

**MERCER COUNTY JOINT TOWNSHIP
COMMUNITY HOSPITAL**

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020 AND 2019

CPAs / ADVISORS



OHIO AUDITOR OF STATE
KEITH FABER



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

We have reviewed the *Independent Auditor's Report* of the Mercer County Joint Township Community Hospital, Mercer County, prepared by Blue & Co., LLC, for the audit period April 1, 2019 through March 31, 2020. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads 'Keith Faber'.

Keith Faber
Auditor of State
Columbus, Ohio

November 12, 2020

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MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the business-type activities and the discretely presented component unit of Mercer County Joint Township Community Hospital (the Organization) as of and for the years ended March 31, 2020 and 2019, and the related notes to the consolidated financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall consolidated financial statement presentation.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component unit of the Organization as of March 31, 2020 and 2019, and the respective changes in financial position and cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

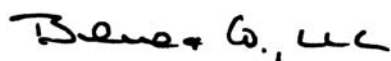
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* on pages i through x and the Required Supplemental Information on Government Accounting Standards Board (GASB) 68 Pension Liabilities and GASB 75 Other Postemployment Benefit Liabilities on pages 40, 41, 42, and 43, respectively, to supplement the consolidated financial statements. Although this information is not part of the consolidated financial statements, the GASB considers it essential for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, to the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2020, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



Westerville, Ohio
August 27, 2020

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

Management's Discussion and Analysis

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, 2020, 2019, and 2018. The consolidated financial statements reflect consolidated information for the Mercer County Joint Township Community Hospital (the Hospital) and the Medical Educational Development Foundation Physicians Corporation (MEDF) and does not include the Medical, Educational and Development Foundation (Foundation) activity. Management is responsible for the completeness and fairness of the consolidated financial statements and the related footnote disclosures along with this discussion and analysis.

Financial Highlights

The Organization's total assets and deferrals decreased by \$2,638,312 and total liabilities and deferrals decreased by \$6,352,388 during the year ended March 31, 2020. Net position increased \$3,714,076 in fiscal year 2020. The increase in net position was primarily related to an 11.6% increase in operating revenue combined with a 3.1% decrease in operating expenses. The increase also relates to a significant increase in non-operating gains of \$3,223,508 attributable to a large donation from the Foundation.

Government Accounting Standards Board (GASB) No. 68 (Accounting and Financial Reporting for Pensions), as amended by GASB Statement No. 71 and GASB 75 (Accounting and Financial Reporting for Postemployment Benefits Other than Pensions)

Included in the Organization's consolidated financial statements is the impact of the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Organization is required to recognize their proportionate share of the Ohio Public Employees Retirement System (OPERS) pension and other postretirement employee benefits (OPEB) unfunded liabilities within the consolidated financial statements. A proportionate share of the net pension liabilities of OPERS and OPEB has been allocated to the Organization, based on retirement plan contributions for Organization employees. The cumulative impact of adopting GASB Statement No. 68 and GASB Statement No. 75 has been a \$48,057,477 reduction in the Organization's net position through March 31, 2020.

These standards fundamentally change the future accounting and financial reporting requirements for public pensions. The standards require each public employer to account for a portion of its public pension plan's unfunded liabilities on their balance sheets. As part of this accounting recognition, there will be operating income/loss impacts into the future. However, since the impact is dependent upon the investment portfolio performance via market investments, it is uncertain as to the performance of these investments in future years.

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

The rules represent a change in reporting – not a change in funding. The Organization continues to contribute 14% annually to the pension and OPEB. This is the same percentage contributed prior to the adoption of these standards.

The chart below summarizes our 2020 activity with and without the impact of GASB Statements 68 and 75.

	Presentation in accordance with Generally Accepted Accounting Principles	Impact w/o GASB 68 & 75
Operating results		
Change in net position	\$ 3,714,076	\$ 7,085,639
Net position		
Assets and deferrals	\$ 68,509,654	\$ 63,104,622
Liabilities and deferrals	79,358,891	25,896,382
Net position	(10,849,237)	37,208,240
Total liabilities and net position	\$ 68,509,654	\$ 63,104,622

Using This Annual Report

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

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

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

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

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

The Organization's Net Position

For the year ended March 31, 2020 the Organization's revenues exceeded expenses and other support creating an increase in net position of \$3,714,076 compared to a \$9,451,438 decrease in the previous year. The increase in net position for 2020 was primarily driven by a non-operating gain related to a large donation from the Foundation, however, the increase was offset significantly by the impact of GASB 68 and GASB 75. GASB 68 led to recognition of additional operating expenses of \$1,489,809 and \$5,491,094 for 2020 and 2019, respectively. GASB 75 led recognition of additional operating expenses of \$1,881,754 and \$1,585,687 for 2020 and 2019, respectively.

Condensed Financial Information

The following is a comparative analysis of the major components of the consolidated balance sheets of the Organization as of March 31, 2020, 2019 and 2018:

	March 31		
	2020	2019	2018
Assets:			
Current assets	\$ 15,794,523	\$ 15,160,696	\$ 14,258,724
Noncurrent assets	6,559,658	3,474,520	14,461,070
Capital assets, net	40,170,894	41,886,975	28,973,789
Deferred outflows of resources			
Interest rate swap	898,792	-	-
Pension	2,190,203	9,246,217	3,672,037
Other post-employment benefits	2,895,584	1,379,558	-
	<u>\$ 68,509,654</u>	<u>\$ 71,147,966</u>	<u>\$ 61,365,620</u>
Liabilities:			
Current liabilities	\$ 7,303,567	\$ 10,729,633	\$ 7,684,019
Long-term liabilities	63,096,232	73,773,812	38,138,157
Deferred inflows of resources			
Interest rate swap	-	319,139	632,459
Pension	6,114,049	780,637	5,289,011
Other post-employment benefits	2,845,043	108,058	-
	<u>\$ 79,358,891</u>	<u>\$ 85,711,279</u>	<u>\$ 51,743,646</u>
Net position:			
Invested in capital assets - net of related debt	\$ 23,297,160	\$ 23,578,337	\$ 13,855,793
Restricted - nonexpendable permanent endowments	25,000	25,000	25,000
Unrestricted	(34,171,397)	(38,166,650)	(4,258,819)
	<u>\$ (10,849,237)</u>	<u>\$ (14,563,313)</u>	<u>\$ 9,621,974</u>

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

During 2020, current assets increased \$633,827 or 4.2%, driven primarily by an increase in cash. Cash increased due to a portion of the \$4,197,203 in contributions received from the Foundation in the current year going to cash, while the remaining amount was reinvested in noncurrent investments. Noncurrent assets increased \$3,085,138 primarily driven by the remaining portion of the Foundation contributions. Capital assets decreased \$1,716,081 during 2020 primarily due to the west wing expansion project in the prior year seeing a full year of depreciation with few new asset additions. Deferred outflows decreased \$4,641,196 due to the net difference between projected and actual earnings on pension plan assets. Current liabilities decreased \$3,426,066 primarily due to a decrease in accounts payable as a result of timing of payments and accrued expenses relating to health insurance payments decreasing significantly due to a change in providers during the year. Long-term liabilities and deferrals decreased \$2,926,322 primarily due to a decrease in the net pension liability.

Operating Results and Changes in the Organization's Net Position

	2020	2019	2018
Operating revenue			
Net patient service revenue	\$ 73,302,919	\$ 65,657,734	\$ 63,406,153
Other operating revenue	1,274,976	1,370,477	1,356,037
Total operating revenues	<u>74,577,895</u>	<u>67,028,211</u>	<u>64,762,190</u>
Operating expenses			
Salaries and wages	26,915,097	26,160,426	25,669,110
Employee benefits	12,755,526 (&)	19,507,425 (^)	13,133,602 (#)
Supplies	9,093,471	7,778,728	7,157,640
Professional fees	11,058,323	10,019,532	9,570,712
Purchased services	2,068,070	1,656,585	1,469,681
Insurance	409,689	405,016	370,570
Depreciation and amortization	3,421,248	3,075,290	2,949,334
Franchise fee	867,788	722,255	692,552
Other operating expenses	7,846,914	7,503,191	6,824,943
Total operating expenses	<u>74,436,126</u>	<u>76,828,448</u>	<u>67,838,144</u>
Operating gain (loss)	141,769	(9,800,237)	(3,075,954)
Nonoperating gains (losses)			
Interest expense	(611,777)	(375,267)	(227,820)
Other gains	4,184,084	724,066	1,014,443
Total nonoperating gains	<u>3,572,307</u>	<u>348,799</u>	<u>786,623</u>
Change in net position	3,714,076	(9,451,438)	(2,289,331)
Net position, beginning of year	(14,563,313)	9,621,974	11,911,305
Cumulative effect of accounting change	-	(14,733,849)	-
Net position, end of year	<u>\$ (10,849,237)</u>	<u>\$ (14,563,313)</u>	<u>\$ 9,621,974</u>

(&) 2020 employee benefits expense includes the GASB No. 68 impact of \$1,489,809 and GASB No. 75 impact of \$1,881,754

(^) 2019 employee benefits expense includes the GASB No. 68 impact of \$5,491,094 and GASB No. 75 impact of \$1,585,687

(#) 2018 employee benefits expense includes the GASB No. 68 impact of \$2,563,408

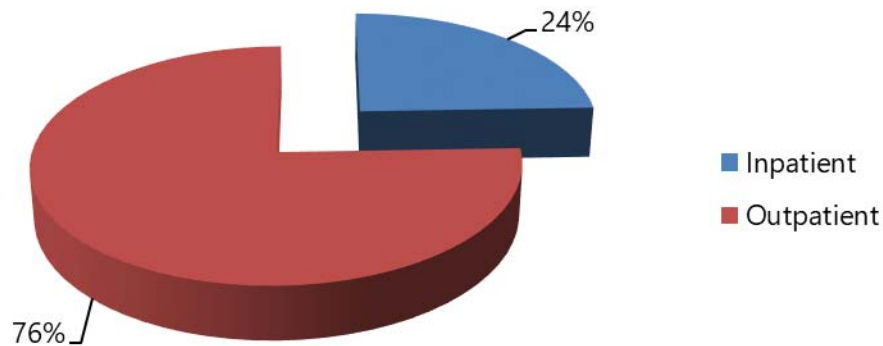
**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Operating Revenues

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

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased \$7,645,185 or 11.6%, in 2020. This was attributable to changes in patient volumes and rate increases offset by deductions from revenue. Gross patient revenue is reduced by revenue deductions in determining net patient revenue. These deductions include amounts not paid to the Organization under contractual arrangements primarily with Medicare, Medicaid, and commercial payors as well as amounts related to self-pay patients that qualify for charity write-offs based on pre-established financial need criteria and bad debts. These revenue deductions decreased from 2019 to 2020 from 48.6% to 48.1% of gross revenue.
- The following is a graphic illustration of patient revenues by source:



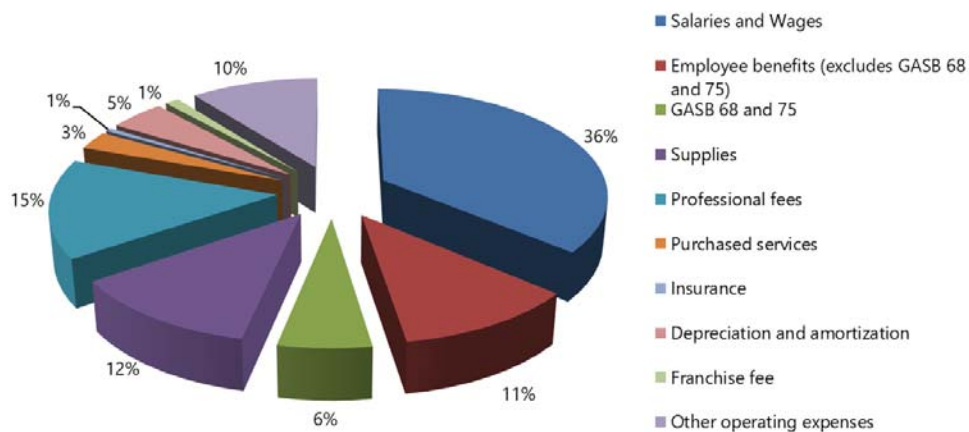
**MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Organization. The significant operating expense changes from 2019 to 2020 were the result of the following factors:

- Salaries and wages expense increased \$754,671, or 2.9%, primarily as a result of an increase in full time equivalents and a pay rate increase of 2.9% in 2020.
- Employee benefits expense decreased \$6,751,899, or 34.6%. The GASB 68 expense included in employee benefits expense decreased by \$4,001,285 offset slightly by an increase in the GASB 75 expense of \$296,067. This decrease is also attributable to a decrease in health insurance expense due to the Organization switching providers at the beginning of year leading to the average cost per claim to decrease.
- Supplies expense increased \$1,314,743, or 16.9%, primarily due to increased patient volumes by approximately 6.5% during 2020 compared to 2019.
- Professional fees increased \$1,038,791, or 10.4%, primarily due to an increase in Rehabilitative Services which is all outsourced through professional fees.
- Purchase services increased \$411,485 or 24.8%, primarily due to an increase in legal fees related to obtaining to Medicare Dependent status.
- Depreciation and amortization expense increased \$345,958 or 11.2%, this is attributable to the West Wing Expansion Project being completed in fiscal year 2019. Fiscal year 2020 was the first full year of depreciation on the related assets.
- Other operating expenses increased \$343,723 or 4.6%, primarily due to increase volumes causing higher maintenance costs for the information technology system.

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



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

Non-operating Gains (Losses)

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

Consolidated 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		
	2020	2019	2018
Cash provided by (used in):			
Operating activities	\$ 3,999,227	\$ 2,848,621	\$ 3,644,078
Non-capital and related financing activities	4,157,325	669,144	899,565
Investing activities	43,224	58,887	121,232
Capital and related financing activities	(3,778,002)	(13,129,047)	(13,835,450)
 Total	 4,421,774	 (9,552,395)	 (9,170,575)
 Cash - beginning of year	 3,604,505	 13,156,900	 22,327,475
 Cash - end of year	 \$ 8,026,279	 \$ 3,604,505	 \$ 13,156,900

Capital Asset and Debt Administration

Capital Assets

At March 31, 2020, the Organization had a total investment of \$81,832,532 in gross capital assets and accumulated depreciation totaled \$41,661,638, resulting in a net carrying value of \$40,170,894. Depreciation and amortization expense for 2020 was \$3,421,248 compared to \$3,075,290 for 2019.

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

Debt

At March 31, 2020, the Organization had \$16,873,734 in long-term debt outstanding compared to \$18,308,638 at March 31, 2019. The Organization entered into 2016 and 2017 series bonds and a 2018 note payable in order to refinance previous debt and finance the West Wing Expansion Project. The Organization continues to pay down its debt obligations as prescribed in the debt schedules. More detailed information about the Organization's long-term liabilities is presented in the notes to the financial statements.

Economic Factors that Will Affect the Future

Financial Strength and Stability

For the fiscal year ending March 31, 2020, prior to the GASB 68 & 75 impact the Organization had net income of approximately \$7,086,000. After offsetting this gain with the GASB 68 & 75 impact (\$1,489,809 impact on pension expense and \$1,881,754 impact on OPEB expense) on the Organization, the Organization incurred net income of approximately \$3,714,000. This fiscal year started to see the positive effects of the West Wing Expansion bringing in more patients. This combined with decrease expenses related to employee healthcare lead to positive performance which the Organization will look to expand on in the coming years.

Optimization of the Electronic Medical Record

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

Strategic Planning

The past couple of years, the Organization focused on two key initiatives: the implementation of the electronic health record (EPIC) in November 2016 and the opening of the Sanderell Family West Wing in October 2018. Both of these initiatives have put the Organization in a place for long-term success.

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

However, now the focus has turned to what's next for Mercer Health and healthcare delivery in Mercer County. Specifically focusing on what the Organization needs to focus on to capitalize on the momentum we have built and continue to set the pace for healthcare delivery in our community. Senior Leadership began laying the groundwork for a five year Strategic Plan in January 2020, which included Town Hall meetings with employees and management to solicit ideas and thoughts from our entire team. From there, Senior Leadership met with Board members and Medical Staff members on two separate occasions to dive deeper into setting the strategy for the next several years. While the final touches of the plan are still being developed, the focus will be on 1) building team, integration, and shared responsibility; 2) health community; 3) planning for strategic growth; 4) investing in quality and strengthening our product; 5) patient experience and loyalty; and 6) staying committed to financial sustainability.

Healthcare Trends & Legislation Impact

The COVID-19 pandemic has had a significant impact on the healthcare industry. The pandemic had lasting effects that will most likely change healthcare indefinitely. The pandemic led to increased unemployment in America translating to tens of millions of Americans to lose health insurance. This increase in economic downturn is expected to lead to a shift from private health insurance companies to government sponsored programs. The Centers for Medicare & Medicaid Services (CMS) and the Food and Drug Administration (FDA) have shown new regulatory flexibility due to the pandemic. This flexibility allows healthcare providers to broaden their virtual services allowing providers to reach more patients, potentially outside of their normal geographic area. Telehealth has seen a 50% surge since April 2020¹. The Organization is continuously working to ensure it is up-to-date on all regulation changes and healthcare trends that are changing daily.

The state of Ohio has utilized the franchise fee collected from hospitals to help offset financial deficiencies in the administration of the state's Medicaid Expansion program. The budget presented in this consolidated financial statement reflects a franchise fee expense of approximately \$867,788 to the Organization. The Organization will be monitoring Ohio Governor Mike DeWine's state budget as it relates to reforming the franchise fee.

The Organization continues to monitor the status of Ohio legislation related to Nurse Overtime (H.B. 144), Nurse Anesthetists Authority (S.B. 61), and Drug Prescribing (S.B. 51).

The popularity of High Deductible Plans has put a greater financial responsibility on the patient. This has caused the Organization to experience more patients needing to be on a payment plan, ultimately leading to extended days in accounts receivable and an increased risk for bad debt.

¹ (Morgan Stanley, 2020)

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

Future Financial Overview

The current operating fiscal year (April 1, 2020 through March 31, 2021) will prove to be challenging (given anticipated Medicare cutbacks, dealing with other healthcare reform legislation, continuing to optimize the value of the EPIC electronic medical record system, and dealing with the aftermath of the COVID-19 pandemic), but it is attainable given every employee's commitment to providing excellent quality patient care and a continued focus on monitoring the costs of the Organization.

Specific goals for the Current Fiscal Year will focus on:

1. Achieve an operating margin as indicated in the fiscal year end March 31, 2021 budget
2. Manage capital budget dollars of \$3.3 million
3. Grow volumes in specific departments through new business opportunities
4. Provide for heightened levels of cost monitoring throughout the organization
5. Manage overtime and FTE levels within each department
6. Establish new cost monitoring programs regarding labor productivity and accounts receivable denial management
7. Optimize the funds received through the Coronavirus Aid, Relief, and Economic Security Act

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 and Chief Operating Officer, Jon Dingedine, at 800 W. Main Street, Coldwater, Ohio 45828.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED BALANCE SHEETS MARCH 31, 2020 AND 2019

	ASSETS			
	Mercer County Joint Township Community Hospital		Component Unit Medical, Educational, and Development Foundation	
	2020	2019	2020	2019
Current assets				
Cash and cash equivalents	\$ 3,547,629	\$ 2,267,664	\$ 260,936	\$ 57,782
Patient accounts receivable, net of uncollectible accounts of \$3,510,089 in 2020 and \$3,389,409 in 2019	9,090,723	9,445,371	-	-
Other receivables	1,223,372	1,722,564	-	-
Pledge receivables, net	-	-	439,167	819,159
Inventories	1,624,387	1,470,323	-	-
Investments	-	-	191,804	174,030
Prepaid expenses and other current assets	308,412	254,774	-	27,732
Total current assets	<u>15,794,523</u>	<u>15,160,696</u>	<u>891,907</u>	<u>1,078,703</u>
Noncurrent assets				
Assets whose use is limited	4,478,650	1,336,841	54,573	47,639
Net pension asset	319,245	190,828	-	-
Other receivables	249,143	355,857	-	-
Interest rate swap asset	-	319,139	-	-
Other assets	1,512,620	1,271,855	-	3,740,315
Total noncurrent assets	<u>6,559,658</u>	<u>3,474,520</u>	<u>54,573</u>	<u>3,787,954</u>
Capital assets, net	40,170,894	41,886,975	-	-
Deferred outflow of resources				
Interest rate swap	898,792	-	-	-
Pension	2,190,203	9,246,217	-	-
Other post-employment benefits	2,895,584	1,379,558	-	-
Total outflows of resources	<u>5,984,579</u>	<u>10,625,775</u>	<u>-</u>	<u>-</u>
Total assets and deferrals	<u>\$ 68,509,654</u>	<u>\$ 71,147,966</u>	<u>\$ 946,480</u>	<u>\$ 4,866,657</u>

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED BALANCE SHEETS MARCH 31, 2020 AND 2019

LIABILITIES AND NET POSITION

	Mercer County Joint Township Community Hospital		Component Unit Medical, Educational, and Development Foundation	
	2020	2019	2020	2019
Current liabilities				
Accounts payable	\$ 2,378,257	\$ 5,154,699	\$ 140,366	\$ -
Accrued expenses	3,280,293	3,975,016	-	-
Estimated amounts due to third party payors	194,956	167,516	-	-
Current portion of long-term debt	1,450,061	1,432,402	-	-
Total current liabilities	7,303,567	10,729,633	140,366	-
Long-term liabilities				
Compensated absences	2,270,350	2,283,754	-	-
Interest rate swap liability	898,792	-	-	-
Net pension liability	26,251,588	37,022,787	-	-
Net other post-employment benefit liability	18,251,829	17,591,035	-	-
Long-term debt, net of current portion	15,423,673	16,876,236	-	-
Total long-term liabilities	63,096,232	73,773,812	-	-
Deferred inflow of resources				
Interest rate swap	-	319,139	-	-
Pension	6,114,049	780,637	-	-
Other post-employment benefits	2,845,043	108,058	-	-
Total deferred inflow of resources	8,959,092	1,207,834	-	-
Total liabilities and deferrals	79,358,891	85,711,279	140,366	-
Net position				
Invested in capital assets - net of related debt	23,297,160	23,578,337	-	-
Restricted for:				
Nonexpendable:				
Endowments	25,000	25,000	-	-
Expendable:				
Restricted based on donor's intent	-	-	54,573	47,639
Time restricted	-	-	439,167	819,159
Unrestricted	(34,171,397)	(38,166,650)	312,374	3,999,859
Total net position	(10,849,237)	(14,563,313)	806,114	4,866,657
Total liabilities, deferrals and net position	\$ 68,509,654	\$ 71,147,966	\$ 946,480	\$ 4,866,657

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, 2020 AND 2019

	Mercer County Joint Township Community Hospital		Component Unit Medical, Educational, and Development Foundation	
	2020	2019	2020	2019
Operating revenue				
Net patient service revenue	\$ 73,302,919	\$ 65,657,734	\$ -	\$ -
Other operating revenue	1,274,976	1,370,477	195,233	319,568
Total operating revenues	74,577,895	67,028,211	195,233	319,568
Operating expenses				
Salaries and wages	26,915,097	26,160,426	-	-
Employee benefits	12,755,526	19,507,425	-	-
Supplies	9,093,471	7,778,728	-	-
Professional fees	11,058,323	10,019,532	-	-
Purchased services	2,068,070	1,656,585	-	-
Insurance	409,689	405,016	-	-
Depreciation and amortization	3,421,248	3,075,290	-	-
Franchise fee	867,788	722,255	-	-
Other operating expenses	7,846,914	7,503,191	11,202	1,927
Donation expense	-	-	4,219,866	958,641
Total operating expenses	74,436,126	76,828,448	4,231,068	960,568
Operating gain (loss)	141,769	(9,800,237)	(4,035,835)	(641,000)
Nonoperating gains (losses)				
Interest expense	(611,777)	(375,267)	-	-
Other gains (losses)	4,184,084	724,066	(24,708)	1,033,096
Total nonoperating gains (losses)	3,572,307	348,799	(24,708)	1,033,096
Change in net position	3,714,076	(9,451,438)	(4,060,543)	392,096
Net position, beginning of year as previously reported	(14,563,313)	9,621,974	4,866,657	4,474,561
Cumulative effect of accounting change	-	(14,733,849)	-	-
Beginning of year, as restated	(14,563,313)	(5,111,875)	4,866,657	4,474,561
Net position, end of year	\$ (10,849,237)	\$ (14,563,313)	\$ 806,114	\$ 4,866,657

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED MARCH 31, 2020 AND 2019

	Mercer County Joint Township Community Hospital		Component Unit Medical, Educational, and Development Foundation	
	2020	2019	2020	2019
Cash flows from operating activities				
Cash received from patients and third-party payors	\$ 73,685,007	\$ 65,503,835	\$ 575,225	\$ 780,308
Cash payments to suppliers for services and goods	(33,963,258)	(25,565,065)	(347,363)	(2,042,582)
Cash payments to employees and related benefits	(36,997,498)	(38,460,626)	-	-
Other operating revenue	1,274,976	1,370,477	-	-
Net cash flows from operating activities	<u>3,999,227</u>	<u>2,848,621</u>	<u>227,862</u>	<u>(1,262,274)</u>
Cash flows from non-capital and related financing activities				
Other non-operating	4,157,325	669,144	-	-
Cash flows from investing activities				
Purchases of investments	(4,095,260)	(979,708)	-	-
Proceeds from sale of investments	4,095,260	979,708	-	-
Investment earnings	43,224	58,887	(24,708)	1,033,096
Net cash flows from investing activities	<u>43,224</u>	<u>58,887</u>	<u>(24,708)</u>	<u>1,033,096</u>
Cash flows from capital and related financing activities				
Payments on long-term debt	(1,434,904)	(809,360)	-	-
Issuance on long-term debt	-	4,000,000	-	-
Interest paid	(621,466)	(327,246)	-	-
Acquisition of capital assets	(1,721,632)	(15,992,441)	-	-
Net cash flows from capital and related financing activities	<u>(3,778,002)</u>	<u>(13,129,047)</u>	<u>-</u>	<u>-</u>
Net change in cash and cash equivalents	4,421,774	(9,552,395)	203,154	(229,178)
Cash and cash equivalents, beginning of year	<u>3,604,505</u>	<u>13,156,900</u>	<u>57,782</u>	<u>286,960</u>
Cash and cash equivalents, end of year	<u>\$ 8,026,279</u>	<u>\$ 3,604,505</u>	<u>\$ 260,936</u>	<u>\$ 57,782</u>
Reconciliation of cash and cash equivalents				
Cash and cash equivalents	\$ 3,547,629	\$ 2,267,664	\$ 260,936	\$ 57,782
Assets whose use is limited	4,478,650	1,336,841	-	-
Total cash and cash equivalents	<u>\$ 8,026,279</u>	<u>\$ 3,604,505</u>	<u>\$ 260,936</u>	<u>\$ 57,782</u>

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED MARCH 31, 2020 AND 2019

	Mercer County Joint Township Community Hospital		Component Unit Medical, Educational, and Development Foundation	
	2020	2019	2020	2019
Cash flows from operating activities				
Operating gain (loss)	\$ 141,769	\$ (9,800,237)	\$ (4,035,835)	\$ (641,000)
Adjustments to reconcile operating gain (loss) to net cash from operating activities:				
Depreciation and amortization	3,421,248	3,075,290	-	-
Provision for bad debts	3,687,409	3,020,787	(19,985)	29,348
Pension expense (GASB 68)	1,489,809	5,491,094	-	-
Other post-employment benefit expense (GASB 75)	1,881,754	1,585,687	-	-
Changes in assets and liabilities				
Patient accounts receivable	(3,332,761)	(3,745,523)	-	-
Other receivables	605,906	507,733	399,977	431,392
Inventories	(154,064)	(24,313)	-	-
Prepaid expenses and other current assets	(53,638)	59,349	27,732	(27,732)
Other assets	(240,765)	(15,246)	3,715,607	(1,054,282)
Accounts payable	(2,776,442)	1,992,719	140,366	-
Accrued expenses	(685,034)	18,220	-	-
Estimated third-party settlements	27,440	570,837	-	-
Compensated absences	(13,404)	112,224	-	-
Net cash flow from operating activities	<u>\$ 3,999,227</u>	<u>\$ 2,848,621</u>	<u>\$ 227,862</u>	<u>\$ (1,262,274)</u>

See accompanying notes to consolidated financial statements.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2020 AND 2019

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity/Basis of Consolidation

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

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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Medical, Educational and Development Foundation (the Foundation) is included as a discretely presented component unit in a separate column in the Organization's consolidated financial statements to emphasize that it is legally separate from the Organization. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the Organization in support of its programs. Although the Organization does not control the timing or the amounts of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to support the activities of the Organization. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the Organization, it is considered a component unit of the Organization. The Foundation is a private nonprofit organization that reports under generally accepted accounting principles set forth by Financial Accounting Standards Board (FASB) standards.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by 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.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2020 AND 2019

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Inventories

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

Assets Whose Use is Limited

Assets whose use is limited consist of funds restricted in connection with the Organization's revenue bonds for the replacement, improvement, and expansion of facilities. Assets whose use is limited also includes cash and cash equivalents set aside by the Board of Governors for future capital improvements and debt repayment, over which the Board of Governors retains control and may at its discretion subsequently use for other purposes. The Foundation's assets whose use is limited funds include amounts restricted based on donor's intent. Permanent endowments are also included in assets whose use is limited, of which the interest is restricted for operations and capital improvements. Investment income is included in nonoperating gains (losses).

Other Receivables

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

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2020 AND 2019

Pledge Receivables

Pledge receivables consist of amounts that have been unconditionally promised to the Foundation. Pledges receivable that are expected to be collected in less than one year are reported at fair value. Pledges receivable that are expected to be collected in more than one year are recorded at the net realizable value at the date of promise. The net realizable value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional pledge income. Management estimates an allowance for uncollectible pledge receivables based on current economic conditions, historical trends, and current and past experience with their donor base. The allowance for uncollectible pledges as of March 31, 2020 and 2019 was \$45,413 and \$36,617, respectively.

Capital Assets

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

Enterprise Fund Accounting

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

Compensated Absences

Paid time off is charged to operations when earned. The earned and unused benefits are recorded as a liability in the consolidated financial statements. Employees accumulate vacation days and sick leave benefits at varying rates depending on years of service. Payment of accrued vacation days and accrued sick leave is based on the employee's rate of pay at the time of termination. Upon termination the maximum payout shall not exceed 240 hours for vacation time and 260 hours for sick leave.

Patient Accounts Receivable and Net Patient Service Revenue

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

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2020 AND 2019

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 five components. Net position invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted nonexpendable net position equal the principal portion of a permanent endowment received in 2006 for which the income is restricted for operations and capital improvements. Restricted net position based on donor's intent is the restricted net position relating to assets donated for a specific purpose. Restricted net position based on time restrictions is the restricted net position relating to the Foundation pledge receivables. Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

Gain (Loss) from Operations

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

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.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2020 AND 2019

Of the Organization's total reported operating expenses (approximately \$74,436,000 and \$76,828,000 during 2020 and 2019, respectively), an estimated \$246,000 and \$777,000 arose from providing services to charity patients during 2020 and 2019, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Organization's total operating expenses divided by gross patient service revenue. The Organization participates in the Hospital Care Assurance Program (HCAP) which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts recognized through this program totaled approximately \$92,000 and \$99,000 for 2020 and 2019, respectively, and are reported as net patient service revenue in the financial statements.

Federal Income Tax

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

The Foundation is a tax-exempt organization as defined under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made for this component unit in the consolidated financial statements.

The Foundation has filed its applicable federal and state income tax returns for periods through May 31, 2019. This income tax return is generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability if an uncertain position has been taken that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by these entities and has concluded that as of March 31, 2020 and 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The entity is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Pension and Postemployment Benefits Other Than Pensions (OPEB)

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

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the pension and OPEB, and pension and OPEB expense, information about the net position of OPERS and addition to/deductions from the OPERS's net position have been determined on the same basis as they are reported by the OPERS.

Subsequent Events

The Organization has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements were available to be issued, which is August 27, 2020.

2. DEPOSITS AND INVESTMENTS

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

	2020		2019	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Demand deposits and money market deposit accounts	\$ 3,931,019	\$ 3,931,019	\$ 2,624,797	\$ 2,624,797
Certificates of deposit	4,095,260	4,095,260	979,708	979,708
Total	\$ 8,026,279	\$ 8,026,279	\$ 3,604,505	\$ 3,604,505
	2020		2019	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Amounts summarized by fund type-				
General funds:				
Cash	\$ 3,547,629	\$ 3,547,629	\$ 2,267,664	\$ 2,267,664
Assets whose use is limited	4,478,650	4,478,650	1,336,841	1,336,841
Total	\$ 8,026,279	\$ 8,026,279	\$ 3,604,505	\$ 3,604,505

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

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

	2020		2019	
	<u>Fair Value</u>	<u>Amortized Historical Cost</u>	<u>Fair Value</u>	<u>Amortized Historical Cost</u>
Demand deposits and money market deposit accounts	\$ 260,936	\$ 260,936	\$ 105,421	\$ 105,421
Certificates of deposit	246,377	246,377	174,030	174,030
 Total	 \$ 507,313	 \$ 507,313	 \$ 279,451	 \$ 279,451
	2020		2019	
	<u>Fair Value</u>	<u>Amortized Historical Cost</u>	<u>Fair Value</u>	<u>Amortized Historical Cost</u>
Amounts summarized by fund type-				
General funds:				
Cash	\$ 260,936	\$ 260,936	\$ 57,782	\$ 57,782
Investments	191,804	191,804	174,030	174,030
Assets whose use is limited	54,573	54,573	47,639	47,639
 Total	 \$ 507,313	 \$ 507,313	 \$ 279,451	 \$ 279,451

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, 2020 and 2019, the Organization had \$7,511,813 and \$3,524,097, 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.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

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, 2020			
Certificates of deposit	\$ 4,095,260	\$ 4,095,260	\$ -

	Carrying Amount	Maturities	
		< than one year	> than one year
March 31, 2019			
Certificates of deposit	\$ 979,708	\$ 979,708	\$ -

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

	Carrying Amount	Maturities	
		< than one year	> than one year
March 31, 2020			
Certificates of deposit	\$ 246,377	\$ 246,377	\$ -

	Carrying Amount	Maturities	
		< than one year	> than one year
March 31, 2019			
Certificates of deposit	\$ 174,030	\$ 174,030	\$ -

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.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

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:

	2020	2019
Gross patient accounts receivable	\$ 20,069,679	\$ 21,074,493
Less allowance for:		
Uncollectible accounts	(3,510,089)	(3,389,409)
Contractual adjustments	(7,468,867)	(8,239,713)
	<u> </u>	<u> </u>
Net patient accounts receivable	<u>\$ 9,090,723</u>	<u>\$ 9,445,371</u>

The mix of accounts receivable and gross revenues from patients and third-party payors in 2020 and 2019 follows:

	2020		2019	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	24%	44%	29%	46%
Medicaid	8%	10%	7%	10%
Self-pay	38%	3%	32%	2%
Commercial and other	30%	43%	32%	42%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

4. PLEDGE RECEIVABLES

Pledge receivables at March 31, 2020 and 2019 consists of the following:

	2020	2019
Due within one year	\$ 292,676	\$ 386,693
Due in one to five years	197,898	503,858
Total	<u>490,574</u>	<u>890,551</u>
Less		
Allowance for uncollectible pledges	(45,413)	(36,617)
Unamortized discount	(5,994)	(34,775)
	<u>(51,407)</u>	<u>(71,392)</u>
Total	<u>\$ 439,167</u>	<u>\$ 819,159</u>

Pledge receivables that extend beyond one year are discounted at 5% in 2020 and 2019.

5. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2020 was as follows:

	2019	Additions	Transfers	Retirements	2020
Land	\$ 44,300	\$ 45,000	\$ -	\$ -	\$ 89,300
Land improvements	145,473	-	-	-	145,473
Buildings and improvements	54,227,584	729,668	-	(10,810)	54,946,442
Equipment	26,938,621	880,888	-	(1,234,268)	26,585,241
Construction in process	-	66,076	-	-	66,076
Total capital assets	<u>81,355,978</u>	<u>1,721,632</u>	<u>-</u>	<u>(1,245,078)</u>	<u>81,832,532</u>
Less accumulated depreciation					
Land improvements	89,074	8,104	-	-	97,178
Buildings and improvements	22,465,165	1,369,851	-	(10,810)	23,824,206
Equipment	16,914,764	2,043,293	-	(1,217,803)	17,740,254
Total accumulated depreciation	<u>39,469,003</u>	<u>3,421,248</u>	<u>-</u>	<u>(1,228,613)</u>	<u>41,661,638</u>
Capital assets, net	<u>\$ 41,886,975</u>	<u>\$ (1,699,616)</u>	<u>\$ -</u>	<u>\$ (16,465)</u>	<u>\$ 40,170,894</u>

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

Capital asset activity for the year ended March 31, 2019 was as follows:

	2018	Additions	Transfers	Retirements	2019
Land	\$ 44,300	\$ -	\$ -	\$ -	\$ 44,300
Land improvements	98,482	46,991	-	-	145,473
Buildings and improvements	29,032,367	13,036,583	12,161,813	(3,179)	54,227,584
Equipment	23,282,623	2,908,867	782,553	(35,422)	26,938,621
Construction in progress	12,944,366	-	(12,944,366)	-	-
Total capital assets	<u>65,402,138</u>	<u>15,992,441</u>	<u>-</u>	<u>(38,601)</u>	<u>81,355,978</u>
Less accumulated depreciation					
Land improvements	83,612	5,462	-	-	89,074
Buildings and improvements	21,442,714	1,025,630	-	(3,179)	22,465,165
Equipment	14,902,023	2,044,198	-	(31,457)	16,914,764
Total accumulated depreciation	<u>36,428,349</u>	<u>3,075,290</u>	<u>-</u>	<u>(34,636)</u>	<u>39,469,003</u>
Capital assets, net	<u>\$ 28,973,789</u>	<u>\$ 12,917,151</u>	<u>\$ -</u>	<u>\$ (3,965)</u>	<u>\$ 41,886,975</u>

6. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

For 2020 and 2019, approximately 54% and 56%, respectively, of the Organization's revenues from patient services are received from the Medicare and Medicaid programs. The Organization has agreements with these payors that provide for reimbursement to the Organization at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Organization's established rates for services and amounts reimbursed by third-party payors.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements. Medicare cost reports have been settled through 2016. The Organization anticipates that settlements on open Medicaid cost reports will be insignificant.

Medicare

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

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

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On December 2, 2019, the Organization was approved to be classified as a Medicare Dependent Hospital (MDH). The status became effective retroactive to June 5, 2019, allowing the Organization to qualify for increased reimbursement rates from the Department of Medicare.

Medicaid

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

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

Commercial Payors

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

7. OTHER ASSETS

The Organization is a member of the West Central Ohio Regional Healthcare Alliance, Ltd. (WCORHA) along with four other area hospitals. The Organization along with three other members of WCORHA assist in the daily operations of the Cancer Network of West Central Ohio ("Cancer Network"). In regards to the Cancer Network, the Organization maintains a 25% ownership which is accounted for on the equity method. The carrying amount of the Organization's equity interest in this entity is \$479,313 and \$430,873 at March 31, 2020 and 2019, respectively, and is included in other assets on the consolidated balance sheets. Gains and (losses) from the Cancer Network included in nonoperating gain/(loss) were (\$11,561) and (\$10,926) in 2020 and 2019, respectively.

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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 \$817,307 and \$719,197 at March 31, 2020 and 2019, respectively. These balances are included within other assets. During 2020 and 2019, the Organization recognized investment gain (loss) from these entities of \$98,110 and (\$14,863) respectively, which is included in nonoperating gains (losses).

In 2002, the Foundation entered into an agreement with Providers Re SPC c/o International Risk Management (Cayman), Ltd. (Providers Re) for a self-insured healthcare professional liability plan. Under the agreement Providers Re created a segregated portfolio company that was intended to be capitalized and operated exclusively for the purposes of this insurance program. The outstanding shares of this portfolio are held by the Foundation. The carrying amount of the Foundation's equity interest in this entity was \$0 and \$3,740,315 at March 31, 2020 and 2019, respectively. These balances are included within other assets. During 2019, the Foundation recognized investment gain (loss) from this entity of (\$46,246) and \$1,033,096, as of March 31, 2020 and 2019, respectively, which is included in nonoperating gains (losses). This agreement was terminated and the plan was liquidated in 2020.

8. LONG-TERM LIABILITIES

Long-term debt activity for the year ending March 31, 2020 was as follows:

	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Bonds and notes payable:					
Series 2016 bond payable, bearing interest at 1.95%	\$ 6,380,026	\$ -	\$ (307,486)	\$ 6,072,540	\$ 318,666
Series 2017 bond payable, bearing interest at 1.95%	8,124,706	-	(323,512)	7,801,194	331,395
Note payable, bearing interest at 5.125%, due in quarterly principal installments of \$200,000 plus interest through September 2023	3,803,906	-	(803,906)	3,000,000	800,000
Total leases, bonds and notes payable	<u>\$ 18,308,638</u>	<u>\$ -</u>	<u>\$ (1,434,904)</u>	<u>\$ 16,873,734</u>	<u>\$ 1,450,061</u>

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

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Long-term debt activity for the year ending March 31, 2019 was as follows:

	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
Bonds and notes payable:					
Series 2016 bond payable, bearing interest at 2.94%	\$ 6,677,474	\$ -	\$ (297,448)	\$ 6,380,026	\$ 306,767
Series 2017 bond payable, bearing interest at 2.94%	8,440,522	-	(315,816)	8,124,706	325,635
Note payable, bearing interest at 5.125%, due in quarterly principal installments of \$200,000 plus interest through September 2023	-	4,000,000	(196,094)	3,803,906	800,000
Total leases, bonds and notes payable	<u>\$ 15,117,996</u>	<u>\$ 4,000,000</u>	<u>\$ (809,358)</u>	<u>\$ 18,308,638</u>	<u>\$ 1,432,402</u>

The bonds and notes payable are summarized as follows:

2016 Hospital Facilities Revenue Bonds - dated September 1, 2016, were issued in the amount of \$7,072,098 to refund the 2008A series bonds and finance a portion of the West Wing construction project. The bonds have monthly principal and interest payments that vary based on the variable interest rate. The bonds mature on September 7, 2038 and includes a lump-sum payment of \$1,684,494 at maturity. The interest rate on the variable rate debt was 1.95% at March 31, 2020. These bonds are secured by a pledge of certain certificates of deposits and the balance in the project service fund. The collateral balance at March 31, 2020 was \$0.

2017 Hospital Facilities Revenue Bonds - dated January 1, 2017, were issued in the amount of \$8,800,000 to provide for additional financing for the West Wing construction project. The bonds have monthly principal and interest payments that vary based on the variable interest rate. The bonds mature on January 1, 2039 and includes a lump-sum payment of \$3,355,392 at maturity. The interest rate on the variable rate debt was 1.95% at March 31, 2020. These bonds are secured by a pledge of gross receipts of the Organization.

The 2017 and 2016 series bonds are subject to operational and financial covenants. The Organization is required to maintain a fixed charge coverage ratio of not less than 1.35 and a ratio of total liabilities to net position ratio of not greater than 1.5 to 1.0. In fiscal year 2020, the Organization met all financial covenants.

Note Payable - The Organization entered into a \$4,000,000 installment note payable during 2018, proceeds from which were used to cover additional expenses and repairs related to the West Wing Expansion project. The note has quarterly principal and interest payments at an interest of 5.125%. The note matures on October 21, 2023. This loan is secured by a pledge of gross receipts of the Organization.

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The 2018 note payable is subject to operational and financial covenants. The Organization is required to maintain a fixed charge coverage ratio of not less than 1.35, a ratio of total liabilities to net position of not greater than 1.5 to 1.0, and a days cash on hand ratio of not less than 20 days. The Organization met all ratios in 2020.

The Organization entered into a revolving line of credit with First Financial Bank for \$3,000,000 subsequent to March 31, 2020.

The following is a schedule of principal and interest payments based on interest rates effective at March 31, 2020:

Years Ended March 31	Bonds and Notes Principal	Bonds and Notes Interest	Interest Rate Swap, Net
2021	\$ 1,450,061	\$ 444,904	\$ 63,239
2022	1,469,347	390,881	60,175
2023	1,489,246	336,477	57,020
2024	1,302,190	281,673	53,770
2025	730,955	226,464	50,423
2026-2030	3,995,950	829,543	198,332
2031-2035	1,387,721	514,179	123,126
2036-2039	5,048,264	365,733	88,341
Total	<u>\$ 16,873,734</u>	<u>\$ 3,389,854</u>	<u>\$ 694,426</u>

9. DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAPS

Contracts

The Organization has three interest rate swap agreements in effect at March 31, 2020 relating to the 2016 Hospital Facilities Revenue Refunding Bonds and 2017 Hospital Facilities Revenue Refunding Bonds.

Objectives

As a means to manage the risk associated with interest rate risk on its variable rate bonds, the Organization entered into an interest rate swap in connection with its 2016 and 2017 Hospital Facilities Revenue Refunding Bonds. These interest rate swaps are reflected at fair value in the consolidated balance sheets as a liability of \$898,792 and asset of \$319,139 at March 31, 2020 and 2019, respectively. The intention of the swap agreements was to effectively change the Organization’s variable interest rate on the bonds to the fixed rates stated in the table below.

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Terms, Fair Values and Credit Risk

The terms, fair values, and credit ratings of the outstanding swap as of March 31, 2020 are shown below. The notional amount of the swap is equal to or less than the principal amount of the associated debt and declines with the principal amortization on the bonds.

Associated Bond Issue	Notional Amount	Effective Date	Fixed Rate	Variable Rate	Fair Value	Termination Date	Counterparty Credit Rating
2016 Hospital Facilities Revenue Refunding Bonds	\$ 3,281,046	October 12, 2016	2.39%	1.95%	\$ (223,427)	October 12, 2031	BBB+/A-/A-
2016 Hospital Facilities Revenue Refunding Bonds	\$ 2,817,577	October 12, 2016	2.43%	1.95%	\$ (236,581)	October 12, 2031	BBB+/A-/A-
2017 Hospital Facilities Revenue Refunding Bonds	\$ 5,801,194	January 13, 2017	2.42%	1.95%	\$ (438,784)	January 13, 2032	BBB+/A-/A-

The variable rate on the swap is the USD-LIBOR-BBA and the rate reset period is monthly for each swap agreement.

The counterparty carries a guarantee by an entity ("counterparty guarantor") and counterparty credit ratings are shown in the table above.

Basis Risk

The swap and the bonds interest rates are both tied to the USD-LIBOR-BBA index, therefore basis risk relating to the swap is minimal.

Termination Risk

The Organization or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative fair value, the Organization would be liable to the counterparty for a payment equal to the swap's fair value. The Organization believes nonperformance by the counterparty is remote.

Swap Payments and Associated Debt

Using rates as of March 31, 2020, debt service requirements of the variable rate debt and net swap payments of the 2016 and 2017 Hospital Facilities Revenue Refunding Bonds, assuming current interest rates remain the same for the term of the bonds are disclosed in Note 8. As rates vary, variable-rate bond interest payments and net swap payments will vary.

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The Organization has determined the swap to be an effective hedge. Accordingly, the fair value of the swap has been recorded and subsequent changes in fair value will be recorded only in the consolidated balance sheet while the swap remains an effective hedge. Following is an analysis of the recording of the interest rate swap agreement:

	Assets	
	2020	2019
Interest rate swap asset	\$ -	\$ 319,139
	Deferred Outflows	
	2020	2019
Deferred outflows	\$ 898,792	\$ -
	Liabilities	
	2020	2019
Interest rate swap liability	\$ 898,792	\$ -
	Deferred Inflows	
	2020	2019
Deferred inflows	\$ -	\$ 319,139

10. ACCRUED EXPENSES

The details of accrued liabilities at March 31, 2020 and 2019 is as follows:

	2020	2019
Payroll and related amounts	\$ 2,018,170	\$ 1,557,892
Health insurance	682,817	1,648,409
Pension	387,654	552,253
Franchise fee	51,594	58,496
Other	140,058	157,966
Total accrued liabilities	\$ 3,280,293	\$ 3,975,016

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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11. NET PATIENT SERVICE REVENUES

Net patient service revenue consists of the following:

	<u>2020</u>	<u>2019</u>
Revenue:		
Inpatient	\$ 34,518,784	\$ 33,950,109
Outpatient	<u>106,651,602</u>	<u>93,687,828</u>
Total patient revenue	141,170,386	127,637,937
Revenue deductions:		
Contractual allowances	63,933,746	58,182,715
Provision for bad debts	3,687,409	3,020,787
Charity care	<u>246,312</u>	<u>776,701</u>
Total deductions	<u>67,867,467</u>	<u>61,980,203</u>
Total net patient service revenue	<u>\$ 73,302,919</u>	<u>\$ 65,657,734</u>

12. OPERATING LEASE

The Organization has entered into an operating lease agreement for property which matures in July 2025. The following is a schedule of minimum operating lease payments by year as of March 31, 2020:

Years Ending March 31	Minimum Annual Lease Payments
2021	\$ 83,898
2022	83,898
2023	83,898
2024	83,898
2025	83,898
Thereafter	<u>27,966</u>
	<u>\$ 447,456</u>

Total rental expense for operating leases, including those with terms of one year or less, for the years ended March 31, 2020 and 2019 were \$257,818 and \$170,317, and is included within other operating expenses in the consolidated statement of operations and changes in net position.

13. SOFTWARE LICENSING AGREEMENT

In 2017, the Organization entered into a software licensing agreement with The Ohio State University (OSU) for the right to access and use a portion of the OSU electronic medical record system.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

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The agreement provided for the use of the system for a period of nine years. The initial implementation costs of \$2,637,476, payable to OSU, were paid in equal monthly installments for nine months beginning in February 2016. Additional implementation costs of \$154,775 relating to equipment and software from other parties were incurred in 2017. The implementation costs are considered an intangible assets and are included in capital assets on the consolidated balance sheets. The implementation costs are being amortized on a straight-line basis over the ten year term of the agreement. Amortization expense relating to implementation costs was \$293,053 and \$279,225 in 2020 and 2019, respectively.

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

14. RETIREMENT PLANS

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

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

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an OPEB as described in GASB Statement No. 75. Please see the Plan Statement in the OPERS 2016 Comprehensive Annual Financial Report for details.

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

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

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2020 AND 2019

Contribution Rates

The ORC provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS may be set aside to fund OPERS health care plans.

Employee and member contribution rates are established by the OPERS Board and limited by Chapter 145 of the Ohio Revised Code. For 2019, employer rates for the State and Local Divisions were 14% of covered payroll (and 18.1% for the Law Enforcement and Public Safety Divisions). Member rates for the State and Local Divisions were 10% of covered payroll (13% for Law Enforcement and 12% for Public Safety).

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 0.0% during the calendar year 2019. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2020 remained consistent at 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2019 was 4.0%.

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

	<u>2020 (*)</u>	<u>2019 (*)</u>
Statutory required contributions	\$ 2,810,817	\$ 2,776,506
Contributions in relation to required contributions	<u>2,810,817</u>	<u>2,776,506</u>
Contribution excess/deficiency	<u>\$ -</u>	<u>\$ -</u>

(*) - Includes both pension and healthcare required contributions

Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Retirement Plans

In accordance with GASB Statement No. 68 and 75, employers participating in cost-sharing multiple-employer plans are required to recognize a proportionate share of the collective net pension and OPEB assets and liabilities of the plans. Although changes in the net pension assets and liabilities generally are recognized as income/expense in the current period, certain items are to be deferred and recognized as income/expense in future periods. Deferrals for differences between projected and actual investment returns are amortized to pension income/expense over five years. Deferrals for employer contributions subsequent to the measurement date are amortized in the following period (one year). Other deferrals are amortized over the estimated remaining service lives of both active and inactive employees (amortization periods range from 2 to 11 years).

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MARCH 31, 2020 AND 2019

The collective net pension assets and liabilities of the retirement systems (GASB 68) and the Organization's proportionate share of these net pension assets and liabilities, as of March 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Net pension liability - all employers	\$ 19,765,678,367	27,387,972,593
Proportion of the net pension liability - Organization	0.132814%	0.135179%
Proportionate share of net pension liability	<u>\$ 26,251,588</u>	<u>\$ 37,022,787</u>
	<u>2020</u>	<u>2019</u>
Net pension asset - all employers	\$ 212,303,965	114,100,958
Proportion of the net pension asset - Organization	0.150372%	0.167246%
Proportionate share of net pension asset	<u>\$ 319,245</u>	<u>\$ 190,828</u>

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

Pension expense, which includes GASB 68 expense and employer contributions, for the years ending March 31, 2020 and 2019 was \$4,276,431 and \$8,215,398, respectively.

The collective net OPEB liability of the retirement systems (GASB 75) and the Organization's proportionate share of the net OPEB liability as of March 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Net OBEP liability - all employers	\$ 13,812,597,868	13,037,639,421
Proportion of the net OPEB liability - Organization	0.132139%	0.134925%
Proportionate share of net pension liability	<u>\$ 18,251,829</u>	<u>\$ 17,591,035</u>

Other postemployment benefits expense, which includes GASB 75 expense and employer contributions, for the year ending March 31, 2020 and 2019 was \$1,905,948 and \$1,617,316, respectively.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

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At March 31, 2020 and 2019, the Organization reported deferred outflows of resources and deferred inflows of resources related to retirement plans from the following sources:

	<u>2020</u>	<u>2019</u>
Deferred outflows of resources:		
Net difference between projected and actual earnings on pension plan assets	\$ -	\$ 5,066,409
Difference between expected and actual experience	12,818	11,518
Actuarial assumption changes	1,435,286	3,265,748
Change in proportionate share	29,546	170,028
Difference between Organization contributions and proportionate share of contributions	20,795	42,856
Employer contributions subsequent to the measurement date	691,758	689,658
Total	<u>\$ 2,190,203</u>	<u>\$ 9,246,217</u>
	<u>2020</u>	<u>2019</u>
Deferred inflows of resources:		
Net difference between projected and actual earnings on pension plan assets	\$ 5,278,717	\$ -
Difference between expected and actual experience	405,962	563,107
Change in proportionate share	426,269	217,530
Difference between Organization contributions and proportionate share of contributions	3,101	-
Total	<u>\$ 6,114,049</u>	<u>\$ 780,637</u>

At March 31, 2020 and 2019, the Hospital reported deferred outflows of resources and deferred inflows of resources for OPEB from the following sources:

	<u>2020</u>	<u>2019</u>
Deferred outflows of resources:		
Net difference between projected and actual earnings on OPEB plan assets	\$ -	\$ 806,445
Difference between expected and actual experience	490	5,957
Actuarial assumption changes	2,889,070	567,156
Employer contributions subsequent to the measurement date	6,024	-
Total	<u>\$ 2,895,584</u>	<u>\$ 1,379,558</u>

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

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	2020	2019
	<u> </u>	<u> </u>
Deferred inflows of resources:		
Difference between expected and actual experience	1,669,214	47,730
Net difference between projected and actual earnings on OPEB plan assets	929,378	-
Change in proportionate share	238,753	54,983
Difference between Organization contributions and proportionate share of contributions	7,698	5,345
Total	<u>\$ 2,845,043</u>	<u>\$ 108,058</u>

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

2021	\$ 903,817
2022	1,820,170
2023	(210,552)
2024	2,101,015
2025	1,382
2026 and Thereafter	(228)
Total	<u>\$ 4,615,604</u>

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

2021	\$ (310,583)
2022	(130,327)
2023	(740)
2024	397,133
Total	<u>\$ (44,517)</u>

Statutory Authority

Ohio Revised Code Chapter 145

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2020 AND 2019

Benefit Formula

Pension: Benefits are calculated on the basis of age, final average salary (FAS), and service credit. State and Local members in transition Groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for State and Local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of FAS multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for the calculation of the annual cost-of-living adjustment.

OPEB: The ORC permits, but does not require, OPERS to offer post-employment health care coverage. The ORC allows a portion of the employers' contributions to be used to fund health care coverage. The health care portion of the employer contribution rate for the Traditional Pension Plan and Combined Plan is comparable, as the same coverage options are provided to participants in both plans. Beginning January 1, 2015, the service eligibility criteria for health care coverage increased from 10 years to 20 years with a minimum age of 60, or 30 years of qualifying service at any age. Beginning with January 2016 premiums, Medicare-eligible retirees could select supplemental coverage through the connector, and may be eligible for monthly allowances deposited to a health reimbursement account to be used for reimbursement of eligible health care expenses. Coverage for non-Medicare retirees includes hospitalization, medical expenses and prescription drugs. The OPERS determines the amount, if any of the associated health care costs that will be absorbed by the OPERS and attempts to control costs by using managed care, case management, and other programs.

Cost-of-Living Adjustments

Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual cost-of-living adjustment is provided on the member's base benefit at the date of retirement and is not compounded. For those members retiring under the Combined Plan will receive a cost-of-living adjustment for defined benefit portion of their pension benefit. Current law provides for a 3% cost-of-living adjustment for benefit recipients retiring prior to January 7, 2013. For those benefit recipients retiring subsequent to January 7, 2013, beginning in calendar year 2019, current law provides that the cost-of-living adjustment will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2020 AND 2019

Measurement Date

December 31, 2019 for Pension

December 31, 2019, rolled forward from December 31, 2018 actuarial valuation date for OPEB

Actuarial Assumptions

Valuation Date: December 31, 2019 for pension and December 31, 2018 for OPEB

Actuarial Cost Method: Individual entry age

Investment Rate of Return: 7.2% for pension and 6.0%

Inflation: 3.25%

Projected Salary Increases: 3.25% - 10.75%

Cost-of-Living Adjustments: 3.00% Simple for those retiring before January 7, 2013, 1.4% Simple for those retiring after January 7, 2013 through 2020, then 2.15% Simple.

Health Care Cost Trends: 10.5% initial, 3.5% ultimate in 2030

Mortality Rates

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

Date of Last Experience Study

Five year period ended December 31, 2015.

Investment Return Assumptions

The long term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2020 AND 2019

The following table displays the Board-approved asset allocation policy for defined benefit pension assets for 2019 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long Term Expected Return *
Fixed income	25.0%	1.8%
Domestic equity	19.0%	5.8%
Real estate	10.0%	5.2%
Private equity	12.0%	10.7%
International equity	21.0%	7.7%
Other investments	13.0%	5.0%
Total	100.0%	

* Returns presented as arithmetic means

The following table displays the OPERS Board approval asset allocation policy for health care assets for the 2019 and the long-term expected real rates of return.

Asset Class	Target Allocation	Long Term Expected Return *
Fixed income	36.0%	1.5%
Domestic equity	21.0%	5.8%
Real estate	6.0%	5.7%
International equity	23.0%	7.7%
Other investments	14.0%	4.9%
Total	100.0%	

* Returns presented as arithmetic means

Discount Rate

Pension: The discount rate used to measure the total pension liability was 7.2% for the Traditional Pension Plan, Combined Plan, and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2020 AND 2019

OPEB: A single discount rate of 3.16% was used to measure the total OPEB liability on the measurement date of December 31, 2019. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contribution for use with the long-term expected rate were not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.0% and a municipal bond rate of 2.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contributions rate. Based on those assumptions, the OPEB plan's fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Health Care Cost Trend Rate

A health care cost trend rate of 10.5% was used to measure the total OPEB liability on the measurement date of December 31, 2019. Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increase in the current cost of health care; the trend starting in 2020 is 10.5%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that the health plan cost trend will decrease to a level at, or near wage inflation.

Sensitivity of Net Pension Liability to Changes in Discount Rate

1% Decrease 6.2%	Current Rate 7.2%	1% Increase 8.2%
\$ 43,297,364	\$ 26,251,588	\$ 10,927,936

Sensitivity of Net Pension Asset to Changes in Discount Rate

1% Decrease 6.2%	Current Rate 7.2%	1% Increase 8.2%
\$ (192,615)	\$ 319,245	\$ 410,445

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

Sensitivity of Net OPEB Liability to Changes in Discount Rate

	1% Decrease 2.16%	Current Rate 3.16%	1% Increase 4.16%
\$	23,885,446	\$ 18,251,829	\$ 13,741,135

Sensitivity of Net OPEB Liability to Changes in Health Care Cost Trend Rate

	1% Decrease	Current Rate	1% Increase
\$	17,713,233	\$ 18,251,829	\$ 18,783,559

15. SELF-INSURED BENEFITS

The Organization provides health insurance to participating employees under a plan that is partially self-insured. The plan is covered by a stop-loss policy that generally covers specific claims over \$150,000. Total health insurance expenses charged to operations, including an estimate of incurred but unreported claims, totaled \$5,307,040 and \$8,284,403 for the years ended March 31, 2020 and 2019, respectively.

16. BLENDED COMPONENT UNIT

The consolidated financial statements include MEDF, a separate entity organized to support the operations of the Hospital as a blended component unit. The following is a summary of the financial position and activities of MEDF as of and for the year ended March 31, 2020 and 2019:

	2020	2019
Assets:		
Total current assets	\$ 1,365,141	\$ 1,562,757
Capital assets, net	309,940	279,137
Other assets	216,000	121,785
Total assets	<u>\$ 1,891,081</u>	<u>\$ 1,963,679</u>
Liabilities:		
Total current liabilities	2,022,140	2,466,145
Total liabilities	<u>\$ 2,022,140</u>	<u>\$ 2,466,145</u>
Net position:		
Total net position	<u>(131,059)</u>	<u>(502,466)</u>
Total liabilities and net position	<u>\$ 1,891,081</u>	<u>\$ 1,963,679</u>

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

	2020	2019
Operating revenues		
Total operating revenues	\$ 7,065,655	\$ 6,195,729
Operating expenses		
Total operating expenses	11,490,002	10,528,603
Loss from operations	(4,424,347)	(4,332,874)
Nonoperating gains		
Total nonoperating gains	460,604	411,142
Transfer from affiliates	4,335,150	3,150,000
Change in net position	371,407	(771,732)
Net position - beginning of year	(502,466)	269,266
Net position - end of year	\$ (131,059)	\$ (502,466)
	2020	2019
Cash provided by (used in):		
Operating activities	\$ 468,974	\$ (14,475)
Capital and related financing activities	(30,803)	16,192
Total	438,171	1,717
Cash - beginning of year	5,991	4,274
Cash - end of year	\$ 444,162	\$ 5,991

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2020 AND 2019

17. RISK MANAGEMENT

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

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

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

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

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

18. RISKS AND CONTINGENCIES

On March 11, 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or similar outbreaks in the future, may adversely impact the local, regional, national, and global economies. The extent to which COVID-19 impacts the Organization's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of healthcare personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue contributions and funding, and investment portfolio declines. Management believes the Organization is taking appropriate actions to respond to the pandemic; however, the full impact is unknown and cannot be reasonably estimated at the date the consolidated financial statements were available to be issued.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2020 AND 2019

To assist healthcare organizations through the pandemic the United States Congress passed the Coronavirus Aid, Relief, and Economic Security Act and the Paycheck Protection Program and Health Care Enhancement Act. These two bills include authorizations to provide up to \$175,000,000,000 in relief to healthcare organizations. The Organization received approximately \$7,200,000 subsequent to the consolidated balance sheet date and prior to the date this report was issued.

In addition to the amounts noted above, subsequent to the consolidated balance sheet date, the Organization received a low interest loan in the amount of \$1,298,732 under the Paycheck Protection Program (PPP) administered by the Small Business Administration. The PPP loan is unsecured, bears interest at 1% and funds advanced under the program are subject to forgiveness, if certain criteria is met with the remaining balance repayable within two years of disbursement. The PPP loan may be forgivable to the extent that employers incur and spend the funds on qualified expenditures which include payroll, employee health insurance, rent, utilities, and interest costs during the covered period (the 8-week period beginning on loan origination). In addition, employers must maintain specified employment and wage levels during the pandemic, and submit adequate documentation of such expenditures to qualify for loan forgiveness.

19. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what effects, if any, the implementation of the following recently enacted statements may have on its future financial statements:

GASB Statement No. 84, *Fiduciary Activities*, will be effective for the Organization's fiscal year ending March 31, 2021. The objective of this statement is to enhance the consistency and comparability of fiduciary activity reporting. The statement is also intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries.

GASB Statement No. 87, *Leases*, will be effective for the Organization's fiscal year ending March 31, 2023. This statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provision of the contract. Under this statement the Organization will be required to recognize a lease liability and an intangible right-to-use lease asset for leases that have been traditionally classified as operating leases.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, will be effective for the Organization's fiscal year ending March 31, 2021. The objective of this statement is to improve consistency of information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional information about debt.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2020 AND 2019

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for the Organization's fiscal year ending March 31, 2022. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which will be effective for the Organization's fiscal year ending March 31, 2024. This statement defines a subscription-based information technology arrangement (SBITAs), establishes that a SBITA results in a right-to-use subscription assets – an intangible asset – and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA, and requires note disclosure regarding a SBITA.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

REQUIRED SUPPLEMENTARY INFORMATION ON GASB 68 PENSION ASSETS, PENSION LIABILITIES, AND PENSION CONTRIBUTIONS
(UNAUDITED)

MARCH 31, 2020, 2019, 2018, 2017, 2016 AND 2015

Schedule of Proportionate Share of the Net Pension Liability (rounded to the nearest 1,000)	2020	2019	2018	2017	2016	2015
Organization proportion of the collective net pension liability	0.132814%	0.135179%	0.136804%	0.133979%	0.130522%	0.129625%
Organization proportionate share of the net pension liability	\$ 26,252,000	\$ 37,023,000	\$ 21,462,000	\$ 30,424,000	\$ 22,608,000	\$ 15,634,000
Organization proportion of the collective net pension asset	0.150372%	0.167245%	0.145810%	0.177972%	0.181150%	0.001327%
Organization proportionate share of the net pension asset	\$ 319,000	\$ 191,000	\$ 204,000	\$ 100,000	\$ 88,000	\$ 51,000
Organization covered payroll	\$ 20,077,000	\$ 19,832,000	19,283,000	18,103,000	17,334,000	16,277,000
Organization proportionate share of the net pension liability as a percentage of its covered payroll	130.8%	186.7%	111.3%	168.1%	130.4%	96.0%
Plan fiduciary net position as a percentage of the total pension liability	82.4%	74.9%	84.9%	77.4%	81.2%	86.5%
Schedule of System Contributions						
Contractually required contribution	\$ 27,784,000	\$ 2,724,000	\$ 2,503,000	\$ 2,268,000	\$ 2,101,000	\$ 1,996,000
Contributions in relation to the contractually required contribution	\$ 27,784,000	\$ 2,724,000	\$ 2,503,000	\$ 2,268,000	\$ 2,101,000	\$ 1,996,000
Contribution deficiency (excess)	-	-	-	-	-	-
Covered payroll	\$ 20,019,000	\$ 19,459,000	19,256,000	18,903,000	17,508,000	16,631,000
Contributions as a percentage of covered payroll	13.9%	14.0%	13.0%	12.0%	12.0%	12.0%

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

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

REQUIRED SUPPLEMENTARY INFORMATION ON GASB 75 OTHER POSTEMPLOYMENT BENEFIT LIABILITIES (UNAUDITED) MARCH 31, 2020, 2019, 2018, 2017, 2016 AND 2015

Schedule of Proportionate Share of the Net OPEB Liability (rounded to the nearest 1,000)	2020	2019	2018	2017	2016	2015
Organization proportion of the collective net OPEB liability	0.132139%	0.134925%	*	*	*	*
Organization proportion share of the net OPEB liability	\$ 18,252,000	\$ 17,591,000	*	*	*	*
Organization covered payroll	\$ 20,077,000	\$ 19,832,000	19,283,000	18,103,000	17,334,000	16,277,000
Organization proportionate share of the net OPEB liability as a percentage of its covered payroll	90.9%	88.7%	*	*	*	*
Plan fiduciary net position as a percentage of the total OPEB liability	47.8%	54.1%	*	*	*	*
Schedule of System Contributions						
Contractually required OPEB contribution	\$ 24,000	\$ -	\$ 193,000	\$ 378,000	\$ 350,000	\$ 166,000
Contributions in relation to the contractually required contribution	\$ 24,000	\$ -	\$ 193,000	\$ 378,000	\$ 350,000	\$ 166,000
Contribution deficiency (excess)	-	-	-	-	-	-
Covered payroll	\$ 20,019,000	19,459,000	19,256,000	18,903,000	17,508,000	16,631,000
Contributions as a percentage of covered payroll	0.1%	0.0%	1.0%	2.0%	2.0%	1.0%

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

*: This information is not available as information for GASB 75 was only obtained in fiscal year 2019.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. Defined Benefit Pension Plans

Changes of Benefit Terms

Amounts reported in 2015 for OPERS reflect the following plan changes:

- The minimum age and number of years of service required to receive an unreduced benefit were each increased by two years for members in the state and local divisions. The minimum retirement age required for law enforcement members did not change however, the minimum retirement age was increased by two years.
- Final average salary (FAS) increased to the highest five years (up from three years).
- The benefit multiplier used for the first 30 years (2.2 percent of FAS) was increased to the first 35 years of service.
- Age and service reduction factors changed to represent actuarially determined rates for each year a member retires before attaining full retirement.
- The Cost of Living Adjustment (COLA) was changed for new retirees from a simple 3 percent applied to the benefit value at date of retirement, to a rate based on the change in the Consumer Price Index, not to exceed 3 percent.

Changes of Assumptions

In 2016, the OPERS' Board of Trustees' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions for the actuarial valuation as of December 31, 2019, used for the Hospital's 2020 fiscal year. Amounts reported in the Hospital's 2020 fiscal year for the OPERS pension plans reflect the following change of assumptions from the amounts reported for the 2019 fiscal year based on the experience study:

- Actuarially assumed expected rate of investment return remained consistent at 7.2 percent.
- Projected salary increases remained consistent at 3.25 percent – 10.75 percent for the Traditional Pension Plan and at 3.25 percent – 8.25 percent for the combined and member directed plans.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

2. Defined Benefit Postemployment Benefits other than Pensions

Changes of Assumptions

Amounts reported in 2019 for OPERS reflect the following changes in assumptions based on an experience study for the five year period ending December 31, 2015:

- Wage inflation assumption remained consistent at 3.25%.
- Health care cost trend rate increased from 10.0% initial, 3.25% ultimate in 2029 to 10.5% initial, 3.5% ultimate in 2030.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the consolidated financial statements of the business-type activities and the aggregate discretely presented component unit of Mercer County Joint Township Community Hospital (the Organization), as of and for the year ended March 31, 2020, 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 August 27, 2020.

Internal Control Over Financial Reporting

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

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

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.

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

Compliance and Other Matters

As part of 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 an opinion. The results of our tests disclosed no instances of noncompliance which we must report under *Government Auditing Standards*.

Purpose of this Report

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

Bene G., LLC

Westerville, Ohio
August 27, 2020

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OHIO AUDITOR OF STATE KEITH FABER



MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

MERCER COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 12/1/2020

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov