MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

Mary Taylor, CPA
Auditor of State

Board of Trustees
Memorial Hospital of Union County and Affiliates
500 London Avenue
Marysville, Ohio 43040

We have reviewed the *Report of Independent Auditors* of the Memorial Hospital of Union County and Affiliates, prepared by Blue & Co., LLC, for the audit period January 1, 2007 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 19, 2008

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MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

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CPAS / ADVISORS

blue

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main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES
Marysville, Ohio

We have audited the accompanying combined balance sheets of Memorial Hospital of Union County and Affiliates (the "Hospital"), as of December 31, 2007 and 2006 and the related combined statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

As discussed in Note 1, the financial statements of Memorial Hospital of Union County and Affiliates are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Union County that is attributable to the transactions of Memorial Hospital of Union County and Affiliates. They do not purport to, and do not, present fairly the financial position of Union County as of December 31, 2007 and 2006, the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees
MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Memorial Hospital of Union County and Affiliates as of December 31, 2007 and 2006, and the combined results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2008 on our consideration of Memorial Hospital of Union County and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report when considering the results of our audits.

Management's discussion and analysis on pages i through ix is not a required part of the basic combined financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Blue & Co., LLC

March 31, 2008

Memorial Hospital of Union County and Affiliates

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2007 AND 2006

The management's discussion and analysis of Memorial Hospital of Union County, The Gables at Green Pastures, and Union County Hospital Association (collectively, the "Hospital") provides an overview of the combined financial activities for the year ended December 31, 2007. Management is responsible for the completeness and fairness of the combined financial statements and the related footnote disclosures along with the management's discussion and analysis.

Using This Annual Report

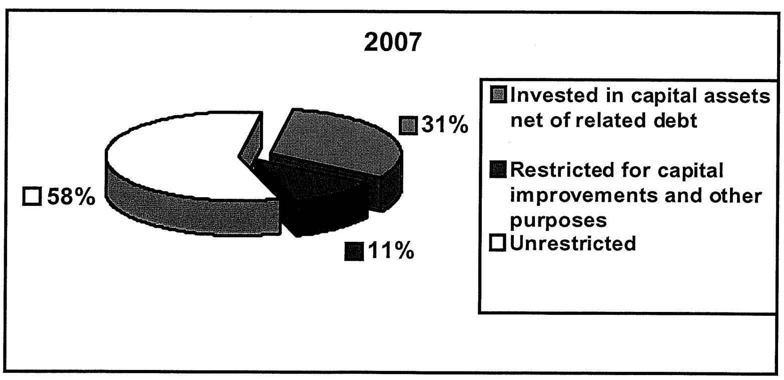
The Hospital's combined financial statements consist of three statements- a balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The combined financial statements and related notes provide information about activities of the Hospital, including resources held by the Hospital but restricted by specific purpose by contributors, bond indenture, grantors or enabling legislation.

This annual financial report includes the report of independent auditors, this management's discussion and analysis, the financial statements in the above referred format, notes to financial statements, and supplemental information.

Financial Highlights

The combined financial position of the Hospital improved in 2007. In total, the Hospital's net assets increased $7.6 million in 2007. Operating revenues of $68.7 million exceeded operating expenses of $61.8 million, producing income from operations of approximately $6.9 million. Other income (expenses) decreased slightly from prior year. Cash and cash equivalents, including assets limited as to use, increased by $7.5 million and capital assets remained consistent with prior year.

The following chart provides a breakdown of net assets by category for the year ended December 31, 2007.



In the year ended December 31, 2007, total operating revenue exceeded total operating expenses and other expenses, creating an increase in net assets of $7,636,527 (compared to a $2,615,524 increase in the previous year).

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better off or worse off as a result of the year's activities?" The balance sheet and statement of revenues, expenses, and changes in net assets report information on the Hospital as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as the Hospital's operating results.

These two statements report the Hospital's net assets and the changes in them. You can think of Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider many other non-financial factors, such as the trend in patient days, outpatient visits, state and federal regulatory issues, condition of the buildings, and strength of the medical staff, to fully assess the overall health of the Hospital.

The statements include all assets and 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.

The following is a comparative analysis of the major components of the balance sheet of the Hospital as of December 31, 2007 and 2006:

	December 31		Change	
	2007	2006	Amount	Percent
Assets				
Current assets	$ 30,635,210	$ 22,123,377	$ 8,511,833	38.5%
Noncurrent assets	3,871,313	2,333,851	1,537,462	65.9%
Capital assets	36,003,604	35,911,306	92,298	0.3%
Total assets	70,510,127	60,368,534	10,141,593	16.8%
Liabilities				
Current liabilities	6,247,832	6,039,906	207,926	3.4%
Long-term liabilities	26,768,095	24,470,955	2,297,140	9.4%
Total liabilities	33,015,927	30,510,861	2,505,066	8.2%
Net assets				
Invested in capital assets - net of debt	11,569,686	13,124,409	(1,554,723)	-11.8%
Restricted	4,318,519	3,648,108	670,411	18.4%
Unrestricted	21,605,995	13,085,156	8,520,839	65.1%
Total net assets	$ 37,494,200	$ 29,857,673	$ 7,636,527	25.6%

Current assets increased 38.5 percent, driven by an increase in cash and patient accounts receivables. Non-current assets increased during the year, primarily due to physician advances. Total liabilities increased 8.2 percent during the year due to the addition of new debt. Net assets invested in capital assets, net of related debt, decreased 11.8 percent due to depreciation. Unrestricted net assets increased 65.1 percent due to positive operating results and donor contributions.

Operating Results and Changes in the Hospital's Net Assets

	2007	2006	Change Amount	Change Percent
Operating revenues				
Net patient service revenue	$ 66,910,751	$ 60,142,923	$ 6,767,828	11.3%
Other operating revenue	1,810,362	1,494,889	315,473	21.1%
Total operating revenues	68,721,113	61,637,812	7,083,301	11.5%
Operating expenses				
Salaries and wages	27,711,797	27,001,228	710,569	2.6%
Employee benefits and payroll taxes	8,040,878	8,002,895	37,983	0.5%
Supplies and other	11,673,977	11,409,667	264,310	2.3%
Professional services and consultant fees	1,975,217	1,372,290	602,927	43.9%
Purchased services	7,991,457	7,544,338	447,119	5.9%
Insurance	483,614	506,768	(23,154)	-4.6%
Utilities	1,160,490	1,075,211	85,279	7.9%
Depreciation and amortization	2,743,587	2,833,485	(89,898)	-3.2%
Total operating expenses	61,781,017	59,745,882	2,035,135	3.4%
Operating income	6,940,096	1,891,930	5,048,166	266.8%
Other income (expense)				
Interest income	849,320	576,330	272,990	47.4%
Noncapital grants and contributions	557,971	808,334	(250,363)	-31.0%
Interest expense	(1,098,745)	(959,644)	(139,101)	14.5%
Other	387,885	298,574	89,311	29.9%
Total other income (expense)	696,431	723,594	(27,163)	-3.8%
Increase in net assets	7,636,527	2,615,524	5,021,003	192.0%
Net assets, beginning of year	29,857,673	27,242,149		
Net assets, end of year	$ 37,494,200	$ 29,857,673		

Operating Revenues

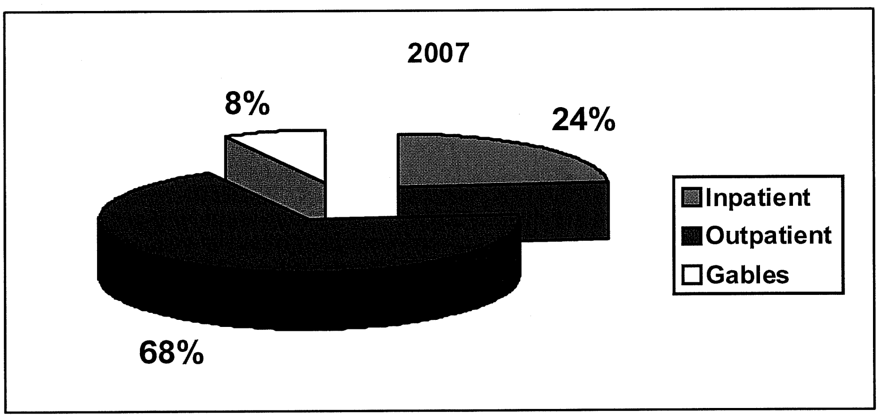
Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as inpatient services, outpatient services, physician offices, and the cafeteria. In addition, certain federal, state, and private grants are considered operating if they are not for capital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

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased 11.3 percent overall. This was attributable to increases in gross inpatient and outpatient services of 7.1 percent while revenue deductions decreased as a percentage of gross revenue, largely due to increased reimbursement rates in certain commercial contracts. These deductions are the amounts that are not paid to the Hospital under contractual arrangements with Medicare, Medicaid, and other payors. These revenue deductions decreased from 47 percent to 45 percent as a percentage of gross revenue.

- Other operating revenue increased 21.1 percent from 2006 due, in general, to an increase in rental income.

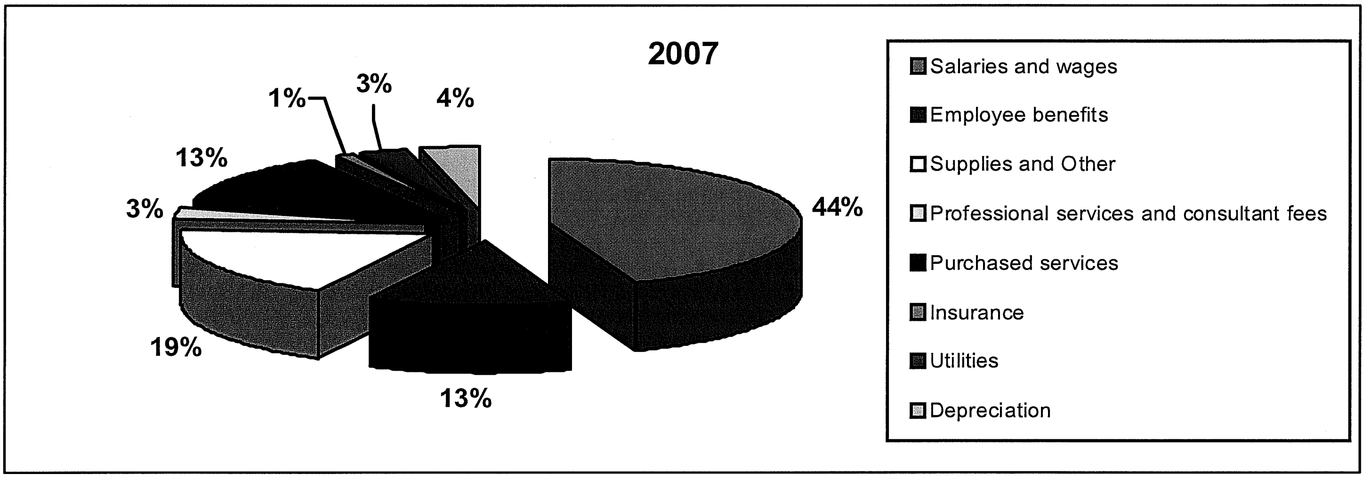
- The following is a graphic illustrations of patient revenues by source:



Operating Expenses

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

- Salary costs increased 2.6 percent due to pay increases.
- Professional services and consultant fees increased 43.9 percent due to the first full year staffing the urgent care center and consulting related to facilities planning.
- Supplies and other expenses increased 2.3% percent due to the increase in patient service revenues mentioned above and recruitment expenses.
- The following is a graphic illustration of operating expenses by type:



Other Income (Expense)

Other income and expenses are all sources and uses that are primarily non-exchange in nature. They consist primarily of gifts and bequests, investment income and interest expense.

Significant changes were the result of the following factors:

- Interest income increased $272,990 due to the increase in cash during the year combined with rising interest rates.

- Interest expense increased $139,101 due to increased levels of debt.

Statement of Cash Flows

Another way to assess the financial health of the Hospital is to look at the 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
- The ability to meet its obligations as they come due
- The needs for external financing

	Year Ended December 31		Increase
	2007	2006	(Decrease)
Cash provided by (used in):			
Operating activities	$ 8,752,224	$ 5,887,869	$ 2,864,355
Capital and related financing activities	(2,398,683)	(3,583,679)	1,184,996
Investing activities	1,146,033	874,904	271,129
Total	7,499,574	3,179,094	4,320,480
Cash - beginning of year	14,128,479	10,949,385	3,179,094
Cash - end of year	$ 21,628,053	$ 14,128,479	$ 7,499,574

The following discussion amplifies the overview of cash flows presented above.

Net cash flows provided by operating activities increased over the prior year due mainly to an increase in patient services and the resulting increase in receipts from patients and third-parties.

Net cash used by capital and related financing activities decreased from the prior year along with the refinancing and retirement of certain debt.

Capital Asset and Debt Administration

Capital Assets

At December 31, 2007, the Hospital had $71.3 million invested in capital assets. Accumulated depreciation totaled $35.3 million. Net capital assets totaled $36.0 million. Depreciation and amortization totaled $2.7 million during the year compared to $2.8 million in 2006. A summary of these assets is shown below.

	Year Ended December 31 2007	2006	Increase (Decrease)
Capital assets not being depreciated			
Land	$ 1,946,194	$ 1,947,720	$ (1,526)
Construction in progress	112,522	396,389	(283,867)
Subtotal	2,058,716	2,344,109	(285,393)
Capital assets being depreciated - net of accumulated depreciation			
Land improvements	1,545,212	1,512,507	32,705
Buildings and improvements	26,644,073	26,763,963	(119,890)
Major moveable equipment	5,232,851	4,674,891	557,960
Property under capital leases	522,752	615,836	(93,084)
Subtotal	33,944,888	33,567,197	377,691
Total	$ 36,003,604	$ 35,911,306	$ 92,298

Debt

At year end, the Hospital had $24.4 million in long-term debt and capital lease obligations outstanding compared to $23.5 million the previous year. The table below summarizes these amounts by year.

	2007	2006	Increase (Decrease)
Total leases and bonds	$ 24,433,918	$ 23,454,916	$ 979,002

More detailed information about the Hospital's long-term liabilities is presented in the notes to the financial statements.

Economic Factors that Will Affect the Future

The economic position of the Hospital is closely tied to that of the local economy in addition to the State's fiscal condition and the healthcare market of the Hospital's service area.

Factors affecting the Hospital for the current and future years include the opening of OhioHealth's facility in Dublin, combined with State budget and third-party constraints on reimbursements and the ongoing payor shift to the underinsured and uninsured. To offset any potential financial impacts, the Hospital has implemented its strategic plan. The multiyear plan continues to focus on expanding and retaining our physician base, developing comprehensive service lines in cardiology, oncology, and surgery, increasing the marketability of our facility, and improving our quality, customer service and patient safety initiatives. Further, in late 2006 and early 2007 the Hospital successfully renegotiated two large managed care contracts.

Contacting the Hospital's Management

This financial report is intended to provide the reader with a general overview of the Hospital's finances. If you have questions about this report or need additional information, we welcome you to contact the chief financial officer.

Jeff Ehlers
Chief Financial Officer

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

ASSETS

	2007	2006
Current assets		
Cash and cash equivalents	$ 17,309,534	$ 10,480,371
Patient accounts receivable, net of allowances for uncollectible accounts: $2,883,719 in 2007 and $2,643,969 in 2006	8,228,282	7,136,308
Assets limited as to use	4,318,519	3,648,108
Prepaid expenses and other current assets	322,511	410,910
Inventories	392,215	347,028
Other current assets	64,149	100,652
Total current assets	30,635,210	22,123,377
Capital assets, net	36,003,604	35,911,306
Other assets		
Physician advances receivable	2,105,647	898,068
Investment in joint ventures	357,697	368,237
Bond issue costs	1,407,969	1,067,546
Total other assets	3,871,313	2,333,851
Total assets	$ 70,510,127	$ 60,368,534

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

LIABILITIES AND NET ASSETS

	2007	2006
Current liabilities		
Current portion of long-term debt	$ 1,213,684	$ 1,185,998
Accounts payable	2,392,309	2,219,956
Estimated third-party settlements	587,102	735,921
Salaries, wages, and related accruals	2,054,737	1,898,031
Total current liabilities	6,247,832	6,039,906
Long-term debt, net of current portion	23,220,234	22,268,918
Other liabilities		
Accrued compensated absences	2,269,855	2,095,257
Other long-term liabilities	1,278,006	106,780
	3,547,861	2,202,037
Total liabilities	33,015,927	30,510,861
Net assets		
Invested in capital assets - net of related debt	11,569,686	13,124,409
Restricted:		
Nonexpendable permanent endowments	25,000	25,000
Restricted for debt service and capital acquisitions	4,293,519	3,623,108
Unrestricted	21,605,995	13,085,156
Total net assets	37,494,200	29,857,673
Total liabilities and net assets	$ 70,510,127	$ 60,368,534

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Operating revenues		
Net patient service revenue	$ 66,910,751	$ 60,142,923
Other operating revenue	1,810,362	1,494,889
Total operating revenues	68,721,113	61,637,812
Operating expenses		
Salaries and wages	27,711,797	27,001,228
Employee benefits and payroll taxes	8,040,878	8,002,895
Supplies and other	11,673,977	11,409,667
Professional services and consultant fees	1,975,217	1,372,290
Purchased services	7,991,457	7,544,338
Insurance	483,614	506,768
Utilities	1,160,490	1,075,211
Depreciation and amortization	2,743,587	2,833,485
Total operating expenses	61,781,017	59,745,882
Operating income	6,940,096	1,891,930
Other income (expense)		
Interest income	849,320	576,330
Grants and contributions	557,971	808,334
Interest expense	(1,098,745)	(959,644)
Other	387,885	298,574
Total other income (expenses)	696,431	723,594
Increase in net assets	7,636,527	2,615,524
Net assets - beginning of year	29,857,673	27,242,149
Net assets - end of year	$ 37,494,200	$ 29,857,673

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Operating activities		
Cash received from patients and third-party payors	$ 65,669,958	$ 60,248,387
Cash payments to suppliers for services and goods	(23,306,725)	(21,028,792)
Cash payments to employees for services	(35,421,371)	(34,826,615)
Other operating revenue	1,810,362	1,494,889
Net cash flows from operating activities	8,752,224	5,887,869
Investing activities		
Proceeds from investments	1,146,033	874,904
Net cash flows from investing activities	1,146,033	874,904
Capital and related financing activities		
Acquisition and construction of capital assets	(2,836,911)	(5,090,493)
Grants and contributions	557,971	808,334
Issuance of long-term debt	9,750,000	2,950,000
Interest paid on long-term debt	(1,098,745)	(959,644)
Principal payments on long-term debt	(8,770,998)	(1,291,876)
Net cash flows from capital and related financing activities	(2,398,683)	(3,583,679)
Change in cash and cash equivalents	7,499,574	3,179,094
Cash and cash equivalents - beginning of year	14,128,479	10,949,385
Cash and cash equivalents- end of year	$ 21,628,053	$ 14,128,479
Balance sheet classification of cash		
Cash and cash equivalents	$ 17,309,534	$ 10,480,371
Cash included in assets limited as to use	4,318,519	3,648,108
	$ 21,628,053	$ 14,128,479

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS (continued)
YEARS ENDED DECEMBER 31, 2007 AND 2006

A reconciliation of operating income to net cash from operating activities follows:

	2007	2006
Operating income	$ 6,940,096	$ 1,891,930
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	2,743,587	2,833,485
Provision for bad debt	5,338,366	4,679,295
Loss on disposal of capital assets	2,650	25,773
Changes in assets and liabilities		
Patient accounts receivable	(6,430,340)	(4,507,530)
Other assets	(1,368,199)	1,698,838
Accounts payable	172,353	4,041
Other accrued expenses	1,353,711	(737,963)
Net cash flows from operating activities	$ 8,752,224	$ 5,887,869
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 1,098,745	$ 959,644

See accompanying notes to combined financial statements.

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Principles of Combination

Memorial Hospital of Union County ("Memorial") is an acute care hospital owned by Union County, Ohio and operated by a board of trustees (the "Trustees"). Members of the board of trustees are appointed by the county commissioners and county judges. Memorial is considered a political subdivision of state and is therefore exempt from federal income taxes under Section 115 of the Internal Revenue Code. The Hospital is reported as an enterprise fund of Union County.

In 1994, the board of trustees formed Union County Health System (UCHS) in order to provide a corporate structure under which the Hospital can enter into join ventures with other institutions and health care providers to provide an integrated delivery system.

In 2006, UCHS merged with the Union County Hospital Association (UCHA). UCHS assumed the name of UCHA. The prior operations of UCHA were dissolved and the remaining assets were transferred to Memorial Hospital of Union County.

In 1994, the Board of County Commissioners of Union County (the "Board") passed a resolution to transfer the management and operations of Union Manor (a nursing home) to the Trustees on January 1, 1995. Pursuant to this resolution, the Trustees accepted control over the assets of Union Manor. Under the terms of the transfer, the Board indicated their support of the Trustees in Union Manor's future efforts to secure financing for renovation and expansion. In 2003, the construction of a new facility was completed. Subsequently, the name was changed to The Gables at Green Pastures (The Gables).

The combined financial statements for the years ended December 31, 2007 and 2006 included herein consists of the financial positions, results of operations, changes in net assets, and cash flows of Memorial Hospital of Union County, UCHA, and The Gables (collectively, the "Hospital"). All intercompany accounts and transactions between all entities have been eliminated.

Basis of Presentation

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis- for State and Local Governments,* issued in June 1999. The Hospital follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provide a comprehensive look at the Hospital's financial activities. The financial statements include UCHA and The Gables as blended component units in the Hospital's financial statements.

Enterprise Fund Accounting

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

Cash and Cash Equivalents

Cash and Cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less. Cash and cash equivalents included in assets limited as to use are considered cash and cash equivalents for the purpose of the statement of cash flows.

Patient Accounts Receivable

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Inventories

Inventories, which consist of medical and office supplies and pharmaceutical products, are stated at cost, determined on a first-in, first-out basis or market.

Debt Issuance Costs

Costs incurred in obtaining long-term debt financing are being amortized over the term of the obligations. Amortization expense totaled $74,575 and $57,745 in 2007 and 2006, respectively.

Assets Limited as to Use

Assets whose use is limited consist of invested funds designated by the Trustees for the replacement, improvement, expansion of the Hospital's facilities, self-insured health insurance, and worker's compensation plans and the Hospital's Section 125 Plan and invested funds held by a trustee in connection with the Hospital's bonds. Assets limited as to use also include funds whose use is specified by the donor, as well as permanently restricted endowments, the earnings of which can be used for certain purposes as specified by the donor.

Capital Assets

Capital assets are recorded at cost or, if donated, at fair value at the date of receipt. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Equipment under capital lease is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Costs of maintenance and repairs are charged to expense when incurred.

Physician Advances Receivable

The Hospital advances monies to physicians under various cash flow support and loan arrangements. These loans are unsecured and are forgiven systematically in accordance with the loan agreements. Should the arrangement between the Hospital and the physician be terminated prior to the end date agreed upon by both parties, the Hospital will pursue collection of any outstanding advances.

Compensated Absences

Paid time off is charged to operations when earned. The unused and earned benefits are recorded as a liability in the financial statements. Employees accumulate vacation days at varying rates depending on years of service, and may carry over accumulated hours to the next year, subject to a maximum of three years' accrual. Employees also earn sick leave benefits at a Hospital-determined rate, which are capped at various levels. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the Hospital may convert accumulated sick leave to termination payments equal to the accumulated balance calculated at the employee's base pay rate as of the retirement date. There is no limit on the number of sick leave hours that an employee may accumulate; however, employees are only eligible to receive termination payments on accumulated sick leave balance up to maximum of 240 hours. Employees accumulate holidays at a Hospital-determined rate for all employees.

Restricted Resources

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

Classification of Net Assets

Net assets of the Hospital are classified in four components. (1) Net assets invested in capital assets- net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balance of any outstanding borrowings used to finance the purchase or construction of those assets. (2) Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue note indentures. (3) Restricted nonexpendable net assets equal the principal portion of permanent endowments. (4) Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Use of Estimates

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

Operating Revenue and Expenses

The Hospital's statement of revenue, expenses and changes in net assets distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing health care services- the Hospital's principal activity. Nonexchange revenue, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital 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 for service rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

Contributions

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received and measured at fair value. Contributions with donor-imposed time or purpose restrictions are reported as restricted support. All other contributions are reported as unrestricted support.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Pension Plans

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

Federal Income Tax

The Hospital, as a political subdivision, is exempt from federal income taxes under Section 115 of the Internal Revenue Code.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

2. CASH AND CASH EQUIVALENTS

Chapter 135 of the Ohio Uniform Depositor Act authorizes local and governmental units to make deposits in any national bank located in the state subject to inspection by the superintendent of financial institutions eligible to become a public depository. Section 135.14 of the Ohio Revised Code allows the local government to invest in United States treasury bills, notes, bonds or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States of America and bonds and other obligations of the State of Ohio. Investments in no-load money market mutual funds, repurchase agreements, commercial paper, and bankers' acceptances are permitted subject to certain limitations that include completion of additional training, approved by the Auditor of State, or by the treasurer or governing board investing in these instruments.

The Hospital has designated four banks for the deposit of its funds. An investment policy has not been filed with the Auditor of State on behalf of the Hospital. Investment of interim funds is limited to bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, no-load money market mutual funds, and the Ohio subdivision's fund (STAR Ohio).

Statutes require the classification of funds held by the Hospital into three categories:

Active Funds- Those funds required to be kept in a "cash" or "near cash" status for immediate use by the Hospital. Such funds must be maintained either in depository accounts or withdrawable on demand, including Negotiable Order of Withdrawal (NOW) accounts.

Inactive Funds- Those funds not required for use within the current five-year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit, maturing not later than the end of the current period of designated depositories or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Funds- Those funds which are not needed for immediate use but will be needed before the end of the current period of designation of deposit. Ohio laws permits interim funds to be invested or deposited in the following securities:

- Bonds, notes, or other obligations that are guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.

- Bonds, notes debentures, or other obligations or securities issued by any federal governmental agency.

- No-load money market mutual funds consisting exclusively of obligations described in the Ohio Revised Code and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only though eligible institutions.

- Interim deposits in the eligible institutions applying for interim funds to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by saving or deposit accounts, including but no limited to, passbook accounts.

- Bonds and other obligations of the State of Ohio.

- The Ohio State Treasurer's investment pool (STAR Ohio).

- Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, SEC 135.142

- Under limited circumstances, corporate debt interest in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the Hospital's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by single collateral pool established by the financial institution to secure the repayment of all public funds deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivates are prohibited. The issuance of taxable notes for purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date or purchase unless matched to a specific obligation or debt of the Hospital, and must be purchased with the expectation that it will be held to maturity.

The Hospital's cash and investments are subject to risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits- Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. At year end, the Hospital had $21,480,479 of bank deposits (certificates of deposits, checking and savings accounts) that were uninsured but are collateralized with securities held by the pledging financial institution. The Hospital believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance it is impractical to insure all deposits. As a result, the Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used.

The Hospital had the following investments and maturities:

	Carrying	Maturities	
December 31, 2007	Amount	< than 1 year	1 - 5 years
Certificates of deposit	$ 7,820,971	$ 7,820,971	$ -

3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2007	2006
Patient accounts receivable	$ 17,615,336	$ 15,540,742
Allowance for uncollectible accounts	(2,883,719)	(2,643,969)
Allowance for contractual adjustments	(6,503,335)	(5,760,465)
Patient accounts receivable, net	$ 8,228,282	$ 7,136,308

The Hospital provides services without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors follows:

	2007	2006
Medicare	16%	19%
Medicaid	12%	6%
Commerical insurance and other	47%	50%
Self-pay	25%	25%
Total	100%	100%

4. PATIENT SERVICE REVENUE

Approximately 24 percent of the Hospital's net patient service revenue is received from the Medicare and Medicaid programs. The Hospital has agreements with payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for service and amounts reimbursed by third-party payors. The basis of reimbursements with these third-party payors follows:

- **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, and other factors. Certain outpatient services, including ambulatory surgery, radiology, and laboratory services are reimbursed on an established fee-for-service methodology. Beginning August 1, 2000, reimbursement for most outpatient services is based on the prospectively determined ambulatory payment classification system.

- **Medicaid-** Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients are paid on a cost reimbursement method. Outpatient and physician services are reimbursed 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 changes in rates, or the payment system itself, could have a material impact on the future Medicaid funding to providers.

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 the 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 combined financial statements. Medicare cost reports have been settled through 2005 and Medicaid cost reports have been settled through 2001.

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

5. CAPITAL ASSETS

Capital assets for the years ended December 31, 2007 and 2006 were as follows:

	2006	Reclassifica-tions	Additions	Disposals and Adjustments	2007
Capital Assets not being depreciated:					
Land and land improvements	$ 1,947,720	$ -	$ -	$ (1,526)	$ 1,946,194
Construction in progress	396,389	(1,726,463)	1,442,664	(68)	112,522
Subtotal	2,344,109	(1,726,463)	1,442,664	(1,594)	2,058,716
Capital assets being depreciated:					
Land improvements	2,214,185	40,000	63,701	-	2,317,886
Building	41,090,078	1,076,169	174,782	(16,561)	42,324,468
Major movable equipment	18,935,492	610,294	1,155,764	(220,572)	20,480,978
Property under capital leases	4,524,091	-	-	(308,655)	4,215,436
Subtotal	66,763,846	1,726,463	1,394,247	(545,788)	69,338,768
Accumulated depreciation					
Land improvements	701,678	-	68,339	2,657	772,674
Building	14,326,115	-	1,375,734	(21,454)	15,680,395
Major moveable equiment	14,260,601	-	1,204,805	(217,279)	15,248,127
Property under capital leases	3,908,255	-	93,085	(308,656)	3,692,684
Subtotal	33,196,649	-	2,741,963	(544,732)	35,393,880
Capital assets, net	$ 35,911,306	$ -	$ 94,948	$ (2,650)	$ 36,003,604

	2005	Reclassifica-tions	Additions	Disposals and Adjustments	2006
Capital Assets not being depreciated:					
Land and land improvements	$ 1,367,780	$ -	$ 579,940	$ -	$ 1,947,720
Construction in progress	241,870	(253,080)	429,990	(22,391)	396,389
Subtotal	1,609,650	(253,080)	1,009,930	(22,391)	2,344,109
Capital assets being depreciated:					
Land improvements	2,098,377	-	117,358	(1,550)	2,214,185
Building	37,838,293	192,588	3,202,728	(143,531)	41,090,078
Major movable equipment	18,285,425	60,492	760,477	(170,902)	18,935,492
Property under capital leases	4,524,091	-	-	-	4,524,091
Subtotal	62,746,186	253,080	4,080,563	(315,983)	66,763,846
Accumulated depreciation					
Land improvements	641,063	-	62,165	(1,550)	701,678
Building	13,232,659	-	1,247,836	(154,380)	14,326,115
Major moveable equiment	13,213,625	-	1,203,647	(156,671)	14,260,601
Property under capital leases	3,588,418	-	319,837	-	3,908,255
Subtotal	30,675,765	-	2,833,485	(312,601)	33,196,649
Capital assets, net	$ 33,680,071	$ -	$ 2,257,008	$ (25,773)	$ 35,911,306

6. ASSETS LIMITED AS TO USE

Assets limited as to use that are required for obligations classified as current liabilities are reported as current assets. The composition of assets limited as to use at December 31, 2007 and 2006 consists of the following:

	2007	2006
By board of trustees for capital improvements- cash	$ 1,283,444	$ 1,030,616
By board of trustees retirement of indebtedness- cash	85,343	16,082
By board of trustees and self-insurance- cash	1,683,848	1,060,635
Held by trustee under bond indenture agreement- cash	1,240,884	1,515,775
Total board-designated and trustee held	4,293,519	3,623,108
Principal for permanent endowments	25,000	25,000
Total board-designated and trustee held	$ 4,318,519	$ 3,648,108

7. SALARIES, WAGES AND RELATED ACCRUALS

The details of accrued liabilities at December 31, 2007 and 2006 are as follows:

	2007	2006
Payroll and related items	$ 1,659,277	$ 1,302,871
Self-insured benefits	209,000	227,000
Health insurance claims	395,460	368,160
Total salaries, wages and related accruals	$ 2,054,737	$ 1,898,031

8. LONG-TERM DEBT

Long-term debt activity for the year December 31, 2007 was as follows:

	2006	Additions	Reductions	2007	Amounts Due Within One Year
Union County General Obligation Bonds, dated July 1, 2005:					
Serial bonds, 3.5% to 5.00% payable through 2016, in annual installments ranging from $75,000 to $680,000	$ 4,955,000	$ -	$ (200,000)	$ 4,755,000	$ 200,000
Term bonds, 4.10% due December 1, 2018, mandatory annual sinking fund redemption beginning December 1, 2017, ranging from $515,000 to $530,000	1,045,000	-		1,045,000	-
Serial bonds, 4.00% to 4.125% payable through 2024, in annual installments ranging from $555,000 to $675,000	3,695,000	-		3,695,000	-
Union County General Obligation Bonds, dated April 1, 2003					
Serial bonds, 1.50% to 5.00% payable through 2033, in annual installements ranging from $25,000 to $635,000	5,215,000	-	(4,360,000)	855,000	25,000
Union County General Obligation Bonds, dated July 15, 1999					
Serial bonds, 3.5% to 5.10% payable through 2011, in annual installments ranging from $55,000 to $355,000	1,185,000	-	(375,000)	810,000	395,000

	2006	Additions	Reductions	2007	Amounts Due Within One Year
Union County General Obligation Notes, dated April 11, 2006					
Limited tax general obligation notes, 3.82%, refinanced April, 2007	3,635,000		(3,635,000)	-	-
Note payable, bearing interest at 6.63%, due in monthly installments of $20,362 through January 1, 2012	2,950,000		(38,945)	2,911,055	50,756
Note payable, bearing interest at 5.3%, due in monthly installments of $6,242 through July 10, 2020	668,019		(34,835)	633,184	36,630
Union County General Obligation Bonds, Series 2007:					
Series bonds, 4.00% to 5.00% payable through 2033, in annual installments ranging from $334,000 to $1,010,000	-	9,750,000	(75,000)	9,675,000	485,000
Installment obligations	106,897	-	(52,218)	54,679	21,298
Total long-term debt	$ 23,454,916	$ 9,750,000	$ (8,770,998)	$ 24,433,918	$ 1,213,684

Long-term debt activity for the year ended December 31, 2006 follows:

	2005	Additions	Reductions	2006	Amounts Due Within One Year
Union County General Obligation Bonds, dated July 1, 2005:					
Serial bonds, 3.5% to 5.00% payable through 2016, in annual installments ranging from $75,000 to $680,000	$ 5,035,000	$ -	$ (80,000)	$ 4,955,000	$ 200,000
Term bonds, 4.10% due December 1, 2018, mandatory annual sinking fund redemption beginning December 1, 2017, ranging from $515,000 to $530,000	1,045,000	-	-	1,045,000	-

	2005	Additions	Reductions	2006	Amounts Due Within One Year
Serial bonds, 4.00% to 4.125% payable through 2024, in annual installments ranging from $555,000 to $675,000	3,695,000	-	-	3,695,000	-
Union County General Obligation Bonds, dated April 1, 2003					
Serial bonds, 1.50% to 5.00% payable through 2033, in annual installements ranging from $25,000 to $635,000	5,240,000	-	(25,000)	5,215,000	25,000
Union County General Obligation Bonds, dated July 15, 1999					
Serial bonds, 3.5% to 5.10% payable through 2011, in annual installments ranging from $55,000 to $355,000	1,545,000	-	(360,000)	1,185,000	375,000
Union County General Obligation Bonds, Series 1996:					
Series bonds, 3.75% to 5.15% payable through 2009, in annual installments ranging from $80,000 to $140,000	120,000	-	(120,000)	-	-
Union County General Obligation Notes, dated April 11, 2006					
Limited tax general obligation notes, 3.82%, refinanced April, 2007	4,075,000	-	(440,000)	3,635,000	460,000
Note payable, bearing interest at 6.63%, due in monthly installments of $20,362 through January 1, 2012	-	2,950,000	-	2,950,000	38,947
Note payable, bearing interest at 5.3%, due in monthly installments of $6,242 through July 10, 2020	701,058	-	(33,039)	668,019	34,833
Installment obligations	340,734	-	(233,837)	106,897	52,218
Total long-term debt	$ 21,796,792	$ 2,950,000	$ (1,291,876)	$ 23,454,916	$ 1,185,998

The bonds and notes payable are summarized as follows:

The 2007 Union County General Obligation Bonds - dated April 10, 2007, were issued in the amount of $9,750,000 with interest rates ranging from 4.0% to 5.0% to refinance a portion of the 2003 Bonds, retire the 2006 notes and fund capital projects of the Hospital. 2003 Bonds with an average interest rate of 4.86% were refunded totaling $4,335,000. 2006 Notes with an interest rate of 3.82% were retired totaling $3,175,000. The 2007 issue also provided $1,825,000 in funds for future capital projects.

The 2005 Union County General Obligation Bonds - dated July 1, 2005, were issued in the amount of $9,850,000 to refund a callable portion of the 1996 General Obligation Bonds and the 1999 Improvement Bonds.

The 2005 Union County General Obligation Notes - dated April 12, 2005, were issued in the amount of $4,505,000 to refinance the 2004 notes.

The 2003 Union County General Obligation Bonds and Notes - dated April 1, 2003, were issued in the amount of $8,740,000 to finance the acquisition and construction of capital improvements to the Hospital's facilities, including redesigning of the obstetrics unit and various other projects.

The 1999 Union County Improvement Bonds - dated July 15, 1999, were issued in the amount of $11,000,000. Proceeds of the 1999 issue were divided 67 percent to the Gables and 33 percent to Memorial. The Gables' portion was utilized to finance the construction of the new nursing home facility. The Hospital's portion was utilized to complete the emergency room, HVAC, and information technology projects. In 2005, $8,195,000 was refunded by the 2005 bonds.

The Hospital leased medical and office equipment, furniture and fixtures used in its operations under capital leases which generally require the Hospital to pay insurance and maintenance costs. These capital leases were due in monthly installments including interest at rates ranging from 2.96 percent to 3.51 percent annually. These leases expire at various dates through 2010, and are collateralized by the equipment leased.

The Hospital had a $1,000,000 revolving line of credit, the borrowings of which were collateralized by certain Hospital assets. The line expired in April 2007 and was not renewed. There was no balance outstanding as of December 31, 2006.

The Hospital has a $2,950,000 commercial installment note, proceeds from which were used to purchase medical buildings in December 2006. The loan bears interest at 6.63% with monthly payments of $20,362. The balance on the loan is $2,911,055 at December 31, 2007.

The following is a schedule by years of debt principal and interest payments and capital lease principal and interest payments:

	Long-term Debt		Capital Lease Obligation	
Years Ending December 31	Principal	Interest	Principal	Interest
2008	$ 1,192,386	$ 976,599	$ 21,298	$ 1,579
2009	922,413	996,319	22,058	819
2010	938,239	948,884	11,323	116
2011	879,440	923,834	-	-
2012	3,533,134	913,966	-	-
2013-2017	4,556,589	3,106,303	-	-
2018-2022	4,537,038	2,208,024	-	-
2023-2027	4,390,000	1,251,976	-	-
2028-2032	2,800,000	497,218	-	-
2033	630,000	26,775	-	-
Total	$ 24,379,239	$ 11,849,898	$ 54,679	$ 2,514

The Hospital has various operating lease agreements for equipment. Rent expense for all operating leases approximated $1,276,000 in 2007 and $1,342,000 in 2006.

9. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	2007	2006
Patient Revenue		
Inpatient services:		
Routine services	$ 11,085,659	$ 9,789,323
Ancillary services	18,170,794	18,868,686
Outpatient services	84,695,786	77,749,127
Net resident revenue	8,618,528	7,901,443
Total patient revenue	122,570,767	114,308,579
Revenue deductions		
Provision for contractual allowances	49,320,329	49,020,505
Provision for bad debt allowances	5,338,366	4,679,295
Charity care, net of Hospital Care Assurance	1,001,321	465,856
Total revenue deductions	55,660,016	54,165,656
Total net patient service revenue	$ 66,910,751	$ 60,142,923

10. DEFINED BENEFIT PENSION PLAN

The Hospital contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement and disability benefits, annual cost-of-living adjustments, healthcare benefits and death benefits to plan members and beneficiaries. Members of the MD plan do not qualify for ancillary benefits, including post-employment health care coverage. OPERS issues a publicly available comprehensive annual financial report, which includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio, 43215-4642 or by calling (614) 222-5601 or (800) 222-PERS (7377).

Funding Policy

The required, actuarially-determined contribution rates for the Hospital and for employees are 13.85% and 9.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years follows:

Year	Contribution
2007	$ 3,788,000
2006	$ 3,651,000
2005	$ 3,479,000

OPERS also provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability recipients and primary survivor recipients is available. The healthcare coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB). A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The portion of the 2007 employer contribution rate of 13.85% used to fund healthcare was 5% from January 1, 2007 through June 30, 2007 and 6% from July 1, 2007 through December 31, 2007. The 2006 employer contribution rate was 13.7% and the portion to fund healthcare was 4.5%. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement healthcare through their contributions to OPERS.

The assumptions and calculations below are based on OPERS' latest actuarial review performed as of December 31, 2006. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor. The investment return assumption rate for 2006 was 6.5%. An annual increase of 4% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from .5% to 6.3%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 5% for the next 8 years. In subsequent years (9 and beyond), healthcare costs were assumed to increase at 4% (the projected wage inflation rate).

The Traditional Pension and Combined Plans had 374,979 active contributing participants as of December 31, 2007. The number of active contributing participants for both plans used in the December 31, 2006 actuarial valuation was 362,130.

Hospital contributions made to fund post-employment benefits approximated $1,504,000, $1,199,000 and $1,027,000 for 2007, 2006 and 2005, respectively.

The actuarial value of OPERS net assets available for OPEB at December 31, 2006 was $12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability for OPEB, based on the actuarial cost method was $30.7 billion and $18.7 billion, respectively.

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

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004 was effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which will allowed additional funds to be allocated to the health care plan.

11. MEDICAL MALPRACTICE CLAIMS

Based on the nature of its operations, the Hospital is at times subject to pending or threatened legal actions, which arise in the normal course of its activities. The Hospital is insured against medical malpractice claims under a claims-based 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 Hospital bears the risk of the ultimate costs of any individual claims exceeding $1,000,000, or aggregate claims $3,000,000, for claims asserted in the policy year. In addition, the hospital has an umbrella policy with an additional $5,000,000 of coverage. 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 Hospital 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 Hospital's cost for such claims for the year, and it has been charged to operations as a current expense.

12. DEFERRED COMPENSATION

Any employee of the Hospital may participate in a deferred compensation plan created by the State of Ohio under the provisions of Internal Revenue Code (IRC) Section 457, *Deferred Compensation Plan with Respect to Service for State and Local Governments.* Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency.

13. SELF-INSURED BENEFITS

The Hospital is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over $90,000, plus the split funded liability of $50,000 per employee or total claims in excess of $3,430,000. Claims in excess of employee premiums are charged to operations. Claims were approximately $3,544,000 and $3,409,000 for the years ended December 31, 2007 and 2006, respectively. In addition, the Hospital self-insures for worker's compensation. The Hospital has a $500,000 per claim stop-loss policy with a private insurance carrier for worker's compensation.

14. RELATED PARTY AND AFFILIATION

During 1995, Memorial Physicians, Inc (MPI) was formed, in which UCHA had a 100 percent ownership interest. In 2000, UCHA transferred 50 percent of the ownership interest to a group of physicians. This entity is a professional for-profit corporation organized to bring primary care and other specialty physicians together from multiple sites. UCHA guaranteed 50 percent of a $262,500 note between MPI and a local financial institution. The remaining balance was paid in full in March, 2007.

15. INVESTMENT IN JOINT VENTURES

During 1996, the Hospital and two other area health care entities formed Health Partners, Ltd. (Health Partners), for which the Hospital has a 33 1/3 percent ownership interest. This corporation was formed to provide management services to the clinic of a major area corporation. In 1996, the Hospital contributed $100,000 to Health Partners through UCHA. During 2007 and 2006, the Hospital received distributions from Health Partners totaling $107,000 and $125,531, respectively, through UCHA.

During 1997, the Hospital entered into a partnership with Quantum Health and area physicians to build a local health care network. The purpose of the network was to allow physicians and the Hospital to keep and retain Union County patients within the community and not see them access services in a different setting. The Hospital has a 25 percent ownership interest and received distributions of $2,185 during 2006 through UCHA. This partnership was dissolved in March 2006.

During 2002, the Hospital and other area health entities formed MPI Real Estate, LLC, of which the Hospital has a 20 percent ownership interest. The organization was formed to promote health care and physician services and to own, lease, operate, and provide health care facilities for the promotion of health in the area serviced. During 2002, the Hospital contributed $50,000 through UCHA. During 2007 and 2006, the Hospital received distributions from MPI Real Estate, LLC of $36,469 and $2,500 respectively, through UCHA. This partnership was dissolved in March, 2007.

During 2003, the Hospital and other health providers formed Marysville Ohio Surgery Center, LLC, of which the hospital has a 23.81 percent ownership interest. The organization was formed to promote health care and provide outpatient surgical service in the area. During 2003, the Hospital contributed $159,000 through UCHA. During 2007 and 2006, the Hospital received distributions of $209,551 and $110,353, respectively.

During 2003, the Hospital and other area health providers formed Marysville Ohio Medical Properties, LLC, of which the Hospital has a 25.97 percent ownership interest. The organization was formed as the property owner for the Marysville Ohio Surgery Center facility. During 2003, the Hospital contributed $130,000 through UCHA. During 2007 and 2006, the Hospital received $37,188 and $36,395 respectively, through UCHA.

OTHER FINANCIAL INFORMATION

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Report of Independent Auditors on Other Financial Information

To the Board of Trustees
Memorial Hospital of Union County and Affiliates

We have audited the combined financial statements of Memorial Hospital of Union County and Affiliates as of December 31, 2007. Our audit was made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The combining information in the accompanying schedules on pages 30-32 is presented for the purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities and is not a required part of the basic combined financial statements. The combining information has been subjected to the procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material aspects in relations to the combined financial statements taken as a whole.

Blue & Co., LLC

March 31, 2008

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINING BALANCE SHEET
DECEMBER 31, 2007

ASSETS

	Memorial Hospital of Union County	The Gables	Union County Hospital Association	Eliminating Entries	Total
Current assets					
Cash and cash equivalents	$ 16,638,782	$ 67,685	$ 603,067	$ -	$ 17,309,534
Patient accounts receivable	7,279,851	948,431	-	-	8,228,282
Assets limited as to use	3,797,022	521,497	-	-	4,318,519
Prepaid expenses	301,596	20,915	-	-	322,511
Inventories	392,215	-	-	-	392,215
Other current assets	64,149	-	-	-	64,149
Total current assets	28,473,615	1,558,528	603,067	-	30,635,210
Capital assets - net	28,921,899	7,081,705	-	-	36,003,604
Other assets					
Notes and advances to affiliates	2,320,819	-	633,185	(2,954,004)	-
Physician advances receivable	2,105,647	-	-	-	2,105,647
Investment in joint ventures	-	-	357,697	-	357,697
Bond issue costs	856,008	551,961	-	-	1,407,969
Total assets	$ 62,677,988	$ 9,192,194	$ 1,593,949	$ (2,954,004)	$ 70,510,127

See report of independent auditors on other financial information on page 29.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINING BALANCE SHEET
YEAR ENDED DECEMBER 31, 2007

LIABILITIES AND NET ASSETS

	Memorial Hospital of Union County	The Gables	Union County Hospital Association	Eliminating Entries	Total
Current liabilities					
Current portion of long-term debt	$ 873,720	$ 303,334	$ 36,630	$ -	$ 1,213,684
Accounts payable	2,200,437	191,872	-	-	2,392,309
Estimated third-party settlements	280,000	307,102	-	-	587,102
Salaries, wages and related accruals	1,800,606	254,131	-	-	2,054,737
Total current liabilities	5,154,763	1,056,439	36,630	-	6,247,832
Long-term debt - net of current portion	17,012,813	5,610,866	596,555	-	23,220,234
Other Liabilities					
Notes and advances to affiliates	633,185	2,320,819	-	(2,954,004)	-
Accrued compensated absences	2,050,317	219,538	-	-	2,269,855
Other long-term liabilities	1,278,006	-	-	-	1,278,006
Total liabilites	26,129,084	9,207,662	633,185	(2,954,004)	33,015,927
Net assets					
Invested in capital assets - net of related debt	10,402,181	1,167,505	-	-	11,569,686
Nonexpandable permanent endowments	25,000	-	-	-	25,000
Restricted for debt service and capital acquisitions	3,772,022	521,497	-	-	4,293,519
Unrestricted	22,349,701	(1,704,470)	960,764	-	21,605,995
Total liabilites and net assets	$ 62,677,988	$ 9,192,194	$ 1,593,949	$ (2,954,004)	$ 70,510,127

See report of independent auditors on other financial information on page 29.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2007

	Memorial Hospital of Union County	The Gables	Union County Hospital Association	Eliminating Entries	Total
Operating revenues					
Net patient service revenue	$ 58,271,589	$ 8,639,162	$ -	$ -	$ 66,910,751
Other operating revenue	1,928,366	1,996	-	(120,000)	1,810,362
Total operating revenue	60,199,955	8,641,158	-	(120,000)	68,721,113
Operating expenses					
Salaries and wages	23,818,538	3,893,259	-	-	27,711,797
Employee benefits and payroll taxes	6,674,420	1,366,458	-	-	8,040,878
Supplies and other	10,743,193	867,190	63,594	-	11,673,977
Professional services and consultant fees	1,940,484	154,733	-	(120,000)	1,975,217
Purchased services	7,210,073	781,384	-	-	7,991,457
Insurance	393,015	90,599	-	-	483,614
Utilities	965,072	191,674	3,744	-	1,160,490
Depreciation and amortization	2,453,601	288,362	1,624	-	2,743,587
Total operating expenses	54,198,396	7,633,659	68,962	(120,000)	61,781,017
Operating income (loss)	6,001,559	1,007,499	(68,962)	-	6,940,096
Other income (expenses)					
Interest Income	779,724	52,998	16,598	-	849,320
Grants and contributions	557,796	175	-	-	557,971
Interest expense	(816,185)	(282,560)	-	-	(1,098,745)
Other	-	-	387,885	-	387,885
Total other income (expense)	521,335	(229,387)	404,483	-	696,431
Change in net assets	$ 6,522,894	$ 778,112	$ 335,521	$ -	$ 7,636,527

See report of independent auditors on other financial information on page 29.

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

To the Board of Trustees
Memorial Hospital of Union County and Affiliates

We have audited the combined financial statements of Memorial Hospital of Union County and Affiliates as of and for the year ended December 31, 2007, and have issued our report thereon dated March 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Memorial Hospital of Union County and Affiliates' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Memorial Hospital of Union County and Affiliates' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Memorial Hospital of Union County and Affiliates' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the auditor of the State of Ohio, the board of trustees of Memorial Hospital of Union County and Affiliates, and management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Blue & Co., LLC

March 31, 2008

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

UNION COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 1, 2008