MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2013 AND 2012

CPAs / ADVISORS

blue

Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Mercer County Joint Township Hospital, Mercer County, prepared by Blue & Co., LLC, for the audit period April 1, 2012 through March 31, 2013. 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 Hospital is responsible for compliance with these laws and regulations.

Dave Yost

Dave Yost
Auditor of State

August 7, 2013

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MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

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

To the Board of Governors:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the business-type activities of Mercer County Joint Township Community Hospital (the Organization) as of and for the years ended March 31, 2013 and 2012, 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 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 financial statements based on our audits. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the 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 opinions.

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, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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.

Board of Governors
Mercer County Joint Township Community Hospital

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2013, 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.

Blue & Co., LLC

Columbus, Ohio
June 25, 2013

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, 2013 and 2012. 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 financial statements and the related footnote disclosures along with this discussion and analysis.

Financial Highlights

The Organization's total assets increased by $3,615,877 and total liabilities increased by $632,916 during the year ended March 31, 2013. Net position increased $2,982,961 or 15.7%, in fiscal year 2013. The increase in net position resulted primarily from the Organization's growth in operating revenues of $2,570,539 and control of operating expenses, which increased $881,571.

Using This Annual Report

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

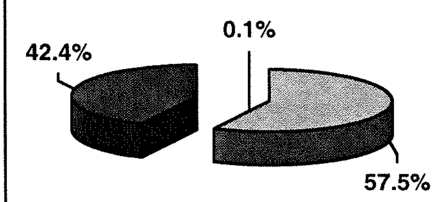
The Balance Sheet and Statement of Operations and Changes in Net Position

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 balance sheet and statement of operations and changes in net position report information about the Organization's resource and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Organization's Net Position

The following chart provides a breakdown of net position by category at March 31, 2013.



For the year ended March 31, 2013, the Organization's revenues and other support exceeded expenses creating an increase in net position of $2,982,961 compared to a $1,335,621 increase in the previous year.

Condensed Financial Information

The following is a comparative analysis of the major components of the balance sheets of the Organization as of March 31, 2013, 2012 and 2011:

	March 31		
	2013	2012	2011
Assets:			
Current assets	$ 12,543,783	$ 9,494,183	$ 8,126,602
Noncurrent assets	5,200,485	4,844,411	4,655,021
Capital assets, net	15,765,743	15,555,540	16,132,183
Total assets	$ 33,510,011	$ 29,894,134	$ 28,913,806
Liabilities:			
Current liabilities	$ 3,891,377	$ 2,739,207	$ 2,938,568
Long-term liabilities	7,660,230	8,179,484	8,335,416
Total liabilities	$ 11,551,607	$ 10,918,691	$ 11,273,984
Net position:			
Unrestricted	$ 12,624,251	$ 10,168,203	$ 8,212,415
Invested in capital assets - net of related debt	9,309,153	8,782,240	9,402,407
Restricted - nonexpendable permanent endowments	25,000	25,000	25,000
Total net position	$ 21,958,404	$ 18,975,443	$ 17,639,822

During 2013, current assets increased $3,049,600, or 32.1%, driven by an increase in cash and cash equivalents. Noncurrent and capital assets increased $566,277, or 2.8%, during 2013 primarily due to an increase in capital assets. Total liabilities increased $632,916, or 5.8%, during the year due to an increase in accounts payable and accrued expenses during 2013.

Operating Results and Changes in the Organization's Net Position

	Year Ended March 31		
	2013	2012	2011
Operating revenue			
Net patient service revenue	$ 48,332,631	$ 45,727,178	$ 41,598,402
Other operating revenue	1,116,906	1,116,091	1,445,518
Total operating revenues	49,449,537	46,843,269	43,043,920
Operating expenses			
Salaries and wages	19,823,184	18,726,517	18,306,080
Employee benefits	6,623,309	7,635,423	6,785,128
Supplies	5,412,755	5,201,107	5,234,129
Professional fees	5,002,152	4,752,128	4,463,628
Purchased services	1,318,146	1,393,976	1,063,694
Insurance	273,682	245,669	428,421
Depreciation and amortization	2,094,244	1,943,480	2,082,175
Other operating expenses	5,536,108	5,303,709	5,010,674
Total operating expenses	46,083,580	45,202,009	43,373,929
Operating gain (loss)	3,365,957	1,641,260	(330,009)
Nonoperating losses			
Interest expense	(326,237)	(214,041)	(225,828)
Other losses	(56,759)	(91,598)	(24,490)
Total nonoperating losses	(382,996)	(305,639)	(250,318)
Change in net position	2,982,961	1,335,621	(580,327)
Net position, beginning of year	18,975,443	17,639,822	18,220,149
Net position, end of year	$ 21,958,404	$ 18,975,443	$ 17,639,822

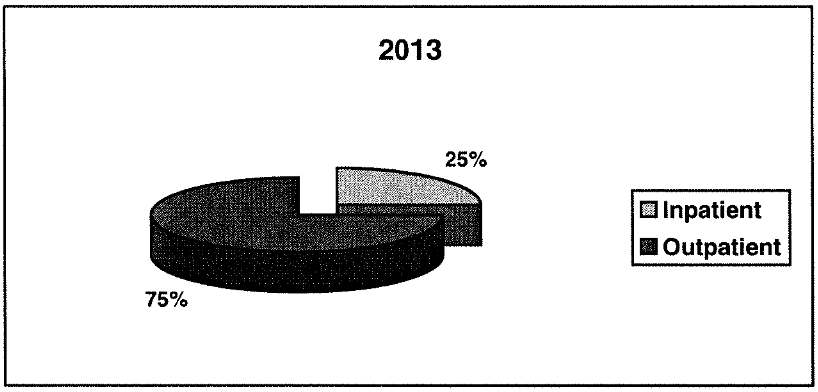
Operating Revenues

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

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased $2,605,453, or 5.7%, in 2013. This was attributable to changes in patient volumes and rate increases offset by deductions from revenue. Gross patient revenue is reduced by revenue deductions in determining net patient revenue. These deductions include amounts not paid to the Organization under contractual arrangements primarily with Medicare, Medicaid, and commercial payors as well as amounts related to self-pay patients that qualify for charity write-offs based on pre-established financial need criteria and bad debts. These revenue deductions increased from 47.7% in 2012 to 48.0% of gross revenue in 2013.

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

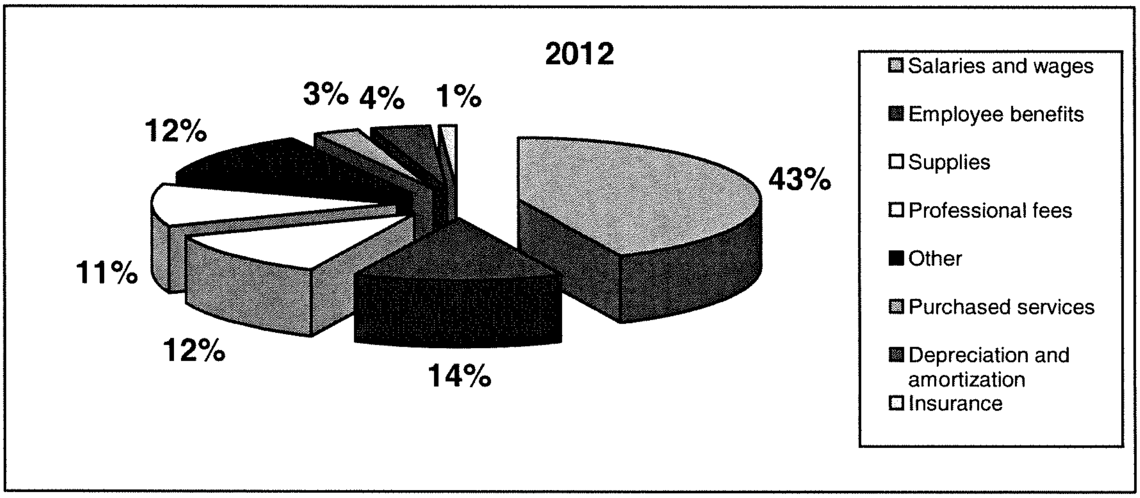


Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Organization. The significant operating expense changes from 2012 to 2013 were the result of the following factors:

- Salaries and wages increased $1,096,667, or 5.9%, due primarily to the compensation adjustments of physicians and staff salaried employees.
- Benefits expense decreased $1,012,114, or 13.3%, primarily due to a decrease in health insurance claims.
- Supplies expense increased $211,648, or 4.1%, primarily due to an increase in patient volumes.
- Other operating expenses increased $232,399, or 4.4%, primarily as a result of more physicians in 2013 compared to 2012.

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. The change in other non-operating losses from 2012 to 2013 was primarily due to higher interest expense during 2013.

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		
	2013	2012	2011
Cash provided by (used in):			
Operating activities	$ 6,254,762	$ 2,955,305	$ 1,050,063
Non-capital and related financing activities	(30,191)	(109,257)	(47,316)
Investing activities	(306,690)	25,382	22,826
Capital and related financing activities	(2,931,976)	(1,538,201)	(1,536,914)
Total	2,985,905	1,333,229	(511,341)
Cash - beginning of year	6,173,321	4,840,092	5,351,433
Cash - end of year	$ 9,159,226	$ 6,173,321	$ 4,840,092

Capital Asset and Debt Administration

Capital Assets

At March 31, 2013, the Organization had a total investment of $43,963,973 in gross capital assets and accumulated depreciation totaled $28,198,230, resulting in a net carrying value of $15,765,743. Depreciation expense for 2013 was $2,087,368 compared to $1,936,604 for 2012.

Debt

At March 31, 2013, the Organization had $6,456,590 in long-term debt outstanding as compared to $6,773,300 at March 31, 2012. The Organization continues to pay down its debt obligations as prescribed in the debt schedules. More detailed information about the Organization's long-term liabilities is presented in the notes to the financial statements.

Economic Factors that Will Affect the Future

During the most recent fiscal year, the Organization continued to experience a significant improvement in its financial strength and stability. Much of this improvement resulted from (1) higher out-patient volumes, (2) managing overall total Organization costs, (3) improving business process redesigns, where needed, (4) management 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 Organization operations. These improvement initiatives along with aligning our work force to work volumes without layoffs via attrition and reallocating resources have established a foundation that serves as a strategy to help offset the many financial challenges that face a small community Organization such as Mercer County Joint Township Community Hospital.

The Organization continues to actively work on renegotiating managed care contracts and enrolling patients in new managed Medicaid plans to enhance overall Organization patient revenue.

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 signed 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.

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. The Organization was minimally impacted during the last three months of fiscal year ending March 31, 2013. However, additional revenue will be "at risk" during the Organization's fiscal year which began on April 1, 2013.

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. Recently, the Organization's annual franchise fees were paid in the amount of nearly $607,000.

Although the future of healthcare reform legislation is uncertain, the Organization has identified areas of revenue at risk and initiated improvement strategies to minimize the potential for lost revenues.

Contacting the Organization's Management

This financial report is intended to provide the reader with a general overview of the Organization's finances. If you have questions about this report or need additional information, we welcome you to contact the Chief Financial Officer at 800 W. Main Street, Coldwater, Ohio 45828.

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

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2013 AND 2012

ASSETS

	2013	2012
Current assets		
Cash and cash equivalents	$ 5,321,209	$ 2,349,552
Patient accounts receivable, net of uncollectible accounts of $3,522,813 in 2013 and $2,861,341 in 2012	5,349,623	5,483,274
Other receivables	560,999	393,223
Inventories	870,004	815,554
Prepaid expenses and other current assets	441,948	452,580
Total current assets	12,543,783	9,494,183
Assets whose use is limited	3,838,017	3,823,769
Capital assets, net	15,765,743	15,555,540
Other receivables	110,517	81,884
Other assets	1,251,951	938,758
Total assets	$ 33,510,011	$ 29,894,134

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2013 AND 2012

LIABILITIES AND NET POSITION

	2013	2012
Current liabilities		
Accounts payable	$ 1,193,378	$ 670,988
Accrued expenses	2,043,786	1,461,623
Estimated third-party settlements	11,389	48,798
Current portion of long-term debt	642,824	557,798
Total current liabilities	3,891,377	2,739,207
Compensated absences	1,846,464	1,963,982
Long-term debt, net of current portion	5,813,766	6,215,502
Total liabilities	11,551,607	10,918,691
Net position		
Unrestricted	12,624,251	10,168,203
Invested in capital assets - net of related debt	9,309,153	8,782,240
Restricted - nonexpendable permanent endowments	25,000	25,000
Total net position	21,958,404	18,975,443
Total liabilities and net position	$ 33,510,011	$ 29,894,134

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION
YEARS ENDED MARCH 31, 2013 AND 2012

	2013	2012
Operating revenue		
Net patient service revenue	$ 48,332,631	$ 45,727,178
Other operating revenue	1,116,906	1,116,091
Total operating revenues	49,449,537	46,843,269
Operating expenses		
Salaries and wages	19,823,184	18,726,517
Employee benefits	6,623,309	7,635,423
Supplies	5,412,755	5,201,107
Professional fees	5,002,152	4,752,128
Purchased services	1,318,146	1,393,976
Insurance	273,682	245,669
Depreciation and amortization	2,094,244	1,943,480
Other operating expenses	5,536,108	5,303,709
Total operating expenses	46,083,580	45,202,009
Operating gain	3,365,957	1,641,260
Nonoperating losses		
Interest expense	(326,237)	(214,041)
Other losses	(56,759)	(91,598)
Total nonoperating losses	(382,996)	(305,639)
Change in net position	2,982,961	1,335,621
Net position, beginning of year	18,975,443	17,639,822
Net position, end of year	$ 21,958,404	$ 18,975,443

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2013 AND 2012

	2013	2012
Cash flows from operating activities		
Cash received from patients and third-party payors	$ 48,428,873	$ 45,855,066
Cash payments to suppliers for services and goods	(17,255,749)	(17,810,802)
Cash payments to employees and related benefits	(26,035,268)	(26,205,050)
Other operating revenue	1,116,906	1,116,091
Net cash flows from operating activities	6,254,762	2,955,305
Cash flows from non-capital and related financing activities		
Other non-operating	(30,191)	(109,257)
Cash flows from investing activities		
Purchases of investments	(1,356,740)	(1,344,781)
Proceeds from sale of investments	1,356,740	1,344,781
Contributions to joint ventures	(325,000)	-
Investment earnings	18,310	25,382
Net cash flows from investing activities	(306,690)	25,382
Cash flows from capital and related financing activities		
Payments on long-term debt	(572,662)	(450,025)
Interest paid	(272,817)	(214,041)
Acquisition of capital assets	(2,086,497)	(874,135)
Net cash flows from capital and related financing activities	(2,931,976)	(1,538,201)
Net change in cash and cash equivalents	2,985,905	1,333,229
Cash and cash equivalents, beginning of year	6,173,321	4,840,092
Cash and cash equivalents, end of year	$ 9,159,226	$ 6,173,321
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	$ 5,321,209	$ 2,349,552
Assets whose use is limited	3,838,017	3,823,769
Total cash and cash equivalents	$ 9,159,226	$ 6,173,321

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2013 AND 2012

	2013	2012
Cash flows from operating activities		
Operating gain	$ 3,365,957	$1,641,260
Adjustments to reconcile operating gain to net cash from operating activities:		
Depreciation	2,087,368	1,936,604
Amortization	6,876	6,876
Provision for bad debts	3,148,171	2,785,204
Changes in assets and liabilities		
Patient accounts receivable	(3,014,520)	(2,577,922)
Other receivables	(196,409)	(212,825)
Inventories	(54,450)	(82,382)
Prepaid expenses and other current assets	10,632	(43,312)
Other assets	4,931	(99,381)
Accounts payable	522,390	(476,313)
Accrued expenses	528,743	219,963
Estimated third-party settlements	(37,409)	(79,394)
Compensated absences	(117,518)	(63,073)
Net cash flow from operating activities	$ 6,254,762	$2,955,305
Noncash investing and financing transactions:		
Assets acquired under capital lease obligation	$ 255,952	$ 493,549

See accompanying notes to consolidated financial statements.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity/Basis of Consolidation

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

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

Basis of Presentation

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

New Pronouncements

During 2013, the Organization adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of GASB No. 20 for business-type activities to apply post November 30, 1989, Financial Accounting Standards Board (FASB) Statements and Interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Organization's net position, changes in net position or financial reporting disclosures.

Also during 2013, the Organization early adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This change resulted in renaming net assets to net position within the balance sheets and statements of operations and changes in net position. GASB No. 63 has been applied retrospectively in the accompanying financial statements.

Use of Estimates

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

Cash and Cash Equivalents

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

Assets Whose Use is Limited

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

Inventories

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

Enterprise Fund Accounting

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

Unamortized Financing Costs

Costs incurred in obtaining long-term bond financing are being amortized over the period the obligations are outstanding. These amounts are included in other assets. Amortization expense totaled $6,876 and $6,876 in 2013 and 2012, respectively.

Capital Assets

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

Other Receivables

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

Compensated Absences

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

Patient Accounts Receivable and Net Patient Service Revenue

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

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

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

Restricted Resources

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

Net 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.

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 $46,084,000 and $45,202,000 during 2013 and 2012, respectively), an estimated $643,000 and $591,000 arose from providing services to charity patients during 2013 and 2012, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Organization's total operating expenses divided by gross patient service revenue. The Organization participates in the Hospital Care Assurance Program (HCAP) which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled approximately $288,000 and $187,000 for 2013 and 2012, respectively.

Electronic Health Records (EHR) Incentive Payments

In 2013, the Organization received EHR incentive payments under the Medicaid program. Medicare EHR incentive payments are expected in future periods. To qualify for these payments, the Organization must meet "meaningful use" criteria that become more stringent over time. The Organization periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (ending on September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Organization's cost reports. The payment calculation is based upon initial amount as adjusted for discharges, Medicare utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Organization recognizes EHR incentive payments as grant income when there is reasonable assurance that the Organization will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2013 and 2012, the Organization recognized approximately $157,000 and $0, respectively, in EHR incentive payments as grant income using the cliff recognition method. Under the cliff recognition method, the Organization records income at the end of EHR reporting period in which compliance is achieved. EHR incentive income is included in other operating revenue in the 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.

Federal Income Tax

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

Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform with the 2013 presentation.

Subsequent Events

The Organization has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued, which is June 25, 2013.

2. DEPOSITS AND INVESTMENTS

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

	2013		2012	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Demand deposits and money market accounts	$ 7,802,486	$ 7,802,486	$ 4,828,540	$ 4,828,540
Certificates of deposit	1,356,740	1,356,740	1,344,781	1,344,781
Total	$ 9,159,226	$ 9,159,226	$ 6,173,321	$ 6,173,321

	2013		2012	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-				
General funds:				
Cash	$ 5,321,209	$ 5,321,209	$ 2,349,552	$ 2,349,552
Assets whose use is limited	3,838,017	3,838,017	3,823,769	3,823,769
Total	$ 9,159,226	$ 9,159,226	$ 6,173,321	$ 6,173,321

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, 2013 and 2012, the Organization had $9,661,935 and $5,914,552, respectively, of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured but are collateralized with securities held by the pledging financial institution.

The Organization had the following investments and maturities, all of which are held in the organizations name by a custodial bank that is an agent of the Organization.

	Carrying Amount	Maturities	
		< than one year	> than one year
March 31, 2013			
Certificates of deposit	$ 1,356,740	$ 1,356,740	$ -

	Carrying Amount	Maturities	
		< than one year	> than one year
March 31, 2012			
Certificates of deposit	$ 1,344,781	$ 1,344,781	$ -

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

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

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

3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2013	2012
Gross patient accounts receivable	$ 14,066,808	$ 13,734,548
Less allowance for:		
Uncollectible accounts	(3,522,813)	(2,861,341)
Contractual adjustments	(5,194,372)	(5,389,933)
Net patient accounts receivable	$ 5,349,623	$ 5,483,274

The mix of accounts receivable and gross revenues from patients and third-party payors in 2013 and 2012 follows:

	2013		2012	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	24%	39%	28%	41%
Medicaid	7%	8%	7%	8%
Self-pay	34%	5%	28%	5%
Commercial and other	35%	48%	37%	46%
	100%	100%	100%	100%

4. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2013 was as follows:

	2012	Additions	Retirements	2013
Land	$ 44,300	$ -	$ -	$ 44,300
Land improvements	83,890	18,527	(854)	101,563
Buildings and improvements	27,766,454	442,990	(177,058)	28,032,386
Equipment	15,089,355	1,551,943	(1,184,563)	15,456,735
Construction in progress	-	328,989	-	328,989
Total capital assets	42,983,999	2,342,449	(1,362,475)	43,963,973
Less accumulated depreciation				
Land improvements	67,692	4,029	(854)	70,867
Buildings and improvements	17,484,410	883,990	(167,277)	18,201,123
Equipment	9,876,357	1,199,349	(1,149,466)	9,926,240
Total accumulated depreciation	27,428,459	2,087,368	(1,317,597)	28,198,230
Capital assets, net	$ 15,555,540	$ 255,081	$ (44,878)	$ 15,765,743

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

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

5. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

Approximately 47% of the Organization's revenues from patient services are received from the Medicare and Medicaid programs. The Organization has agreements with these payors that provide for reimbursement to the Organization at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Organization's established rates for services and amounts reimbursed by third-party payors.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements. Medicare cost reports have been settled through 2008 and Medicaid cost reports have been settled through 2007.

Medicare

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

Medicaid

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

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

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

6. OTHER ASSETS

The Organization is a member of the West Central Ohio Regional Healthcare Alliance, Ltd. 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 $309,011 and $0 at March 31, 2013 and 2012, respectively. Losses from the Cancer Network included in nonoperating losses were $96,523 and $234,368 in 2013 and 2012, respectively. At March 31, 2012, the Organization also had a $200,000 note receivable from the Cancer Network included in other assets, the hospital forgave the principle portion of the receivable during 2013. The note carried interest at 2.77% at March 31, 2012. Interest income related to this note for 2013 and 2012 was approximately $0 and $6,500, respectively and is included within non-operating losses on the statements of operations and changes in net position. Accrued interest receivable related to this note was $46,143 and $92,273 in 2013 and 2012, respectively.

The Organization has entered into a joint venture agreement with Joint Township District Memorial Hospital with respect to the ownership and expansion of a medical office building. A nonprofit real estate holding company and a nonprofit management company were formed as a result of the joint venture. The Organization has a 50% ownership in each of these entities. The Organization accounts for its interest in these joint ventures on the equity method. The carrying amount of the Organization's equity interest in these entities was $606,503 and $426,770 at March 31 2013 and 2012, respectively. These balances are included within other assets. During 2013 and 2012, the Organization recognized investment income from these entities of $7,733 and $48,440, respectively, which is included in nonoperating losses.

7. LONG-TERM LIABILITIES

Long-term debt activity for the year March 31, 2013 was as follows:

	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Leases, bonds and notes payable:					
Note payable, bearing interest at 6.5%, due in monthly installments of $4,443 through November 2014	$ 129,973	$ -	$ (46,231)	$ 83,742	$ 49,328
Note payable, bearing interest at 3.95%, due in monthly installments of $4,000 through December 2019	318,417	-	(36,072)	282,345	37,522
Series 2008A bond payable, bearing interest at 4.125%, due in semiannual installments of $165,684 through July 2033	4,670,904	-	(130,482)	4,540,422	143,941
Series 2009 bond payable, bearing interest at 4.125%, due in semiannual installments of $133,415 through February 2017	1,189,332	-	(217,912)	971,420	228,662
Capital lease obligation, bearing interest at 3.32%, due in monthly installments of $10,964 through February 2016	464,674	-	(136,798)	327,876	120,824
Capital lease obligation, bearing interest at 1.60%, due in monthly installments of $5,506 through February 2017	-	255,952	(5,167)	250,785	62,547
Total leases, bonds and notes payable	$ 6,773,300	$ 255,952	$ (572,662)	$ 6,456,590	$ 642,824

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

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

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

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

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

In December 2009, the Organization entered into a note payable for $227,019, proceeds from which were used to purchase a patient monitoring system. The loan bears interest at 6.5% with monthly payments of $4,443 through November 2014 and is secured by the equipment which has a net book value at March 31, 2013 of $91,058.

In April 2010, the Organization entered into a note payable for $400,000, proceeds from which were used to purchase a building. The loan bears interest at 3.95% with monthly payments of $4,000 through December 2019 and is secured by the building which has a net book value at March 31, 2013 of $339,856.

The Organization entered into a capital lease for a CT scanner in February 2012. This lease includes imputed interest at 3.32% with monthly payments of $10,964 through February 2016. Depreciation of the asset under the capital lease is included in depreciation expense. This agreement is secured by the equipment which has a net book value at March 31, 2013 of $378,388.

The Organization entered into a capital lease for diagnostic radiology equipment in February 2013. This lease includes imputed interest at 1.60% with monthly payments of $5,508 through February 2017. Depreciation of the asset under the capital lease is included in depreciation expense. This agreement is secured by the equipment which has a net book value at March 31, 2013 of $244,481.

The following is a schedule of principal and interest payments based on interest rates effective at March 31, 2013:

	Long-term Debt	
Years Ended March 31	Principal	Interest
2014	$ 642,824	$ 249,733
2015	651,273	225,299
2016	590,810	202,403
2017	521,403	182,367
2018-2022	1,045,942	740,748
2023-2027	1,134,003	522,840
2028-2032	1,393,266	263,578
2033-2034	477,069	19,985
Total	$ 6,456,590	$ 2,406,953

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

	2013	2012
Cost of equipment under capital lease	$ 743,993	$ 493,549
Lease accumulated depreciation	121,124	16,452
Net carrying amount	$ 622,869	$ 477,097

8. ACCRUED LIABILITIES

The details of accrued liabilities at March 31, 2013 and 2012 are as follows:

	2013	2012
Payroll and related amounts	$ 479,786	$ 388,148
Health insurance	500,000	554,729
Workers' compensation premiums	89,472	44,260
Pension	329,095	324,513
Interest	53,420	-
Other	592,013	149,973
Total accrued liabilities	$ 2,043,786	$ 1,461,623

9. NET PATIENT SERVICE REVENUES

Net patient service revenue consists of the following:

	2013	2012
Revenue:		
Inpatient	$ 23,314,380	$ 22,406,139
Outpatient	69,657,379	64,955,284
Total patient revenue	92,971,759	87,361,423
Revenue deductions:		
Contractual allowances	40,193,768	37,707,729
Provision for bad debts	3,148,171	2,785,204
Charity care	1,297,189	1,141,312
Total deductions	44,639,128	41,634,245
Total net patient service revenue	$ 48,332,631	$ 45,727,178

10. OPERATING LEASES

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

Years Ending March 31		
2014	$	17,604
2015		17,604
2016		17,604
2017		13,203
Total	$	66,015

Total rental expense for operating leases, including those with terms of one month or less, for the years ended March 31, 2013 and 2012 was $432,066 and $331,586, respectively, and were included within other expenses on the statements of operations and changes in net position.

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

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013 and 2012, member and employer contribution rates were consistent across all three plans. The 2013 and 2012 member contribution rates were 10.0% of covered payroll for members in state and local classifications.

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

Funding Policy

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013 and 2012, state and local employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care was 4.0% during calendar year 2012. Effective January 1, 2013, the portion of employer contributions allocated to health care was lowered to 1%, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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

Years	Contribution
2013	$ 2,204,958
2012	$ 2,177,608
2011	$ 2,182,501

Organization contributions made to fund post-employment healthcare benefits approximated $512,000, $622,000 and $740,000 for 2013, 2012 and 2011, respectively, which are included in the table above.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

12. SELF-INSURED BENEFITS

The Organization provides health insurance to participating employees under a plan that is partially self-insured. The plan is covered by a stop-loss policy that generally covers specific claims over $125,000 and an annual aggregate deductible and covered expenses of $4,164,352. Total health insurance expenses charged to operations, including an estimate of incurred but unreported claims, totaled $3,014,271 and $4,603,358 for the years ended March 31, 2013 and 2012, respectively.

13. RISK MANAGEMENT

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

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

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

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

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

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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*

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

To the Board of Governors:

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, 2013, 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 June 25, 2013.

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 appropriate in the circumstances to the extent necessary to support our opinion on the consolidated 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. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. We consider 2013-1 to be a significant deficiency.

Compliance and Other Matters

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

Management's Response to Findings

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Organization's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Bena & Co., LLC

Columbus, Ohio
June 25, 2013

2013–1 Expense Recognition

Condition: At March 31, 2013, the Organization had recorded a liability for an expense that had not been incurred until fiscal year 2014.

Criteria: In order to be in accordance with accounting principles generally accepted in the United States of America, a liability should not be recorded until the expense is incurred.

Cause: The Organization did not properly account for this expense.

Effect: Liabilities were overstated and expenses were understated.

Recommendation: Expenses should be recorded in the period in which they are incurred.

Management's Response: We will review these types of expenses and record them in the proper period.

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
AUGUST 20, 2013