MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

MARCH 31, 2008

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Mercer County Joint Township Community Hospital, Mercer County, prepared by VonLehman & Company, Inc., for the audit period April 1, 2007 through March 31, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 25, 2008

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

This Page is Intentionally Left Blank.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
TABLE OF CONTENTS
MARCH 31, 2008

VON LEHMAN + COMPANY INC.

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Mercer County Joint Township Community Hospital

We have audited the accompanying basic consolidated financial statements of Mercer County Joint Township Community Hospital as of and for the years ended March 31, 2008 and 2007, as listed in the table of contents. These basic consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mercer County Joint Township Community Hospital as of March 31, 2008 and 2007, and the results of its operations, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 9, 2008, on our consideration of Mercer County Joint Township Community Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

VonLehman & Company Inc.

Fort Mitchell, Kentucky
September 9, 2008

4755 Lake Forest Drive √ Suite 100 √ Cincinnati, OH √ 45242-3836 √ 513-891-5911 √ 513-891-5969 *fax*

CPAs & Advisors

250 Grandview Drive √ Suite 300 √ Fort Mitchell, KY √ 41017-5610 √ 859-331-3300 √ 859-331-4358 *fax*

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2008
(UNAUDITED)

This section of Mercer County Joint Township Community Hospital's (the Hospital) annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance during the year ended March 31, 2008. This MD&A includes a discussion and analysis of the activities and results of the Hospital.

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

FINANCIAL HIGHLIGHTS

- The Hospital's net assets increased by approximately $224,000 in 2008, including non-operating income of approximately $229,000.

- During the year, the Hospital's net operating revenues decreased 3.4% to $36.9 million while expenses decreased 2.2% to $36.9 million. The result is a loss from operations of $4,000, a decrease of $474,000 when compared to 2007 operations.

- During the year, the Hospital made the following significant capital acquisitions and improvements:

    - Vitros 350 Chemical Analyzer
    - Practice Management and Electronic Medical Record Software
    - Surgical Camera Equipment
    - M2 Clinical Documentation System

  The sources of funding for these projects were cash flows from operations.

FINANCIAL STATEMENTS

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

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2008
(UNAUDITED)
(Continued)

FINANCIAL ANALYSIS

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

A summary of the Hospital's Statements of Net Assets as of March 31, 2008, 2007 and 2006 is presented below (in thousands):

	2008	2007	2006
Cash and Cash Equivalents	$ 6,126	$ 5,371	$ 5,287
Property, Plant and Equipment, Net	11,927	11,966	12,558
Patient Accounts Receivable, Net	8,116	7,784	6,325
Other Assets	1,463	1,463	1,591
Total Assets	$ 27,632	$ 26,584	$ 25,761
Current Liabilities	$ 6,351	$ 5,240	$ 4,640
Long-Term Debt	206	494	785
Total Liabilities	6,557	5,734	5,425
Net Assets	21,075	20,850	20,336
Total Liabilities and Net Assets	$ 27,632	$ 26,584	$ 25,761

As can be seen in the above, net assets increased to $21.1 million in 2008, up from $20.9 million in 2007.

A summary of the Hospital's Changes in Net Assets for the years ended March 31, 2008, 2007 and 2006 is presented below (in thousands):

	2008	2007	2006
Revenues			
Net Patient Service Revenues	$ 35,130	$ 36,320	$ 32,734
Other Operating Revenues	1,798	1,918	1,889
Total Revenues	36,928	38,238	34,623
Expenses			
Nursing Services	8,797	8,190	8,078
Medical Professional Services	8,527	8,821	8,069
General Services	3,448	3,365	3,218
Administrative Services	14,492	15,731	14,280
Depreciation	1,668	1,661	1,504
Total Expenses	36,932	37,768	35,149
(Loss) Income from Operations	(4)	470	(526)
Non-Operating Revenues	228	44	158
Changes in Net Assets	$ 224	$ 514	$ (368)

Sources of Revenues

During 2008, the Hospital derived substantially all of its revenues from patient services and other related activities. Revenues include, among other items, revenues from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

Payer Mix

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

OPERATING AND FINANCIAL PERFORMANCE

The Hospital generated slightly more gross revenues from patients in 2008, but encountered increased bad debt expenses and increased contractual allowances. The hospital managed to lower its total expenses though. The result was an increase in net assets of $224,000. This section will discuss highlights of 2008 operations and changes in activity.

Revenues

Net patient service revenues decreased $1.2 million in 2008 primarily because of an increase in contractual allowances and bad debt expenses.

Expenses

Total operating expenses decreased $836,000 in 2008 which was attributable to a decrease in costs for medical professional services and administrative services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year-end, the Hospital had $11.9 million invested in property, plant and equipment. See page one of the MD&A for a description of the significant capital acquisitions during 2008 and the notes to the basic financial statements for a detailed presentation of the acquisitions and deletions for the year.

Debt Administration

At year-end, the Hospital had $494,000 in outstanding debt (all capital lease obligations) versus $784,000 last year, a decrease of 37.0%. Interest rates ranged from 3.0% to 8.0%. For a breakdown of the interest payment schedule, and a detailed presentation of debt acquisitions and retirements for the year, refer to the notes to the basic financial statements.

ECONOMIC FACTORS AND 2008 BUDGET

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

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

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

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
STATEMENTS OF NET ASSETS

ASSETS

	March 31, 2008	March 31, 2007
Current Assets		
Cash and Cash Equivalents	$ 651,898	$ 297,294
Patient Accounts Receivable, Net of Estimated Uncollectibles (2008 - $795,501; 2007 - $798,776)	8,115,525	7,783,787
Accrued Interest Receivable	65,967	54,271
Inventories	808,154	798,289
Prepaid Expenses	236,050	257,347
Total Current Assets	9,877,594	9,190,988
Cash and Cash Equivalents Whose Use is Limited		
Board Designated for Future Capital Purposes	5,473,430	5,073,209
Property, Plant and Equipment, Net	11,927,320	11,966,501
Other Assets	353,305	353,305
Total Assets	$ 27,631,649	$ 26,584,003

See accompanying notes.

LIABILITIES AND NET ASSETS

	March 31, 2008	March 31, 2007
Current Liabilities		
Accounts Payable	$ 1,809,319	$ 1,365,691
Accrued Expenses	3,949,980	3,363,074
Estimated Settlement Amounts Due to Third Party Payors	303,704	220,474
Capital Lease Obligations - Current Portion	287,714	290,597
Total Current Liabilities	6,350,717	5,239,836
Long-Term Liabilities		
Capital Lease Obligations - Long Term Portion	206,078	493,792
Total Liabilities	6,556,795	5,733,628
Net Assets		
Unrestricted	9,616,326	9,643,263
Invested in Property, Plant and Equipment - Net of Related Debt	11,433,528	11,182,112
Temporarily Restricted	25,000	25,000
Total Net Assets	21,074,854	20,850,375
Total Liabilities and Net Assets	$ 27,631,649	$ 26,584,003

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

	Years Ended March 31,			
	2008		2007	
	Amount	Percent	Amount	Percent
Net Patient Service Revenues	$ 35,130,286	95.1 %	$ 36,320,149	95.0 %
Other Operating Revenues	1,797,731	4.9	1,917,531	5.0
Total Operating Revenues	36,928,017	100.0 %	38,237,680	100.0 %
Operating Expenses				
Nursing Services	8,796,502	23.8	8,189,952	21.4
Medical Professional Services	8,527,061	23.1	8,820,507	23.1
General Services	3,447,920	9.3	3,365,474	8.8
Administrative Services	14,492,354	39.2	15,731,058	41.1
Depreciation	1,668,360	4.5	1,661,022	4.3
Total Operating Expenses	36,932,197	99.9	37,768,013	98.7
(Loss) Income from Operations	(4,180)	0.1	469,667	1.3
Non-Operating Revenues (Expenses)				
Investment Earnings	201,470	0.5	199,981	0.5
Non - Operating (Expenses)	-	-	(193,606)	(0.5)
Unrestricted Gifts	27,189	0.1	37,917	0.1
Total Non-Operating Revenues	228,659	0.6	44,292	0.1
Change in Net Assets	224,479	0.7 %	513,959	1.4 %
Net Assets, Beginning of Year	20,850,375		20,336,416	
Net Assets, End of Year	$ 21,074,854		$ 20,850,375	

See accompanying notes.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
STATEMENTS OF CASH FLOWS

	Years Ended March 31, 2008	2007
Cash Flows from Operating Activities		
Cash Received from Customers	$ 35,102,252	$ 35,081,767
Cash Payments to Suppliers for Goods and Services	(13,038,525)	(14,398,159)
Cash Payments to Employees for Services	(21,268,195)	(21,134,791)
Cash Paid for Interest	(25,899)	(35,155)
Other Operating Revenues	1,797,731	1,917,531
Net Cash Provided by Operating Activities	2,567,364	1,431,193
Cash Flows from Non-Capital Financing Activities		
Non-Operating Revenues	228,659	44,292
Cash Flows from Capital and Related Financing Activities		
Payments on Capital Lease Obligations	(290,597)	(303,543)
Proceeds from Sale of Property, Plant and Equipment	-	4,250
Acquisition of Property, Plant and Equipment	(1,750,601)	(1,092,994)
Net Cash Used by Capital and Related Financing Activities	(2,041,198)	(1,392,287)
Net Increase in Cash and Cash Equivalents	754,825	83,198
Cash and Cash Equivalents at Beginning of Year	5,370,503	5,287,305
Cash and Cash Equivalents at End of Year	$ 6,125,328	$ 5,370,503
Recap of Cash and Cash Equivalents		
Undesignated Cash	$ 626,898	$ 272,294
Designated Cash	5,473,430	5,073,209
Restricted Cash	25,000	25,000
Total Cash and Cash Equivalents	$ 6,125,328	$ 5,370,503
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities		
(Loss) Income from Operations	$ (4,180)	$ 469,667
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation	1,668,360	1,661,022
Loss on Sale of Property, Plant and Equipment	121,422	19,650
Provision for Bad Debts	2,205,711	1,728,725
Changes in		
Patient Accounts Receivable	(2,537,449)	(3,187,581)
Accrued Interest Receivable	(11,696)	(54,271)
Inventories	(9,865)	(22,934)
Prepaid Expenses and Other Assets	21,297	204,498
Accounts Payable	443,628	(22,243)
Accrued Expenses	586,906	414,186
Estimated Settlement Amounts Due to Third Party Payors	83,230	220,474
Net Cash Provided by Operating Activities	$ 2,567,364	$ 1,431,193

See accompanying notes.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mercer County Joint Township Community Hospital (the Hospital) is a 76-bed facility, located in Mercer County, Ohio and operates under the direction of an eleven member board of governors pursuant to the authority of the Joint Township Hospital Board of Trustees with representatives from Butler, Franklin, Gibson, Granville, Marion, Recovery, Washington and Jefferson Townships. The Hospital is a tax-exempt nonprofit organization which provides healthcare services to the residents of Mercer County, Ohio and the surrounding area. The Hospital is operated under the provisions of the Ohio Revised Code.

Method of Consolidation

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

Basis of Accounting

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

Accounting Standards

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

Use of Estimates

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

Cash and Cash Equivalents

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

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

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

Cash and Cash Equivalents Whose Use is Limited

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

Inventories

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

Property, Plant and Equipment

Property, plant and equipment is recorded at cost or at fair market value at the date received if acquired by gift. It is the Hospital's policy to capitalize acquired property, plant and equipment with a cost or fair market value of $1,000 or greater. Expenditures for maintenance and repairs, which do not extend the useful lives of the applicable assets, are charged to expense as incurred. Depreciation is computed using the straight line method over the estimated useful lives of the depreciable assets as follows:

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

Lease Agreements

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

Compensated Absences

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

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

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

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

Net Patient Service Revenues

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

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

Medicare. Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed on a prospective rate scale based on Ambulatory Patient Classifications (APC's). Home Health Services are reimbursed on a prospective basis for episodes of care spanning 60 days. There are exceptions which could adjust the 60-day payment period. The payment rates are based on a clinical assessment system called OASIS (the Outcome and Assessment Information Set). Final settlements are determined upon submission of the annual cost report by the Hospital and audits thereof by the Medicare Fiscal Intermediary.

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

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

Charity Care

The Hospital provides care to patients who meet criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues. Hospital services at normal established rates totaled $702,610 and $576,416 for patients meeting the charity care criteria for the years ended March 31, 2008 and 2007, respectively.

Restricted and Unrestricted Resources

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

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

Net Assets

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

	2008	2007
Foundation and Other Endowments	$ 25,000	$ 25,000

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

Contributions

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

Gifts and Donated Services

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Contributions of services are recognized if the services received create or enhance non financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Risk Management

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

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

NOTE 2 – CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer’s investment pool (STAR Ohio);

7. Certain banker’s acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time and,

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

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

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

A. Cash on Hand

As of March 31, 2008 and 2007, the Hospital had $1,950 in undeposited cash on hand which is included on the financial statements of the Hospital as part of "Cash and Cash Equivalents".

B. Deposits with Financial Institutions

As of March 31, 2008 the carrying amount of all Hospital deposits was $6,125,328. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of March 31, 2008, $6,165,804 of the Hospital's bank balance of $6,465,804 was exposed to custodial risk as discussed below, while $300,000 was covered by the Federal Deposit Insurance Corporation.

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

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

In addition to those patients unable to pay, there are patients receiving services who will not pay. The Hospital has established credit and collection policies to hold this cost to a minimum. Provisions for bad debts are recorded as a reduction to arrive at net patient service revenues in the statements of revenues, expenses and changes in net assets.

Estimated third-party settlements for the Medicare and Medicaid programs reflect differences between interim reimbursement and reimbursement as determined by cost reports filed after the end of the year. Such third-party settlements may reflect differences owed to or by the Hospital. The estimated amount owed by the Hospital to third party providers based upon as-filed cost reports was $303,704 and $220,474 as of March 31, 2008 and March 31, 2007, respectively.

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

	2008	2007
Federal Government: Medicare	$ 2,714,644	$ 2,683,346
State of Ohio:		
Medicaid, Workers Compensation	392,791	598,484
Commercial Insurance, Self-Pay and Other	5,008,090	4,501,957
Total	$ 8,115,525	$ 7,783,787

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment transactions for the year ended March 31, 2008 were as follows:

Business-Type Activities	Balance April 1, 2007	Additions	Transfers/ Disposals	Balance March 31, 2008
Property, Plant and Equipment Not Being Depreciated				
Land	$ 44,300	$ -	$ -	$ 44,300
Construction in Progress	-	214,424	1,233	215,657
	44,300	214,424	1,233	259,957
Depreciable Property, Plant and Equipment				
Buildings and Improvements	21,477,241	297,976	(51,119)	21,724,098
Major Movable and Leased Equipment	12,922,070	1,236,984	(1,767,065)	12,391,989
	34,399,311	1,534,960	(1,818,184)	34,116,087
Total Property, Plant and Equipment at Historical Cost	34,443,611	1,749,384	(1,816,951)	34,376,044
Less Accumulated Depreciation				
Buildings and Improvements	13,934,340	602,894	(50,970)	14,486,264
Major Movable and Leased Equipment	8,542,770	1,065,466	(1,645,776)	7,962,460
Total Accumulated Depreciation	22,477,110	1,668,360	(1,696,746)	22,448,724
Property, Plant and Equipment – Net	$ 11,966,501	$ 81,024	$ (120,205)	$ 11,927,320

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Business-Type Activities	Balance April 1, 2006	Additions	Transfers/ Disposals	Balance March 31, 2007
Property, Plant and Equipment Not Being Depreciated				
Land	$ 44,300	$ -	$ -	$ 44,300
Depreciable Property, Plant and Equipment				
Buildings and Improvements	21,247,761	239,766	(10,286)	21,477,241
Major Movable and Leased Equipment	12,479,734	853,228	(410,892)	12,922,070
	34,727,495	1,092,994	(421,178)	34,399,311
Total Property, Plant and Equipment at Historical Cost	33,771,795	1,092,994	(421,163)	34,443,611
Less Accumulated Depreciation				
Buildings and Improvements	13,318,438	624,794	(8,892)	13,934,340
Major Movable and Leased Equipment	7,894,928	1,036,228	(388,386)	8,542,770
Total Accumulated Depreciation	21,213,366	1,661,022	(397,278)	22,477,110
Property, Plant and Equipment – Net	$ 12,558,429	$ (568,028)	$ (23,900)	$ 11,966,501

NOTE 5 – OTHER ASSETS

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

NOTE 6 – LONG-TERM LIABILITIES

The following is a summary of the Hospital's capital lease obligations for the years ended March 31, 2008 and 2007:

	2008	2007
Debt Outstanding, Beginning of Year	$ 784,389	$ 1,087,932
Additions of New Debt	-	-
Repayments	(290,597)	(303,543)
Debt Outstanding, End of Year	$ 493,792	$ 784,389
Expected to be Paid Within One Year	$ 287,714	$ 290,597

Capital Lease Obligations

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

Years Ending March 31,		
2009	$ 305,266	
2010	112,335	
2011	102,974	
Total Net Future Minimum Lease Payments	$ 520,575	$ 847,870
Less: Amount Representing Interest	26,783	63,481
Total Capital Lease Obligations	493,792	784,389
Less: Current Portion	287,714	290,597
Long-Term Capital Lease Obligations	$ 206,078	$ 493,792

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

Cost	$ 1,440,824	$ 1,440,824
Accumulated Depreciation	685,498	479,686
Net Book Value	$ 755,326	$ 961,138

NOTE 7 – LINE OF CREDIT

The Hospital has available a $1,000,000 line of credit with a local bank. Nothing was drawn on the line of credit as of March 31, 2008 or 2007.

NOTE 8 – NET PATIENT SERVICE REVENUES

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

	2008	2007
Gross Patient Service Charges at Established Rates	$ 66,386,034	$ 63,371,880
Less		
Contractual Allowances	(28,347,427)	(24,746,590)
Bad Debt Expense	(2,205,711)	(1,728,725)
Charity Care	(702,610)	(576,416)
Net Patient Service Revenues	$ 35,130,286	$ 36,320,149

NOTE 9 – OPERATING LEASES

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

Years Ending March 31,	
2009	$ 58,060
2010	45,000
2011	45,000
2012	45,000
2013	37,500
Total	$ 230,560

Total rental expense for operating leases, including those with terms of one month or less, for the years ended March 31, 2008 and 2007 was $79,364 and $71,351, respectively, and were included within Administrative Services on the Statements of Revenues, Expenses and Changes in Net Assets.

NOTE 10 – RETIREMENT PLAN

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

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

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

NOTE 10 – RETIREMENT PLAN (Continued)

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

Year	Contribution
2008	$ 1,933,284
2007	$ 1,895,597
2006	$ 1,766,206

NOTE 11 – OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described above, OPERS also provides post-retirement health care coverage, commonly referred to as OPEB (Other Post-Employment Benefits). The Ohio Revised Code provides the authority for public employers to fund post-retirement health care through their contributions. The following information is based on data obtained from OPERS for the periods ended December 31, 2007 and 2006.

OPERS provides post-retirement health care coverage to age and service retirants and dependents with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The 2007 employer rate for employees' coverage by OPERS was 13.85%, of which 4.5% was used to fund health care. The total Hospital contribution used to fund health care was $773,025 and $738,129 for the years ended March 31, 2008 and 2007, respectively.

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

OPEB are advanced-funded on an actuarially-determined basis. The number of active contributing participants at June 30, 2007 was 369,214. The actuarial value of the net assets available for OPEB at the most recent actuarial review performed December 31, 2005 was $11,100,000,000. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $31,300,000,000 and $20,200,000,000 respectively, as of December 31, 2005. The actuarial assumptions used to calculate these amounts are as follows:

- Funding Method – An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

- Assets Valuation Method – All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets, not to exceed a 12% corridor.

- Investment Return – The investment assumption rate for 2005 was 6.50%.

- Active Employee Total Payroll – An annual increase of 4.00% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.50% to 6.30%.

- Health Care – Health care costs were assumed to increase 4.0% annually.

NOTE 12 – PROFESSIONAL LIABILITY INSURANCE

As of March 31, 2008, the Hospital carried occurrence basis malpractice insurance coverage of $1,000,000 per claim and $3,000,000 aggregate, plus excess liability coverage of $3,000,000.

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

NOTE 13 – CONCENTRATIONS

Medicare and Medicaid accounted for approximately 38.3% and 39.5% of the Hospital's net patient service revenue during the years ended March 31, 2008 and 2007, respectively.

OTHER INFORMATION

VON LEHMAN + COMPANY INC.

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

Board of Trustees
Mercer County Joint Township Community Hospital

We have audited the basic financial statements of Mercer County Joint Township Community Hospital as of and for the year ended March 31, 2008, and have issued our report thereon dated September 9, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting
In planning and performing our audit, we considered Mercer County Joint Township Community Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mercer County Joint Township Community Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mercer County Joint Township Community Hospital's internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. As discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

Finding 2008-1 – Account Reconciliations

As of March 31, 2008, certain of the Hospital's subsidiary ledgers and other account details were not in agreement with the general ledger account balances. We recommended numerous adjusting journal entries and substantially all of the entries were to correct bookkeeping errors or to make accruals and other adjustments that should have been made prior to the audit work. The Hospital should adopt a policy requiring monthly reconciliation of all balance sheet accounts to their subsidiary ledgers in order to ensure the accuracy of the monthly financial statements. Balance sheet reconciliations quickly identify errors and needed corrections. If reconciliations are performed infrequently or not at all, errors and adjustments can occur, resulting in the need for significant corrections when the reconciliations are performed. Any reconciliation differences should be corrected before the books are closed for the month end.

4755 Lake Forest Drive √ Suite 100 √ Cincinnati, OH √ 45242-3836 √ 513-891-5911 √ 513-891-5969 *fax*

CPAs & Advisors

250 Grandview Drive √ Suite 300 √ Fort Mitchell, KY √ 41017-5610 √ 859-331-3300 √ 859-331-4358 *fax*

Finding 2008-2 – Fixed Assets

We noted during our audit that the property and equipment subsidiary ledger and software module was not adequately capturing and maintaining the account balances and activity. Numerous items disposed of during the year were still being depreciated after their disposal date causing balances for depreciation and the gain or loss on disposals of assets to change throughout the year when they should not have. Management declared that this has been a problem with the software and therefore we recommend that more reliable fixed asset software be pursued in order to maintain the balances and activity.

Compliance and Other Matters

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

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

VonLehman & Company Inc.

Fort Mitchell, Kentucky
September 9, 2008

Mary Taylor, CPA
Auditor of State

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

MERCER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 9, 2008

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us