

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY  
HOSPITAL**

**MARCH 31, 2007**

*CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITORS' REPORT*





Mary Taylor, CPA  
Auditor of State

Board of Trustees  
Mercer County Joint Township Community Hospital  
800 West Main Street  
Coldwater, Ohio 45828-1698

We have reviewed the *Independent Auditors' Report* of the Mercer County Joint Township Community Hospital, prepared by VonLehman and Company, Inc., for the audit period April 1, 2006 through March 31, 2007. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

October 25, 2007

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**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL  
TABLE OF CONTENTS  
MARCH 31, 2007**

	<b>PAGE</b>
Independent Auditors' Report	
Management's Discussion and Analysis	1 – 5
Consolidated Financial Statements	
Statements of Net Assets	6
Statements of Revenues, Expenses and Changes in Net Assets	7
Statements of Cash Flows	8
Notes to the Consolidated Financial Statements	9 – 20
Other Information	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit Performed in Accordance with <i>Government Auditing Standards</i>	21
Noncompliance Citations - Ohio Revised Code	22
Status of Prior Audit Citations and Recommendations	23



## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Mercer County Joint Township Community Hospital

We have audited the accompanying basic consolidated financial statements of Mercer County Joint Township Community Hospital as of and for the years ended March 31, 2007 and 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mercer County Joint Township Community Hospital as of March 31, 2007 and 2006, and the results of its operations, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 27, 2006, on our consideration of Mercer County Joint Township Community Hospital'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. 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 the internal control over financial reporting or on 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 audits.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*VonLehman and Company Inc.*

Fort Mitchell, Kentucky  
September 27, 2007

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2007  
(UNAUDITED)**

This section of Mercer County Joint Township Community Hospital's (the Hospital) annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance during the year ended March 31, 2007. This MD&A includes a discussion and analysis of the activities and results of the Hospital.

This MD&A should be read together with the financial statements included in this report.

**FINANCIAL HIGHLIGHTS**

- The Hospital's net assets increased by \$514,000 and includes non-operating income of \$44,000 in 2007.
- During the year, the Hospital's net operating revenues increased 11.0% to \$40.0 million while expenses increased 8.1% to \$39.5 million. The result is income from operations of \$470,000, an increase of \$996,000 million when compared to 2006 operations.
- During the year, the Hospital made the following significant capital acquisitions and improvements:
  - System I 520 Server
  - Lab Software
  - AS 400 Processor Upgrade
  - Nuclear Medicine Equipment
  - Fastrack Billing and Inventory Control Software
  - Materials Management/Accounts Payable Information Software
  - 2 McCoy Miller Ambulances
  - Hematology Analyzer

The source of funding for these projects was cash flows from operations and long-term debt.

**FINANCIAL STATEMENTS**

The financial statements of the Hospital present information about the Hospital using financial reporting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information. The statements of net assets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the financial results of the Hospital's operations and present revenues earned and expenses incurred. The final financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash flows from operating activities, capital and related financing activities, and investing activities, and to provide information on the sources and uses of cash during the year. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided. The notes to the financial statements can be found beginning on page 9 of this report.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2007  
(UNAUDITED)  
(Continued)**

**FINANCIAL ANALYSIS**

The Statements of Net Assets and Revenues, Expenses and Changes in Net Assets report information about the Hospital's net assets and the Hospital's changes in net assets. Increases or decreases in the Hospital's net assets are one indicator of whether the Hospital's financial health is improving or deteriorating. However, other non-financial factors, such as changes in economic conditions, population growth (including uninsured and medically indigent individuals and families), new or changed government legislation and the Hospital's strategic plan should also be considered.

A summary of the Hospital's Statements of Net Assets as of March 31, 2007, 2006 and 2005 is presented below (in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash and Cash Equivalents	\$ 5,371	\$ 5,287	\$ 5,121
Property, Plant and Equipment, Net	11,966	12,558	12,505
Patient Accounts Receivable, Net	7,784	6,325	6,638
Other Assets	<u>1,463</u>	<u>1,591</u>	<u>1,363</u>
Total Assets	<u>\$ 26,584</u>	<u>\$ 25,761</u>	<u>\$ 25,627</u>
Current Liabilities	\$ 5,240	\$ 4,640	\$ 4,326
Long-Term Debt	<u>494</u>	<u>785</u>	<u>596</u>
Total Liabilities	5,734	5,425	4,922
Net Assets	<u>20,850</u>	<u>20,336</u>	<u>20,705</u>
Total Liabilities and Net Assets	<u>\$ 26,584</u>	<u>\$ 25,761</u>	<u>\$ 25,627</u>

As can be seen in the above, net assets increased to \$20.9 million in 2007, up from \$20.3 million in 2006.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2007  
(UNAUDITED)  
(Continued)**

A summary of the Hospital's Changes in Net Assets for the years ended March 31, 2007, 2006 and 2005 is presented below (in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues			
Net Patient Service Revenues	\$ 38,049	\$ 34,125	\$ 32,505
Other Operating Revenues	<u>1,918</u>	<u>1,889</u>	<u>1,427</u>
Total Revenues	<u>39,967</u>	<u>36,014</u>	<u>33,932</u>
Expenses			
Nursing Services	8,190	8,078	7,620
Medical Professional Services	8,821	8,069	7,702
General Services	3,365	3,218	3,056
Administrative Services	15,731	14,280	11,944
Provision for Bad Debts	1,729	1,391	1,279
Depreciation	<u>1,661</u>	<u>1,504</u>	<u>1,358</u>
Total Expenses	<u>39,497</u>	<u>36,540</u>	<u>32,959</u>
Income (Loss) from Operations	470	(526)	973
Non-Operating Revenues	<u>44</u>	<u>158</u>	<u>72</u>
Changes in Net Assets	\$ <u>514</u>	\$ <u>(368)</u>	\$ <u>1,045</u>

**Sources of Revenues**

During 2007, the Hospital derived substantially all of its revenues from patient services and other related activities. Revenues include, among other items, revenues from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

**Payer Mix**

The Hospital provides care to patients under payment arrangements with Medicare, Medicaid, and various commercial programs. Services provided under those arrangements are paid at predetermined rates and/or reimbursable costs as defined. Provisions have been made in the financial statements for contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payment.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2007  
(UNAUDITED)  
(Continued)**

**OPERATING AND FINANCIAL PERFORMANCE**

The Hospital generated significantly more gross revenues from patients in 2007. The result was an increase in net assets of \$514,000. This section will discuss highlights of 2007 operations and changes in activity.

**Revenues**

Net patient service revenues increased \$3.9 million in 2007 primarily due to a 'charge-per-episode' increase, a volume increase and an increase in ancillary services rendered.

**Expenses**

Total operating expenses increased \$3.0 million in 2007 which was attributed to an increase in personnel costs, costs for other services, costs for supplies and drugs, utilities, bad debt expense, and depreciation expense.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At year-end, the Hospital had \$12.0 million invested in property, plant and equipment. See page one of the MD&A for a description of the significant capital acquisitions during 2007 and the notes to the basic financial statements for a detailed presentation of the acquisitions and deletions for the year.

**Debt Administration**

At year-end, the Hospital had \$784,000 in outstanding debt (all capital lease obligations) versus \$1.1 million last year, a decrease of 27.6%. Interest rates ranged from 3.0% to 8.0%. For a breakdown of the interest payment schedule, and a detailed presentation of debt acquisitions and retirements for the year, refer to the notes to the basic financial statements.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2007  
(UNAUDITED)  
(Continued)**

**ECONOMIC FACTORS AND 2008 BUDGET**

The Hospital's Board and management considered many factors when setting the 2008 budget. Of primary importance in setting the budget was the status of the economy, which takes into account market focus and other environmental factors such as the following:

- Demographics and impact areas of population growth and the expanding need for services
- Continuously increasing expectations for quality improvement
- Advances in medical equipment technology and the need to replace obsolete equipment
- Increasing emphasis on the integrity of financial information
- Increasing number of uninsured patients
- Increasing cost of medical supplies
- Access to additional capital
- Increasing drug costs

The focus of management is to implement a multi-year plan that will emphasize expanded services to all areas of Mercer County, continuous quality improvement, cost control, capital requirements, and financing in support of net asset improvement.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL  
STATEMENTS OF NET ASSETS**

**ASSETS**

	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 297,294	\$ 394,705
Patient Accounts Receivable, Net of Estimated Uncollectibles (2007 - \$798,776; 2006 - \$675,840)	7,783,787	6,324,931
Accrued Interest Receivable	54,271	-
Inventories	798,289	775,355
Prepaid Expenses	257,347	331,017
Total Current Assets	9,190,988	7,826,008
<b>Cash and Cash Equivalents Whose Use is Limited</b>		
Board Designated for Future Capital Purposes	5,073,209	4,892,600
<b>Property, Plant and Equipment, Net</b>	11,966,501	12,558,429
<b>Other Assets</b>	353,305	484,133
 <b>Total Assets</b>	 \$ 26,584,003	 \$ 25,761,170

See accompanying notes.

## LIABILITIES AND NET ASSETS

	March 31,	
	2007	2006
<b>Current Liabilities</b>		
Accounts Payable	\$ 1,365,691	\$ 1,387,934
Accrued Expenses	3,363,074	2,948,888
Estimated Settlement Amounts Due to Third Party Payors	220,474	-
Capital Lease Obligations - Current Portion	290,597	303,543
Total Current Liabilities	5,239,836	4,640,365
<b>Long-Term Liabilities</b>		
Capital Lease Obligations - Long Term Portion	493,792	784,389
Total Liabilities	5,733,628	5,424,754
<b>Net Assets</b>		
Unrestricted	9,643,263	8,840,919
Invested in Property, Plant and Equipment - Net of Related Debt	11,182,112	11,470,497
Temporarily Restricted	25,000	25,000
Total Net Assets	20,850,375	20,336,416
<b>Total Liabilities and Net Assets</b>	\$ 26,584,003	\$ 25,761,170

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	Years Ended March 31,			
	2007		2006	
	Amount	Percent	Amount	Percent
<b>Net Patient Service Revenues</b>	\$ 38,048,874	95.2 %	\$ 34,124,980	94.8 %
<b>Other Operating Revenues</b>	<u>1,917,531</u>	<u>4.8</u>	<u>1,889,250</u>	<u>5.2</u>
Total Operating Revenues	<u>39,966,405</u>	<u>100.0 %</u>	<u>36,014,230</u>	<u>100.0 %</u>
<b>Operating Expenses</b>				
Nursing Services	8,189,952	20.5	8,077,559	22.4
Medical Professional Services	8,820,507	22.1	8,069,483	22.4
General Services	3,365,474	8.4	3,218,397	8.9
Administrative Services	15,731,058	39.4	14,280,134	39.7
Depreciation	1,661,022	4.2	1,503,499	4.2
Provision for Bad Debts	<u>1,728,725</u>	<u>4.3</u>	<u>1,391,128</u>	<u>3.9</u>
Total Operating Expenses	<u>39,496,738</u>	<u>98.9</u>	<u>36,540,200</u>	<u>101.5</u>
Income (Loss) from Operations	<u>469,667</u>	<u>1.1</u>	<u>(525,970)</u>	<u>(1.5)</u>
<b>Non-Operating Revenues</b>				
Investment Earnings	199,981	0.5	105,849	0.3
Non - Operating Expenses	(193,606)	(0.5)	-	0.0
Unrestricted Gifts	<u>37,917</u>	<u>0.1</u>	<u>51,833</u>	<u>0.2</u>
Total Non-Operating Revenues	<u>44,292</u>	<u>0.1</u>	<u>157,682</u>	<u>0.5</u>
<b>Change in Net Assets</b>	513,959	<u>1.2 %</u>	(368,288)	<u>(1.0) %</u>
Net Assets, Beginning of Year	<u>20,336,416</u>		<u>20,704,704</u>	
Net Assets, End of Year	<u>\$ 20,850,375</u>		<u>\$ 20,336,416</u>	

See accompanying notes.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL  
STATEMENTS OF CASH FLOWS**

	March 31,	
	2007	2006
<b>Cash Flows from Operating Activities</b>		
Cash Received from Customers	\$ 35,081,767	\$ 34,438,541
Cash Payments to Suppliers for Goods and Services	(14,433,314)	(13,617,470)
Cash Payments to Employees for Services	(21,134,791)	(21,442,457)
Other Operating Revenues	1,917,531	1,889,250
Net Cash Provided by Operating Activities	1,431,193	1,267,864
<b>Cash Flows from Non-Capital Financing Activities</b>		
Non-Operating Revenues	44,292	157,682
<b>Cash Flows from Capital and Related Financing Activities</b>		
Payments on Capital Lease Obligations	(303,543)	(289,628)
Proceeds from Sale of Property, Plant and Equipment	4,250	-
Acquisition of Property, Plant and Equipment	(1,092,994)	(969,902)
Net Cash Used by Capital and Related Financing Activities	(1,392,287)	(1,259,530)
<b>Net Increase in Cash and Cash Equivalents</b>	83,198	166,016
<b>Cash and Cash Equivalents at Beginning of Year</b>	5,287,305	5,121,289
<b>Cash and Cash Equivalents at End of Year</b>	\$ 5,370,503	\$ 5,287,305
<b>Recap of Cash and Cash Equivalents</b>		
Undesignated Cash	\$ 272,294	\$ 369,705
Designated Cash	5,073,209	4,892,600
Restricted Cash	25,000	25,000
Total Cash and Cash Equivalents	\$ 5,370,503	\$ 5,287,305
<b>Reconciliation of Income (Loss) from Operations to Net Cash Provided by Operating Activities</b>		
Income (Loss) from Operations	\$ 469,667	\$ (525,970)
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation	1,661,022	1,503,499
Loss on Sale of Property, Plant and Equipment	19,650	-
Provision for Bad Debts	1,728,725	1,391,128
Changes in		
Patient Accounts Receivable	(3,187,581)	(1,077,567)
Accrued Interest Receivable	(54,271)	-
Inventories	(22,934)	(20,872)
Prepaid Expenses and Other Assets	204,498	(207,680)
Accounts Payable	(22,243)	(220,248)
Accrued Expenses	414,186	425,574
Estimated Settlement Amounts Due to Third Party Payors	220,474	-
<b>Net Cash Provided by Operating Activities</b>	\$ 1,431,193	\$ 1,267,864
<b>Supplemental Disclosure of Cash Flow Information</b>		
Assets Acquired Under Capital Lease or Note Payable	\$ -	\$ 586,875
Cash Paid for Interest	\$ 35,155	\$ 25,869

See accompanying notes.

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 eleven member board of governors pursuant to the authority of the Joint Township Hospital Board of Trustees with representatives from Butler, Franklin, Gibson, Granville, Marion, Recovery, Washington and Jefferson Townships. The Hospital is a tax-exempt nonprofit organization which 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.

**Method of Consolidation**

The consolidated financial statements include the accounts of the Hospital and the Medical and Educational Development Foundation (MEDF) Physicians Corporation. The 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. All material intercompany balances and transactions have been eliminated in the consolidation.

**Basis of Accounting**

The Hospital utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

**Accounting Standards**

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements, including those issued after November 30, 1989.

**Estimates**

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Cash and Cash Equivalents**

Cash and cash equivalents are deposited in financial institutions as authorized and directed by State statutes. All deposits are collateralized by pledged securities of the financial institutions up to or exceeding the value of the deposits, as specified by State statutes.

For purposes of the statements of cash flows, cash and cash equivalents are defined as those funds on deposit which have maturities of three months or less.

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**Cash and Cash Equivalents Whose Use is Limited**

Cash and cash equivalents whose use is limited include assets set aside by the Board of Trustees for future capital improvements, over which the Board of Trustees retains control and may at its discretion subsequently use for other purposes.

**Inventories**

Inventories consist primarily of supplies and drugs and are valued at the lower of cost under the first-in, first-out (FIFO) method, or market.

**Property, Plant and Equipment**

Property, plant and equipment is recorded at cost or at fair market value at the date received if acquired by gift. It is the Hospital's policy to capitalize acquired property, plant and equipment with a cost or fair market value of \$500 or greater. Expenditures for maintenance and repairs, which do not extend the useful lives of the applicable assets, are charged to expense as incurred. Depreciation is computed using the straight line method over the estimated useful lives of the depreciable assets as follows:

Land Improvements	5 – 20 Years
Buildings and Fixed Equipment	5 – 40 Years
Major Movable Equipment	2 – 20 Years

**Lease Agreements**

The liability for lease obligations which are in substance installment purchases has been recorded in the financial statements and the leased equipment capitalized as fixed assets. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. Annual rentals pertaining to leases which convey merely the right to use property are charged to current operations. Depreciation of capital leases is included in depreciation expense on the statements of revenues, expenses and changes in net assets.

**Compensated Absences**

It is the Hospital's policy to compensate eligible employees during authorized absences. Such employees earn sick leave credit proportionately to the paid hours in each bi-weekly pay period according to rates prescribed to by the Ohio Revised Code (ORC). This sick leave is accrued at the rate specified by the ORC (0.0575 per hour worked). Sick leave does not accrue on overtime hours. Employees who retire from active service with the Hospital, State of Ohio, or any of its political subdivisions will be paid out up to the maximum payment of 240 hours.

An employee who transfers from, or is separated and reinstated from a state or county employer shall be credited with the unused balance of accumulated sick leave provided the transfer to employment or reinstatement takes place within 10 years of the date on which the employee was last employed. It is the employee's responsibility upon hire to notify Human Resources of any previous leave credits.

An employee who transfers from full-time to pool status is no longer eligible to accrue sick benefits. Earned sick hours will be banked and available if the employee returns to full-time or part-time status under OPERS.

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**Net Patient Service Revenues**

For purposes of these financial statements, operating revenues are those revenues generated by the Hospital for healthcare services rendered, grants received, or any other activity related to the Hospital's primary purpose as previously noted in Note 1.

Also, the Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

*Medicare.* Inpatient 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, and other factors. Outpatient services are reimbursed on a prospective rate scale based on Ambulatory Patient Classifications (APC's). Home Health Services are reimbursed on a prospective basis for episodes of care spanning 60 days. There are exceptions which could adjust the 60-day payment period. The payment rates are based on a clinical assessment system called OASIS (the Outcome and Assessment Information Set). Final settlements are determined upon submission of the annual cost report by the Hospital and audits thereof by the Medicare Fiscal Intermediary.

*Medicaid.* Inpatient services rendered to Medicaid program beneficiaries are reimbursed on a rate per discharge basis. Outpatient services rendered to Medicaid program beneficiaries are reimbursed on a fee schedule basis. Inpatient capital costs are reimbursed at a tentative rate per discharge with a final settlement to be determined after submission of the annual cost report by the Hospital and audits thereof by the State Medicaid Agency.

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

**Reclassifications**

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**Charity Care**

The Hospital provides care to patients who meet criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues. Hospital services at normal established rates totaled \$576,416 and \$510,638 for patients meeting the charity care criteria for the years ended March 31, 2007 and 2006, respectively.

**Governmental Accounting Standards Board (Statement) No. 34**

The Hospital has implemented Statement of Governmental Accounting Standards Board (Statement) No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", as amended by Statement No.'s 37 and 38. These statements established new financial reporting requirements for state and local governments.

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**Restricted and Unrestricted Resources**

It is the Hospital's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Unrestricted resources are used only after restricted resources have been depleted.

**Net Assets**

Net assets of the Hospital are classified in three components. Net assets invested in property, plant and equipment net of related debt consist of property, plant and equipment net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Temporarily restricted net assets are net assets that must be used for a particular purpose as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Temporarily restricted net assets were restricted to the following:

	<u>2007</u>	<u>2006</u>
Foundation and Other Endowments	\$ <u>25,000</u>	\$ <u>25,000</u>

Unrestricted net assets are remaining net assets that do not meet the definition of invested in property, plant and equipment net of related debt or temporarily restricted.

**Contributions**

Contributions are recognized during the period in which they are received. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

**Gifts and Donated Services**

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received.

**Risk Management**

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and employee health, dental and accident benefits.

Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Hospital also maintains coverage for medical malpractice claims and judgments.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

State statutes classify monies held by the Hospital into three categories.

Active deposits are public deposits necessary to meet current demands. Such monies must be maintained either as cash in the Hospital, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Hospital has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of the Hospital deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States.
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)**

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Hospital, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Board or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

As of March 31, 2007 and 2006, the Hospital had \$1,950 and \$1,900, respectively in undeposited cash on hand which is included on the financial statements of the Hospital as part of "Cash and Cash Equivalents".

B. Deposits with Financial Institutions

As of March 31, 2007 the carrying amount of all Hospital deposits was \$5,370,503. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of March 31, 2007, \$5,951,678 of the Hospital's bank balance of \$6,151,678 was exposed to custodial risk as discussed below, while \$200,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Hospital's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Hospital.

**NOTE 3 – THIRD-PARTY SETTLEMENTS AND COMPONENTS OF PATIENT ACCOUNTS RECEIVABLE**

In addition to those patients unable to pay, there are patients receiving services who will not pay. The Hospital has established credit and collection policies to hold this cost to a minimum. Provisions for bad debts are recorded as operating expenses on the financial statements.

Estimated third-party settlements for the Medicare and Medicaid programs reflect differences between interim reimbursement and reimbursement as determined by cost reports filed after the end of the year. Such third-party settlements may reflect differences owed to or by the Hospital. The estimated amount owed by the Hospital to third party providers based upon as-filed cost reports was \$220,474 and \$0- as of March 31, 2007 and March 31, 2006, respectively.

The Hospital's net patient accounts receivable (unsecured) were concentrated in the following major payor classes:

	<u>2007</u>	<u>2006</u>
Federal Government: Medicare	\$ 2,683,346	\$ 2,037,260
State of Ohio:		
Medicaid, Workers Compensation	598,484	461,720
Commercial Insurance, Self-Pay and Other	<u>4,501,957</u>	<u>3,825,951</u>
Total	<u>\$ 7,783,787</u>	<u>\$ 6,324,931</u>

**NOTE 4 – PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment transactions for the year ended March 31, 2007 were as follows:

<u>Business-Type Activities</u>	<u>Balance April 1, 2006</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance March 31, 2007</u>
Property, Plant and Equipment Not Being Depreciated Land	\$ 44,300	\$ -	\$ -	\$ 44,300
Depreciable Property, Plant and Equipment				
Buildings and Improvements	21,247,761	239,766	(10,286)	21,477,241
Major Movable and Leased Equipment	<u>12,479,734</u>	<u>853,228</u>	<u>(410,877)</u>	<u>12,922,070</u>
	<u>33,727,495</u>	<u>1,092,994</u>	<u>(421,163)</u>	<u>34,399,326</u>
Total Property, Plant and Equipment at Historical Cost	<u>33,771,795</u>	<u>1,092,994</u>	<u>(421,163)</u>	<u>34,443,626</u>
Less Accumulated Depreciation				
Buildings and Improvements	13,318,438	624,794	(8,877)	13,934,355
Major Movable and Leased Equipment	<u>7,894,928</u>	<u>1,036,228</u>	<u>(388,386)</u>	<u>8,542,770</u>
Total Accumulated Depreciation	<u>21,213,366</u>	<u>1,661,022</u>	<u>(397,263)</u>	<u>22,477,125</u>
Property, Plant and Equipment – Net	<u>\$ 12,558,429</u>	<u>\$ (568,028)</u>	<u>\$ (23,900)</u>	<u>\$ 11,966,501</u>

**NOTE 4 – PROPERTY, PLANT AND EQUIPMENT (Continued)**

Property, plant and equipment transactions for the year ended March 31, 2006 were as follows:

<u>Business-Type Activities</u>	<u>Balance April 1, 2005</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance March 31, 2006</u>
Property, Plant and Equipment Not Being Depreciated				
Construction in Progress	\$ 1,246,478	\$ -	\$ (1,246,478)	\$ -
Land	<u>44,300</u>	<u>-</u>	<u>-</u>	<u>44,300</u>
	<u>1,290,778</u>	<u>-</u>	<u>(1,246,478)</u>	<u>44,300</u>
Depreciable Property, Plant and Equipment				
Buildings and Improvements	19,813,479	1,437,341	(3,059)	21,247,761
Major Movable and Leased Equipment	<u>11,360,089</u>	<u>1,365,469</u>	<u>(245,824)</u>	<u>12,479,734</u>
	<u>31,173,568</u>	<u>2,802,810</u>	<u>(248,883)</u>	<u>33,727,495</u>
Total Property, Plant and Equipment at Historical Cost	<u>32,464,346</u>	<u>2,802,810</u>	<u>(1,495,361)</u>	<u>33,771,795</u>
Less Accumulated Depreciation				
Buildings and Improvements	12,670,350	630,455	(3,004)	13,297,801
Major Movable and Leased Equipment	<u>7,288,845</u>	<u>873,044</u>	<u>(246,324)</u>	<u>7,915,565</u>
Total Accumulated Depreciation	<u>19,959,195</u>	<u>1,503,499</u>	<u>(249,328)</u>	<u>21,213,366</u>
Property, Plant and Equipment – Net	<u>\$ 12,505,151</u>	<u>\$ 1,299,311</u>	<u>\$ (1,246,033)</u>	<u>\$ 12,558,429</u>

**NOTE 5 – OTHER ASSETS**

The Hospital is a member of the West Central Ohio Regional Healthcare Alliance, Ltd. (WCORHA) along with four other area hospitals. Each hospital loaned \$200,000 to WCORHA. The current project of the WCORHA is the operation of a cancer center.

**NOTE 6 – LONG-TERM LIABILITIES**

The following is a summary of the Hospital's capital lease obligations for the years ended March 31, 2007 and 2006:

	2007	2006
Debt Outstanding, Beginning of Year	\$ 1,087,932	\$ 790,985
Additions of New Debt	-	586,575
Repayments	<u>(303,543)</u>	<u>(289,628)</u>
Debt Outstanding, End of Year	<u>\$ 784,389</u>	<u>\$ 1,087,932</u>
Expected to be Paid Within One Year	<u>\$ 290,597</u>	<u>\$ 303,543</u>

**Capital Lease Obligations**

The Hospital leases certain equipment under non-cancelable capital lease obligations. Interest rates range from 3.0% to 8.0%. The following are the net minimum future lease payments for the lease:

<u>Years Ending March 31,</u>		
2008	\$ 327,295	
2009	305,266	
2010	112,335	
2011	<u>102,974</u>	
Total Net Future Minimum Lease Payments	\$ 847,870	\$ 1,172,168
Less: Amount Representing Interest	<u>63,481</u>	<u>84,236</u>
Total Capital Lease Obligations	784,389	1,087,932
Less: Current Portion	<u>290,597</u>	<u>303,543</u>
Long-Term Capital Lease Obligations	<u>\$ 493,792</u>	<u>\$ 784,389</u>

Net book value of leased equipment included within Property, Plant and Equipment, was as follows:

Cost	\$ 1,440,824	\$ 742,425
Accumulated Depreciation	<u>479,686</u>	<u>74,364</u>
Net Book Value	<u>\$ 961,138</u>	<u>\$ 668,061</u>

**NOTE 7 – LINE OF CREDIT**

The Hospital has available a \$1,000,000 line of credit with a local bank. Nothing was drawn on the line of credit as of March 31, 2007 or 2006.

**NOTE 8 – NET PATIENT SERVICE REVENUES**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Total gross patient services revenue and related allowances for the years ended March 31 were as follows:

	2007	2006
Gross Patient Service Charges at Established Rates	\$ 63,371,880	\$ 54,522,656
Less		
Contractual Allowances	(24,746,590)	(19,887,038)
Charity Care	(576,416)	(510,638)
Net Patient Service Revenues	\$ 38,048,874	\$ 34,124,980

**NOTE 9 – OPERATING LEASES**

The Hospital 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,	
2008	\$ 66,700
2009	14,895
Total	\$ 81,595

Total rental expense for operating leases, including those with terms of one month or less, for the years ended March 31, 2007 and 2006 was \$71,351 and \$143,136, respectively, and were included within Administrative Services on the Statements of Revenues, Expenses and Changes in Net Assets.

**NOTE 10 – RETIREMENT PLAN**

The Hospital participates in a state pension plan, the Ohio Public Employees Retirement System (OPERS), which covers substantially all employees.

OPERS administers three separate pension plans; the Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and death benefits, annual cost of living adjustments, and post-retirement healthcare benefits to qualifying members of both the Traditional and the Combined Plan; however healthcare benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment healthcare coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS Board of Trustees.

The plan issues a separate, publicly available financial report that includes a balance sheet and required supplementary information. This report may be obtained by contacting: Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 42315, Telephone (614) 466-2085.

**NOTE 10 – RETIREMENT PLAN (Continued)**

The Ohio Revised Code provides OPERS statutory authority for employer and employee contributions. The required, actuarially-determined contribution rates for the Hospital and for the employee are 13.70% and 9.0%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years are as follows:

<u>Year</u>	<u>Contribution</u>
2007	\$ 1,895,597
2006	1,766,206
2005	1,627,497

**NOTE 11 – OTHER POST-EMPLOYMENT BENEFITS**

In addition to the pension benefits described above, OPERS also provides post-retirement health care coverage, commonly referred to as OPEB (Other Post-Employment Benefits). The Ohio Revised Code provides the authority for public employers to fund post-retirement health care through their contributions. The following information is based on data obtained from OPERS for the periods ended December 31, 2006 and 2005.

OPERS provides post-retirement health care coverage to age and service retirants and dependents with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The 2006 employer rate for employees' coverage by OPERS was 13.70%, of which 4.5% was used to fund health care. The total Hospital contribution used to fund health care was \$738,129 and \$626,228 for the years ended March 31, 2007 and 2006, respectively.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

OPEB are advanced-funded on an actuarially-determined basis. The number of active contributing participants at December 31, 2006 was 369,214. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2005 was \$11,100,000,000. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31,300,000,000 and \$20,200,000,000 respectively, as of December 31, 2005. The actuarial assumptions used to calculate these amounts are as follows:

- Funding Method – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.
- Assets Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets, not to exceed a 12% corridor.
- Investment Return – The investment assumption rate for 2005 was 6.50%.
- Active Employee Total Payroll – An annual increase of 4.00% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.50% to 6.30%.
- Health Care – Health care costs were assumed to increase 4.0% annually.

**NOTE 12 – PROFESSIONAL LIABILITY INSURANCE**

As of March 31, 2007, the Hospital carried occurrence basis malpractice insurance coverage of \$1,000,000 per claim and \$3,000,000 aggregate, plus excess liability coverage of \$3,000,000.

Professional liability claims are currently pending against the Hospital. No provision for loss has been made in the accompanying financial statements because management is of the opinion that the ultimate liability, if any, resulting from the lawsuits would be adequately covered by insurance and would not adversely affect the financial position of the Hospital.

**NOTE 13 – CONCENTRATIONS**

Medicare and Medicaid accounted for approximately 39.5% and 37.9% of the Hospital's net patient service revenue during the years ended March 31, 2007 and 2006, respectively.

## **OTHER INFORMATION**



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

Board of Trustees  
Mercer County Joint Township Community Hospital

We have audited the basic financial statements of Mercer County Joint Township Community Hospital as of and for the year ended March 31, 2007, and have issued our report thereon dated September 27, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards 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

In planning and performing our audit, we considered Mercer County Joint Township Community Hospital'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 Mercer County Joint Township Community Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mercer County Joint Township Community Hospital's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Mercer County Joint Township Community Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Mercer County Joint Township Community Hospital's financial statements that is more than inconsequential will not be prevented or detected by Mercer County Joint Township Community Hospital's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Mercer County Joint Township Community Hospital's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mercer County Joint Township Community Hospital's 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of trustees, management, and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

*VonLehman and Company Inc.*

Fort Mitchell, Kentucky  
September 27, 2007

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL  
NONCOMPLIANCE CITATIONS - OHIO REVISED CODE  
YEAR ENDED MARCH 31, 2007**

**- NONE -**

**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL  
STATUS OF PRIOR AUDIT CITATIONS AND RECOMMENDATIONS**

**- NONE -**





**Mary Taylor, CPA**  
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, 2007**