MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL

MARCH 31, 2011

CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

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 prepared by VonLehman and Company, Inc., for the audit period April 1, 2010 through March 31, 2011. 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.

Dave Yost

Dave Yost
Auditor of State

November 21, 2011

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VonLehman
CPA & ADVISORY FIRM

INDEPENDENT AUDITORS' REPORT

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

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, 2011 and 2010, 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, 2011 and 2010, 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 26, 2011, 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 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.

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 1 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
September 26, 2011

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MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2011
(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, 2011. 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 decreased by approximately $580,000 in 2011, which included non-operating income of approximately $46,000.

- During the year, the Hospital's net operating revenues decreased 1.2% to $41.6 million while expenses decreased by approximately $533,000. The result is a loss from operations of approximately $626,000, an improvement of approximately $19,000 when compared to 2010 operations.

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

    - Briarwood Building
    - Hospital – Wide Computer Virtual Server
    - Certified Clinical Information System
    - Community Medical Center Telephone System
    - Celina Pro Health Diagnostic Center Equipment

  The sources of funding for these projects were cash flows from operations and proceeds from notes payable.

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 10 of this report.

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, 2011, 2010 and 2009 is presented below (in thousands):

	2011	2010	2009
Cash and Cash Equivalents	$ 4,840	$ 5,351	$ 5,448
Property, Plant and Equipment, Net	16,212	17,100	16,094
Patient Accounts Receivable, Net	5,691	6,223	6,037
Other Assets	2,171	2,264	2,230
Total Assets	$ 28,914	$ 30,938	$ 29,809
Current Liabilities	$ 4,965	$ 6,340	$ 6,134
Long-Term Debt	6,309	6,378	4,874
Total Liabilities	11,274	12,718	11,008
Net Assets	17,640	18,220	18,801
Total Liabilities and Net Assets	$ 28,914	$ 30,938	$ 29,809

As can be seen in the above, total assets decreased to approximately $28.9 million in 2011, down from approximately $30.9 million in 2010. Net assets decreased from approximately $18.2 million to approximately $17.6 million.

A summary of the Hospital's Changes in Net Assets for the years ended March 31, 2011, 2010 and 2009 is presented below (in thousands):

	2011	2010	2009
Revenues			
Net Patient Service Revenues	$ 39,140	$ 38,034	$ 38,682
Other Operating Revenues	2,504	4,123	2,332
Total Revenues	41,644	42,157	41,014
Expenses			
Nursing Services	10,692	10,489	9,754
Medical Professional Services	9,035	9,250	8,959
General Services	3,995	4,017	3,673
Administrative Services	16,466	16,978	16,230
Depreciation and Amortization	2,082	2,068	1,693
Total Expenses	42,270	42,802	40,309
(Loss) Income from Operations	(626)	(645)	705
Non-Operating Revenues	46	65	126
Changes in Net Assets	$ (580)	$ (580)	$ 831

Sources of Revenues

During 2011, 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 2011, but encountered increased bad debt expenses and increased contractual allowances. The result was a decrease in net assets of approximately $580,000. This section will discuss highlights of 2011 operations and changes in activity.

Revenues

Net patient service revenues increased by approximately $1,106,000 in 2011 due mainly to an approximately 4.3% increase in Emergency Room visits and an increase in outpatient surgery volume. This increase was partially offset by a decrease in laboratory revenues. Other operating revenues decreased by approximately $1,619,000 from 2010 mainly due to reduced levels of revenue for selected physician disciplines.

Expenses

Total operating expenses decreased approximately $533,000 compared to the previous year, mainly due to a decrease in administrative services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year-end, the Hospital had approximately $16.2 million invested in property, plant and equipment. See page one of the MD&A for a description of the significant capital acquisitions during 2011 and the notes to the basic financial statements for a detailed presentation of the acquisitions and disposals for the year.

Debt Administration

At year-end, the Hospital had approximately $6.7 million in outstanding debt (capital lease obligations and bond indebtedness) versus approximately $6.8 million last year, a decrease of approximately $100,000. The decrease was due to a combination of payments made on existing debt and a new note payable for a building. Interest rates on outstanding debt at year end ranged from 3.95% to 6.50%. 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 2012 BUDGET

The Hospital's Board and management considered many factors when developing the 2012 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
- Increased emphasis on revenue cycle management programs
- Increased emphasis on departmental cost control
- 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 and services provided
- Access to additional capital
- Increasing drug costs
- Impact of the Hospital Franchise Fee Program included in the State of Ohio's Fiscal Year 2012 Budget
- Healthcare reform from the current state and federal administration

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.

CONSOLIDATED FINANCIAL STATEMENTS

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
STATEMENTS OF NET ASSETS

ASSETS

	March 31, 2011	March 31, 2010
Current Assets		
Cash and Cash Equivalents	$ 228,797	$ 564,880
Patient Accounts Receivable, Net of Estimated Uncollectibles (2011 - $2,681,284; 2010 - $2,870,996)	5,690,556	6,222,819
Accrued Interest Receivable	85,766	90,999
Other Receivables	176,516	297,349
Inventories	733,172	728,288
Prepaid Expenses	409,268	348,228
Total Current Assets	7,324,075	8,252,563
Cash and Cash Equivalents Whose Use is Limited		
Board Designated for Future Capital Purposes	4,611,295	4,786,553
Property, Plant and Equipment, Net	16,211,846	17,099,878
Other Assets	766,590	798,784
Total Assets	$ 28,913,806	$ 30,937,778

See accompanying notes.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
STATEMENTS OF NET ASSETS - Continued

LIABILITIES AND NET ASSETS

	March 31, 2011	March 31, 2010
Current Liabilities		
Accounts Payable	$ 1,147,301	$ 1,737,958
Accrued Expenses	3,268,715	3,987,626
Estimated Settlement Amounts Due to Third Party Payors	128,192	143,937
Capital Lease Obligations - Current Portion	-	100,734
Notes Payable - Current Portion	77,990	40,594
Bond Indebtedness - Current Portion	343,425	329,686
Total Current Liabilities	4,965,623	6,340,535
Long-Term Liabilities		
Notes Payable - Long-Term Portion	448,405	173,319
Bond Indebtedness - Long-Term Portion	5,859,956	6,203,775
Total Long-Term Liabilities	6,308,361	6,377,094
Total Liabilities	11,273,984	12,717,629
Net Assets		
Unrestricted	8,132,752	7,943,379
Invested in Capital Assets - Net of Related Debt	9,482,070	10,251,770
Restricted	25,000	25,000
Total Net Assets	17,639,822	18,220,149
Total Liabilities and Net Assets	$ 28,913,806	$ 30,937,778

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

	Years Ended March 31,			
	2011		2010	
	Amount	Percent	Amount	Percent
Net Patient Service Revenues	$ 39,140,221	94.0 %	$ 38,034,310	90.2 %
Other Operating Revenues	2,504,022	6.0	4,123,190	9.8
Total Operating Revenues	41,644,243	100.0 %	42,157,500	100.0 %
Operating Expenses				
Nursing Services	10,692,157	25.7	10,488,988	24.9
Medical Professional Services	9,034,683	21.7	9,249,598	21.9
General Services	3,994,468	9.6	4,017,132	9.5
Administrative Services	16,466,597	39.5	16,978,449	40.3
Depreciation and Amortization	2,082,175	5.0	2,068,543	4.9
Total Operating Expenses	42,270,080	101.6	42,802,710	101.5
Loss from Operations	(625,837)	(1.6)	(645,210)	(1.5)
Non-Operating Revenues				
Investment Earnings	22,826	0.1	56,608	0.1
Unrestricted Gifts	22,684	0.1	8,170	-
Total Non-Operating Revenues	45,510	0.2	64,778	0.1
Change in Net Assets	(580,327)	(1.4) %	(580,432)	(1.4) %
Net Assets, Beginning of Year	18,220,149		18,800,581	
Net Assets, End of Year	$ 17,639,822		$ 18,220,149	

See accompanying notes.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
STATEMENTS OF CASH FLOWS

	Years Ended March 31, 2011	Years Ended March 31, 2010
Cash Flows from Operating Activities		
Cash Received from Customers	$ 39,785,787	$ 37,848,650
Cash Payments to Suppliers for Goods and Services	(21,494,662)	(17,152,791)
Cash Payments to Employees for Services	(19,815,084)	(23,245,713)
Cash Paid for Interest, Net of Capitalized Interest	(225,828)	(152,879)
Other Operating Revenues	2,504,022	4,033,408
Net Cash Provided by Operating Activities	754,235	1,330,675
Cash Flows from Non-Capital Financing Activities		
Other Non-Operating Revenues	22,684	8,170
Cash Flows from Investing Activities		
Investment Earnings	22,826	56,608
Cash Flows from Capital and Related Financing Activities		
Payments on Capital Lease Obligations	(100,734)	(105,344)
Proceeds from Bond Indebtedness	-	1,767,685
Payments on Notes Payable	(87,518)	(13,178)
Payments on Bond Indebtedness	(330,080)	(266,539)
Proceeds from Sale of Property, Plant and Equipment	300	32,052
Acquisition of Property, Plant and Equipment	(793,054)	(2,906,281)
Net Cash Used by Capital and Related Financing Activities	(1,311,086)	(1,491,605)
Net Change in Cash and Cash Equivalents	(511,341)	(96,152)
Cash and Cash Equivalents at Beginning of Year	5,351,433	5,447,585
Cash and Cash Equivalents at End of Year	$ 4,840,092	$ 5,351,433
Recap of Cash and Cash Equivalents		
Undesignated Cash	$ 203,797	$ 539,880
Designated Cash	4,611,295	4,786,553
Restricted Cash	25,000	25,000
Total Cash and Cash Equivalents	$ 4,840,092	$ 5,351,433

See accompanying notes.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
STATEMENTS OF CASH FLOWS

	Years Ended March 31, 2011	2010
Reconciliation of Loss from Operations to Net Cash Provided by Operating Activities		
Loss from Operations	$ (625,837)	$ (645,210)
Adjustments to Reconcile Loss from Operations to Net Cash Provided by Operating Activities		
Depreciation	2,075,572	2,065,092
Amortization	6,876	3,451
Loss on Sale of Property, Plant and Equipment	5,214	30,152
Provision for Bad Debts	2,777,933	2,152,249
Changes in		
Patient Accounts Receivable	(2,245,670)	(2,337,909)
Accrued Interest Receivable	5,233	(12,797)
Other Receivables	120,833	(52,037)
Inventories	(4,884)	120,859
Prepaid Expenses and Other Assets	(35,722)	(93,223)
Accounts Payable	(590,657)	(234,819)
Accrued Expenses	(718,911)	283,627
Estimated Settlement Amounts Due to Third Party Payors	(15,745)	51,240
Net Cash Provided by Operating Activities	$ 754,235	$ 1,330,675
Supplemental Disclosure of Cash Flow Information		
Cash Paid for Interest	$ 225,828	$ 152,879
Non-Cash Investing and Financing Activities		
Note Payable Incurred for Building Purchase	$ 400,000	$ 227,091

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, Jefferson, Hopewell, Union and Dublin 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 Presentation

The Hospital follows the provisions of the Governmental Accounting Standards Board (GASB) Accounting Standards Codification, which establish the financial reporting standards for all state and local government entities. The Hospital follows the "business-type" activities reporting requirements to GASB, using 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.

Basis of Accounting

The Hospital's financial statements are prepared in accordance with U.S. generally accepted accounting principles. The GASB is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Hospital are discussed below.

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.

Bond Issuance Costs

Bond Issuance Costs are deferred and amortized over the life of the related bonds. These amounts are included with Other Assets.

Property, Plant and Equipment

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

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

Capital Lease Obligations

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. As of March 31, 2011, all capital lease obligations had been paid off.

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 (0.04615 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 for his/her accrued but unused sick leave. Payment of sick leave will be based on the employee's rate of pay at the time of retirement. The maximum payout shall not exceed 240 hours for employees who were employed a minimum of 10 years and shall not exceed 160 hours for employees who were employed a minimum of 5 years but less than 10 years.

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 the Ohio Public Employees Retirement System (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.

Other Revenues

Other activities that result in gains or losses unrelated to the Hospital's primary mission are considered to be non-operating. Non-operating gains and losses include unrestricted contributions, interest earnings on investments, gains and losses from sale of assets, and interest expense.

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 $1,270,184 and $812,377 for patients meeting the charity care criteria for the years ended March 31, 2011 and 2010, 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 capital assets, net of related debt consist of property, plant and equipment net of accumulated depreciation reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. 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. Restricted net assets were restricted to the following:

	2011	2010
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.

Reclassifications

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

NOTE 2 – CASH AND CASH EQUIVALENTS

The GASB has established risk categories for deposits as follows:

Insured or collateralized with securities held by the entity or by its agent in the entity's name;

Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name;

Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name).

As of March 31, 2011, the carrying amount of the Hospital's deposits was $4,840,092 and the bank balance was $5,396,699. Of the bank balances, $750,000 was covered by federal depository insurance, and would belong in the risk category "insured or collateralized"; $4,646,699 was covered by collateral held by third-party trustees pursuant to Section 135.181 of the Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, and belongs in the risk category "uncollateralized"; and there were no uninsured and uncollateralized deposits at year-end.

Interest rate risk – The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – The Hospital may invest in United States obligations or any other obligation guaranteed by the United States; bonds, notes or any other obligations or securities issued by any federal government agency or instrumentality; time certificate of deposit or savings or deposit accounts, including passbook accounts, in any eligible institution mentioned in Section 135.32; bonds and other obligations of the State of Ohio or the political subdivisions of the state provided that such political subdivisions are located wholly or partly within the same county; and certain no load money market mutual funds; certain commercial paper; and certain repurchase agreements.

Concentration of credit risk – The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

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 $128,192 and $143,937 as of March 31, 2011 and March 31, 2010, respectively.

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

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

	2011	2010
Federal Government		
Medicare	$ 3,274,719	$ 4,714,606
State of Ohio		
Medicaid, Workers Compensation	1,177,536	929,864
Commercial Insurance, Self-Pay and Other	9,022,282	8,122,969
Less: Allowances and Contractual Adjustments	(7,783,981)	(7,544,620)
Total	$ 5,690,556	$ 6,222,819

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment transactions for the year ended March 31, 2011 were as follows:

Business-Type Activities	Balance April 1, 2010	Additions	Transfers/ Disposals	Balance March 31, 2011
Property, Plant and Equipment Not Being Depreciated				
Land	$ 44,300	$ -	$ -	$ 44,300
Depreciable Property, Plant and Equipment				
Buildings and Improvements	27,326,732	677,200	(133,668)	27,870,264
Major Movable and Leased Equipment	14,689,071	515,854	(146,911)	15,058,014
	42,015,803	1,193,054	(280,579)	42,928,278
Total Property, Plant and Equipment at Historical Cost	42,060,103	1,193,054	(280,579)	42,972,578
Less Accumulated Depreciation				
Buildings and Improvements	15,854,382	880,840	(129,121)	16,606,101
Major Movable and Leased Equipment	9,105,843	1,194,732	(145,944)	10,154,631
Total Accumulated Depreciation	24,960,225	2,075,572	(275,065)	26,760,732
Property, Plant and Equipment – Net	$ 17,099,878	$ (882,518)	$ (5,514)	$ 16,211,846

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT (Continued)

Property, plant and equipment transactions for the year ended March 31, 2010 were as follows:

Business-Type Activities	Balance April 1, 2009	Additions	Transfers/ Disposals	Balance March 31, 2010
Property, Plant and Equipment Not Being Depreciated				
Land	$ 44,300	$ -	$ -	$ 44,300
Construction in Progress	3,415,771	-	(3,415,771)	-
	3,460,071	-	(3,415,771)	44,300
Depreciable Property, Plant and Equipment				
Buildings and Improvements	22,269,766	5,187,649	(130,683)	27,326,732
Major Movable and Leased Equipment	14,297,465	1,361,270	(969,664)	14,689,071
	36,567,231	6,548,919	(1,100,347)	42,015,803
Total Property, Plant and Equipment at Historical Cost	40,027,302	6,548,919	(4,516,118)	42,060,103
Less Accumulated Depreciation				
Buildings and Improvements	15,139,596	805,359	(90,573)	15,854,382
Major Movable and Leased Equipment	8,793,904	1,259,733	(947,794)	9,105,843
Total Accumulated Depreciation	23,933,500	2,065,092	(1,038,367)	24,960,225
Property, Plant and Equipment – Net	$ 16,093,802	$ 4,483,827	$ (3,477,751)	$ 17,099,878

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. The note charged interest at 2.77% at both March 31, 2011 and 2010. Interest income related to this asset for 2011 and 2010 was approximately $12,000 and was included within non-operating revenues on the statements of revenues, expenses and changes in net assets.

In December, 2010, the Cancer Network of West Central Ohio (CNWCO) was informed by the bank that they would not renew the High Point Regional Cancer Center Letter of Credit (LOC) and that the LOC will expire on December 15, 2011. Representatives from the bank indicated that when the LOC expires, the bank will pay off the bonds and that there will then be a bank note between the CNWCO and the bank. The CNWCO will have the opportunity to negotiate the bank note to a loan with some possibility of the CNWCO having to pay down the debt to the fair market value assessment of the property. Representatives from the CNWCO are exploring other financing options given the upcoming LOC expiration.

NOTE 5 – OTHER ASSETS (Continued)

The Hospital entered into a joint venture agreement with the Joint Township District Memorial Hospital with respect to the ownership and expansion of a medical office building. A nonprofit real estate holding company and a nonprofit management company were formed as a result of the joint venture. The Hospital has invested $336,091 for its ownership portion of the joint venture investment. This investment is included within other assets on the statements of net assets. No income or expense related to the joint venture has been recognized in these financial statements.

The joint venture is accumulating adequate financial resources on its own. A stand-alone financial statement is available for the joint venture. Interested parties may obtain further information by writing E.S. Evans and Company, 205 West Elm St., Lima, OH 45801, or by calling 1-419-223-3075.

NOTE 6 – LONG-TERM LIABILITIES

Capital Lease Obligations

The following is a summary of the Hospital's capital lease obligations for the years ended March 31, 2011 and 2010:

	2011	2010
Debt Outstanding, Beginning of Year	$ 100,734	$ 206,078
Additions of New Debt	-	-
Repayments	(100,734)	(105,344)
Debt Outstanding, End of Year	$ -	$ 100,734
Expected to be Paid Within One Year	$ -	$ 100,734

The Hospital leased certain equipment under non-cancelable capital lease obligations and no lease obligations remained as of March 31, 2011.

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

Cost	$ 503,114	$ 503,114
Accumulated Depreciation	503,114	372,390
Net Book Value	$ -	$ 130,724

NOTE 6 – LONG-TERM LIABILITIES (Continued)

Bond Indebtedness

Hospital Facilities Revenue Bonds, Series 2009 (Mercer Health Project)

In February, 2009, the Hospital sold $1,800,000 of its Facilities Revenue Bonds for the purpose of paying costs associated with a new MRI machine.

The Hospital Facilities Revenue Bonds, Series 2009, are scheduled to mature as follows:

Years	Interest Rates	Principal Amounts	Interest Amount	Total Debt Service
2012	4.125%	$ 210,196	$ 55,578	$ 265,774
2013	4.125%	218,818	46,956	265,774
2014	4.125%	228,075	37,699	265,774
2015-2017	4.125%	742,827	54,496	797,323
Totals		$ 1,399,916	$ 326,193	$ 2,126,193

NOTE 6 – LONG-TERM LIABILITIES (Continued)

Hospital Facilities Revenue Bonds, Series 2008A (Mercer Health Project)

In July, 2008, the Hospital sold $5,000,000 of its Facilities Revenue Bonds for the purpose of paying costs associated with the construction of an emergency room.

The Hospital Facilities Revenue Bonds, Series 2008A, are schedule to mature as follows

Years	Principal Amounts	Interest Amount	Total Debt Service
2012	$ 133,229	$ 197,064	$ 330,293
2013	138,243	192,050	330,293
2014	144,544	92,857	237,401
2015-2019	817,749	*	*
2020-2024	1,003,025	*	*
2025-2029	1,230,102	*	*
2030-2034	1,336,573	*	*
	$ 4,803,465	$ *	$ *

* At March 31, 2011, the bond charges interest at 4.125%, but will be assessed and re-determined on a yearly basis based upon certain criteria and future rates and terms are not available.

Changes in bond indebtedness are as follows:

	March 31, 2010	Additions	Retirement	March 31, 2011
Bond Indebtedness				
Series 2008A	$ 4,931,759	$ -	$ (128,294)	$ 4,803,465
Series 2009	1,601,702	-	(201,786)	1,399,916
Total Bond Indebtedness	6,533,461	$ -	$ (330,080)	6,203,381
Less Current Portion	329,686			343,425
Bond Indebtedness Long-Term Portion	$ 6,203,775			$ 5,859,956

NOTE 6 – LONG-TERM LIABILITIES (Continued)

Notes Payable

	March 31, 2011	March 31, 2010
The Hospital has a note payable to a bank that financed the purchase of a building. The note charges interest at 3.95% and requires monthly principal and interest payments of $4,000 through the maturity date of April, 2025. The note is not collateralized	$ 353,092	$ -
The Hospital has a note payable to a bank that financed the purchase of a Cardiac Monitoring system. The note charges interest at 6.5% and requires monthly principal and interest payments of $4,443. The final payment is due In November, 2014. The note is not collateralized.	173,303	213,913
Total Notes Payable	526,395	213,913
Less Current Portion	(77,990)	(40,594)
Long Term Portion	$ 448,405	$ 173,319

The remaining maturities on the notes payable are as follows:

Years Ending March 31,	
2012	$ 77,990
2013	82,285
2014	86,832
2015	73,496
2016	40,601
Thereafter	165,191
	$ 526,395

NOTE 7 – 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 were as follows:

	Years Ended March 31, 2011	Years Ended March 31, 2010
Gross Patient Service Charges at Established Rates	$ 81,087,811	$ 78,780,602
Less		
Contractual Allowances	(37,899,473)	(37,781,666)
Bad Debt Expense	(2,777,933)	(2,152,249)
Charity Care	(1,270,184)	(812,377)
Net Patient Service Revenues	$ 39,140,221	$ 38,034,310

NOTE 8 – 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,	
2012	$ 121,296
2013	57,024
2014	49,524
2015	12,024
2016	11,358
Total	$ 251,226

Total rental expense for operating leases, including those with terms of one month or less, for the years ended March 31, 2011 and 2010 was $121,098 and $48,366, respectively, and were included within Administrative Services on the Statements of Revenues, Expenses and Changes in Net Assets.

NOTE 9 – PENSION PLAN

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

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

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

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy

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

NOTE 9 – PENSION PLAN (Continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010-2011, state and local employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of post employment health care benefits. The portion of employer contributions allocated to health care was 5.5%. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Hospital's contributions, representing 100% of employer contributions, for the last three years are as follows:

Years	Contribution
2011	$ 2,175,878
2010	$ 2,160,896
2009	$ 2,141,826

The portion of the Hospital's contribution in the above table that was made to fund post-employment health care benefits approximated $1,075,000, $1,081,000 and $818,000 for the years ended March 31, 2011, 2010 and 2009, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase to be implemented on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

NOTE 10 – INTEREST EXPENSE

The Hospital incurred interest expense on all outstanding debt during the years ended March 31, 2011 and 2010 of $228,528 and $226,906, respectively. This is included within Administrative Services on the Statements of Revenues, Expenses and Changes in Net Assets.

NOTE 11 – PROFESSIONAL LIABILITY INSURANCE

As of March 31, 2011, 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 12 – CONCENTRATIONS

Medicare and Medicaid accounted for approximately 49.7% and 48.8% of the Hospital's net patient service revenue during the years ended March 31, 2011 and 2010, respectively.

NOTE 13 – SUBSEQUENT EVENTS

The date to which events occurring after March 31, 2011, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is September 26, 2011 which is the date on which the financial statements were available to be issued.

OTHER INFORMATION

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VonLehman
CPA & ADVISORY FIRM

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*

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

We have audited the basic financial statements of Mercer County Joint Township Community Hospital as of and for the year ended March 31, 2011, and have issued our report thereon dated September 26, 2011. 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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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*.

During our audit we became aware of another matter that is an opportunity for strengthening internal controls and operating efficiencies. That matter was communicated to management and the Board of Trustees in a separate letter dated September 26, 2011.

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 26, 2011

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED MARCH 31, 2011

FINDING: 2011-1 ADJUSTING JOURNAL ENTRIES

Condition: During the audit, we noted several account balances that required adjustments, some of which were individually material, in order for the financial statements to be stated in accordance with U.S. generally accepted accounting principles.

Criteria: The Hospital is required to implement and maintain a system of internal controls that ensures all accounts are adjusted to the appropriate balances on a timely basis.

Cause: The Hospital has a comprehensive accounting system with a large volume of monthly transactions. However, nearly all accounts are reconciled on a monthly basis, with a few accounts that are reconciled either on a quarterly or annual basis. Substantial progress, however, has been made on this level from the previous year.

Effect: Several audit adjustments that impacted net operating results were recommended during the audit. Even though two of the adjustments impacted net operating results by more than $128,000 (one adjustment positively impacting net operating results by $135,572 and one adjustment negatively impacting net operating results by $128,192), the overall net impact of these audit adjustments did not have a material impact on operating results.

Recommendation: We recommend that the Hospital record the necessary adjusting journal entries prior to the year-end closing process as well as to continue to strengthen the monthly account balance reconciliation process to ensure that future audit adjustments are minimal.

Management's Response:

The Hospital will continue to enhance the necessary internal controls over the account reconciliation process as well as specifically implementing the following monthly journal entries and business processes:

- Provide for a monthly accrual to estimate an amount for the Medicare Cost Report reimbursement/settlement

- Provide for a monthly journal entry to reclassify an appropriate amount for the current portion of any long term debt issues.

- Implement a process to view the fiscal year for refunds paid up to, and including, the last day of the fiscal year.

- Continue to strengthen accounting processes to ensure that all balance sheet account balances are reconciled monthly.

The Hospital believes that the enhancements mentioned specifically above and the increased management oversight of the account balance reconciliation process will sufficiently mitigate the risk of future audit adjustments.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
STATUS OF PRIOR AUDIT FINDINGS
YEAR ENDED MARCH 31, 2011

FINDING: 2010-1 FINANCIAL STATEMENT PREPARATION

Condition: The Hospital has requested that the auditors prepare the financial statements and footnotes.

Criteria: The financial statements are the Hospital's responsibility.

Cause: The Hospital has not implemented the proper controls in order to prepare the financial statements, including footnotes, in accordance with the complex requirements of U.S. generally accepted accounting principles.

Effect: The auditors have implemented the appropriate controls over the financial statement preparation.

Recommendation: Since the audit firm's controls cannot be considered in the Hospital's controls, we recommend that the Hospital implement the appropriate controls over financial statement preparation.

Management's Response:

The Hospital will enhance internal controls surrounding financial statement preparation in order to provide financial statements and footnotes in accordance with U.S. generally accepted accounting principles. The financial statement closing process, including the use of closing checklists and management reviews of account reconciliations, will be performed and reviewed by appropriate management personnel on a monthly basis. Footnotes to the financial statements will be prepared by the Hospital and submitted to the external auditors for future audits.

Status of Finding: Addressed and corrected by the Hospital in a satisfactory and timely manner.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
STATUS OF PRIOR AUDIT FINDINGS
YEAR ENDED MARCH 31, 2011
(Continued)

FINDING: 2010-2 ADJUSTING JOURNAL ENTRIES

Condition: During the audit, we noted several account balances that required adjustments, some of which were material, in order for the financial statements to be stated in accordance with U.S. generally accepted accounting principles.

Criteria: The Hospital is required to implement and maintain a system of internal controls that ensures all accounts are adjusted to the appropriate balances on a timely basis.

Cause: The Hospital has a sophisticated system with a large volume of transactions and the reconciliation process is time consuming and difficult.

Effect: Many audit adjustments have been recommended during the course of the audit work.

Recommendation: We recommend that the Hospital implement the appropriate controls over year-end closing procedures and account balance reconciliation to ensure that future audit adjustments are minimal.

Management's Response:

The Hospital will enhance internal controls over the account reconciliation process through the use of a detailed closing checklist and management review of reconciliations performed by Hospital accounting staff. The closing checklist will detail the accounts to be reconciled, personnel responsible for preparing reconciliations and management personnel responsible for reviewing and approving reconciliations. The Hospital believes that these enhancements will sufficiently mitigate the risk of future audit adjustments.

Status of Finding: This finding has been repeated for 2011.

MERCER COUNTY JOINT TOWNSHIP COMMUNITY HOSPITAL
STATUS OF PRIOR AUDIT FINDINGS
YEAR ENDED MARCH 31, 2011
(Continued)

FINDING: 2010-3 PRIOR PERIOD ADJUSTMENTS

Condition: The financial statements contain prior period adjustments to correct errors in recording prior period financial information.

Criteria: The necessity to accurately record financial data is the Hospital's responsibility.

Cause: The Hospital has not implemented the proper controls in order to accurately reflect the items that were required to be restated.

Effect: Adjustments were required to restate beginning net assets.

Recommendation: We recommend that the Hospital implement the appropriate controls over financial reporting in order to accurately reflect the financial results.

Management's Response:

The cause of the prior period adjustment has been corrected by the Hospital through the development and application of accounting processes designed to accurately reflect financial information in the monthly closing. This process is subject to management review and approval on a monthly basis and, as such, is subject to internal controls that the Hospital believes mitigate the risk of misstating financial information. In addition, the enhancement of the internal controls surrounding financial statement preparation and monthly reconciliation process noted above further mitigates the risk of prior period adjustments.

Status of Finding: Addressed and corrected by the Hospital in a satisfactory and timely manner.

Dave Yost • 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 6, 2011

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