire in fiscal year 2017. Net future minimum lease payments due in fiscal year 2017 total \$17,802. Total rental expense for operating leases, including those with terms of one year or less, for the year ended March 31, 2016 was \$282,159, and was included within other expenses in the consolidated statement of operations and changes in net position.

12. PENSION PLAN

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

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

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2016. Please see the Plan Statement in the OPERS 2013 Comprehensive Annual Financial Report for details.

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

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

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

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

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

	2016
Net pension liability - all employers	\$ 17,321,260,626
Proportion of the net pension liability - System	0.130522%
Proportionate share of net pension liability	<u>\$ 22,608,056</u>
	2016
Net pension asset - all employers	\$ 48,662,078
Proportion of the net pension asset - System	0.181150%
Proportionate share of net pension asset	<u>\$ 88,151</u>

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Pension expense for the year ending March 31, 2016 was \$3,202,256.

At March 31, 2016, the Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2016</u>
Deferred outflows of resources:	
Net difference between projected and actual earnings on pension plan investments	\$ 6,683,417
Employer contributions subsequent to the measurement date	494,776
Effect on change in allocation percentage	74,030
Total	<u>\$ 7,252,223</u>
Deferred inflows of resources:	
Difference between expected and actual experience	\$ 477,056
Effect on change in allocation percentage	20,653
Total	<u>\$ 497,709</u>

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

2017	\$ 1,490,099
2018	1,595,627
2019	1,698,990
2020	1,506,170
2021	(6,392)
2022 and Thereafter	(24,756)
Total	<u>\$ 6,259,738</u>

Statutory Authority

Ohio Revised Code Chapter 145

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Benefit Formula

Benefits are calculated on the basis of age, final average salary (FAS), and service credit. State and Local members in transition Groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for State and Local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary 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. Final average salary 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.

Cost-of-Living Adjustments

Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided on the member's base benefit.

Contribution Rates

Employee and member contribution rates are established by the OPERS Board and limited by Chapter 145 of the Ohio Revised Code. For 2015, 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).

Measurement Date

December 31, 2015

Actuarial Assumptions

Valuation Date: December 31, 2015
Actuarial Cost Method: Individual entry age
Investment Rate of Return: 8.00%
Inflation: 3.75%
Projected Salary Increases: 4.25% - 10.05%
Cost-of-Living Adjustments: 3.00% Simple

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Mortality Rates

RP-2000 mortality table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males, 120% of the disabled female mortality rates were used set forward two years. For females, 100% of the disabled female mortality rates were used.

Date of Last Experience Study

December 31, 2010

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 2015 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long Term Expected Return *
Fixed Income	23%	2%
Domestic Equity	21%	6%
Real Estate	10%	4%
Private Equity	10%	9%
International Equity	18%	7%
Other Investments	18%	5%
Total	100%	

* Returns presented as arithmetic means

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Discount Rate

The discount rate used to measure the total pension liability was 8.0% 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.

Sensitivity of Net Pension Liability to Changes in Discount Rate

1% Decrease (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
\$ 36,020,156	\$ 22,608,056	\$ 11,295,374

Sensitivity of Net Pension Asset to Changes in Discount Rate

1% Decrease (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
\$ (1,812)	\$ (88,151)	\$ (157,601)

13. SELF-INSURED BENEFITS

The Organization provides health insurance to participating employees under a plan that is partially self-insured. The plan is covered by a stop-loss policy that generally covers specific claims over \$125,000. Total health insurance expenses charged to operations, including an estimate of incurred but unreported claims, totaled \$3,056,241 for the year ended March 31, 2016.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

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MARCH 31, 2016

14. BLENDED COMPONENT UNIT

The consolidated financial statements include the Medical and Educational Development Foundation Physicians Corporation (MEDF), a separate entity organized to support the operations of the Hospital as a blended component unit. The following is a summary of the financial position and activities of MEDF as of and for the year ended March 31, 2016:

	<u>2016</u>
Assets:	
Total current assets	\$ 796,273
Capital assets, net	336,410
Other assets	<u>23,725</u>
Total assets	<u><u>1,156,408</u></u>
Liabilities:	
Total current liabilities	<u>431,644</u>
Total liabilities	<u><u>431,644</u></u>
Net position:	
Total net position	<u>724,764</u>
Total liabilities and net position	<u><u>\$ 1,156,408</u></u>

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2016

	<u>2016</u>
Operating revenues	
Total operating revenues	<u>\$ 5,424,746</u>
Operating expenses	
Total operating expenses	<u>8,056,609</u>
Income (Loss) from operations	(2,631,863)
Nonoperating losses	
Total nonoperating losses	<u>(50)</u>
Transfer from affiliates	<u>3,025,000</u>
Change in net position	393,087
Net position - beginning of year	<u>331,677</u>
Net position - end of year	<u><u>\$ 724,764</u></u>
	<u>2016</u>
Cash provided by (used in):	
Operating activities	\$ 185,621
Capital and related financing activities	<u>(197,778)</u>
Total	(12,157)
Cash - beginning of year	<u>56,974</u>
Cash - end of year	<u><u>\$ 44,817</u></u>

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

15. RISK MANAGEMENT

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

The Organization is insured against medical malpractice claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Organization bears the risk of the ultimate costs of any individual claims exceeding \$1,000,000, or aggregate claims exceeding \$3,000,000, for claims asserted in the policy year.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on the occurrences during the claims-made term, but reported subsequently, will be uninsured.

The Organization is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. No claims have been settled during the past three years that have exceeded policy coverage limits. The cost of this insurance policy represents the Organization's cost for such claims for the year, and it has been charged to operations as a current expense.

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

16. COMMITMENTS

The Organization has committed to the implementation of the Epic electronic medical records system for both the Hospital and ambulatory office environment. Management estimates an additional \$2,051,000 will be expended for the implementation of this project which is expected to be completed in November 2016. Upon completion of the project the Organization has committed to ongoing maintenance at a cost of \$70,000 per month for nine years.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

17. 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. 72, *Fair Value Measurement and Application*, issued February 2015, will be effective for periods beginning after June 15, 2015. This Statement will enhance the comparability of financial statements among governments requiring the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statements users about the impact of fair value measurements on a government's financial position.

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. The Statement addresses accounting and financial reporting for Postemployment Benefits Other than pensions (OPEB) that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosures and required supplementary information requirements about defined benefit OPEB will be enhanced.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, issued June 2015, will be effective for periods beginning after June 15, 2015. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement will be applied retroactively.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

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

Schedule of Proportionate Share of the Net Pension Liability	2016	2015
System proportion of the collective net pension liability	0.130522%	0.1296250%
System proportionate share of the net pension liability	\$ 22,608,000	\$ 15,634,000
System proportion of the collective net pension asset	0.181150%	0.132662%
System proportionate share of the net pension asset	\$ 88,000	\$ 51,000
System covered-employee payroll	\$ 17,334,000	16,277,000
System proportionate share of the net pension liability as a percentage of its covered-employee payroll	130.4%	96.0%
Plan fiduciary net position as a percentage of the total pension liability	81.2%	86.5%
Schedule of System Contributions		
Contractually required contribution	\$ 2,101,000	\$ 1,996,000
Contributions in relation to the contractually required contribution	<u>\$ 2,101,000</u>	<u>\$ 1,996,000</u>
Contribution deficiency (excess)	-	-
System covered employee payroll	\$ 17,508,000	16,631,000
Contributions as a percentage of covered-employee payroll	12.0%	12.0%

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the consolidated financial statements of the business-type activities of Mercer County Joint Township Community Hospital (the Organization), as of and for the year ended March 31, 2016, 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 12, 2016.

As discussed in Note 2 to the financial statements, in 2016, the Organization adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of Governmental Accounting Standards Board Statement No. 68*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Organization's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Organization's financial statements are free from material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

Bene G., LLC

Columbus, Ohio
July 12, 2016

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Dave Yost • Auditor of State

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

MERCER COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 10, 2016**