

**MEMORIAL HOSPITAL OF UNION COUNTY  
AND AFFILIATES**

**COMBINED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011 AND 2010**





# Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Memorial Hospital of Union County and Affiliates, Union County, prepared by Blue & Co., LLC, for the audit period January 1, 2011 through December 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 Memorial Hospital of Union County and Affiliates is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

May 16, 2012

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**MEMORIAL HOSPITAL OF UNION COUNTY  
AND AFFILIATES**

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DECEMBER 31, 2011 AND 2010

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## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying combined balance sheets of Memorial Hospital of Union County and Affiliates (the "Hospital"), as of December 31, 2011 and 2010 and the related combined statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

As discussed in Note 1, the financial statements of Memorial Hospital of Union County and Affiliates are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Union County that is attributable to the transactions of Memorial Hospital of Union County and Affiliates. They do not purport to, and do not, present fairly the financial position of Union County as of December 31, 2011 and 2010, the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Memorial Hospital of Union County and Affiliates as of December 31, 2011 and 2010, and the combined results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees  
MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

In accordance with *Government Auditing Standards*, we have also issued a report dated March 22, 2012, on our consideration of Memorial Hospital of Union County and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report when assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through x 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 auditing standards generally accepted in the United States of America, which consisted of inquiries 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.

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining balance sheet and combining statement of revenues, expenses and changes in net assets on pages 33-35 are presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relations to the combined financial statements as a whole.



March 22, 2012



# Memorial Hospital of Union County and Affiliates

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

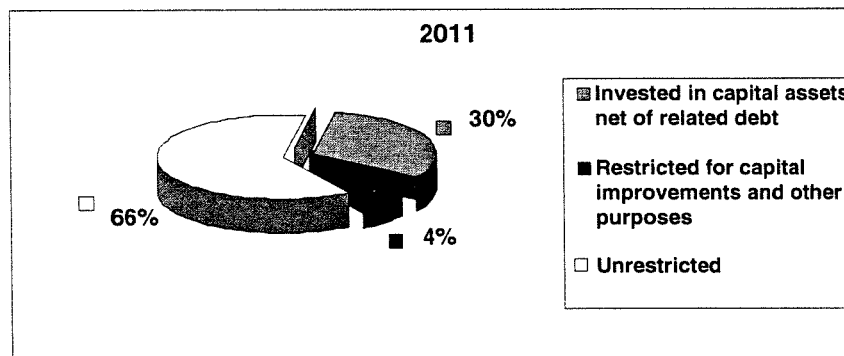
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The management's discussion and analysis of Memorial Hospital of Union County, The Gables at Green Pastures, Union County Physician Corporation and Union County Hospital Association (collectively, the "Hospital") provides an overview of the combined financial activities for the year ended December 31, 2011. Management is responsible for the completeness and fairness of the combined financial statements and the related footnote disclosures along with the management's discussion and analysis.

### Financial Highlights

The combined financial position of the Hospital improved in 2011. In total, the Hospital's net assets increased \$4.5 million in 2011. Operating revenues of \$80.4 million exceeded operating expenses of \$75.4 million, producing income from operations of approximately \$5.0 million. Cash and cash equivalents, including assets limited as to use, increased by \$4.4 million.

The following chart provides a breakdown of net assets by category at December 31, 2011.



### Using This Annual Report

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

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

# Memorial Hospital of Union County and Affiliates

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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For the year ended December 31, 2011, total operating revenue exceeded total operating expenses and other income (expense), creating an increase in net assets of \$4,513,121 compared to a \$2,800,981 increase in the previous year.

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

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

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

The statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

### **The Statement of Cash Flows**

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

# Memorial Hospital of Union County and Affiliates

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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The following is a comparative analysis of the major components of the balance sheet of the Hospital as of December 31, 2011, 2010 and 2009:

	December 31		
	2011	2010	2009
<b>Assets</b>			
Current assets	\$ 43,582,663	\$ 39,615,486	\$ 36,732,241
Noncurrent assets	2,135,830	2,051,335	3,026,786
Capital assets	40,979,639	40,183,152	40,188,421
Total assets	<u>\$ 86,698,132</u>	<u>\$ 81,849,973</u>	<u>\$ 79,947,448</u>
<b>Liabilities</b>			
Current liabilities	\$ 8,365,279	\$ 6,752,464	\$ 7,467,939
Long-term liabilities	26,453,810	27,731,587	27,914,568
Total liabilities	<u>\$ 34,819,089</u>	<u>\$ 34,484,051</u>	<u>\$ 35,382,507</u>
<b>Net assets</b>			
Invested in capital assets - net of debt	\$ 15,398,893	\$ 13,967,047	\$ 13,912,661
Restricted	2,177,792	2,739,709	2,753,323
Unrestricted	34,302,358	30,659,166	27,898,957
Total net assets	<u>\$ 51,879,043</u>	<u>\$ 47,365,922</u>	<u>\$ 44,564,941</u>

Current assets increased 10%, driven by an increase in cash. Capital assets increased 2% caused mainly by the addition of PACS software in the current year. Total liabilities increased 1% during the year due to an increase in current liabilities caused by new debt issuance in 2011. Unrestricted net assets increased 12% due to positive operating results.

# Memorial Hospital of Union County and Affiliates

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### Operating Results and Changes in the Hospital's Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Operating revenues</b>			
Net patient service revenue	\$ 78,417,777	\$ 71,729,744	\$ 69,091,683
Other operating revenue	<u>2,025,103</u>	<u>2,016,935</u>	<u>2,323,048</u>
Total operating revenues	80,442,880	73,746,679	71,414,731
<b>Operating expenses</b>			
Salaries and wages	31,279,404	30,101,720	29,554,430
Employee benefits and payroll taxes	9,965,133	9,062,846	8,711,903
Supplies and other	13,783,117	13,431,401	12,843,691
Professional services and consultant fees	3,393,722	2,936,959	3,276,434
Purchased services	11,593,461	10,165,740	8,601,581
Insurance	543,451	555,916	594,776
Utilities	1,292,535	1,257,658	1,229,533
Depreciation	<u>3,549,428</u>	<u>3,075,279</u>	<u>2,888,124</u>
Total operating expenses	<u>75,400,251</u>	<u>70,587,519</u>	<u>67,700,472</u>
<b>Operating income before effects of discontinued operations</b>	5,042,629	3,159,160	3,714,259
<b>Discontinued operations</b>	<u>-</u>	<u>-</u>	<u>(456,310)</u>
<b>Operating Income</b>	5,042,629	3,159,160	3,257,949
<b>Other income (expense)</b>			
Interest income	146,993	113,581	158,249
Noncapital grants and contributions	326,233	359,032	1,064,803
Interest expense	(1,211,374)	(1,192,875)	(1,105,419)
Other	<u>208,640</u>	<u>362,083</u>	<u>295,402</u>
Total other income (expense)	<u>(529,508)</u>	<u>(358,179)</u>	<u>413,035</u>
<b>Change in net assets</b>	4,513,121	2,800,981	3,670,984
<b>Net assets, beginning of year</b>	<u>47,365,922</u>	<u>44,564,941</u>	<u>40,893,957</u>
<b>Net assets, end of year</b>	<u>\$ 51,879,043</u>	<u>\$ 47,365,922</u>	<u>\$ 44,564,941</u>

# Memorial Hospital of Union County and Affiliates

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

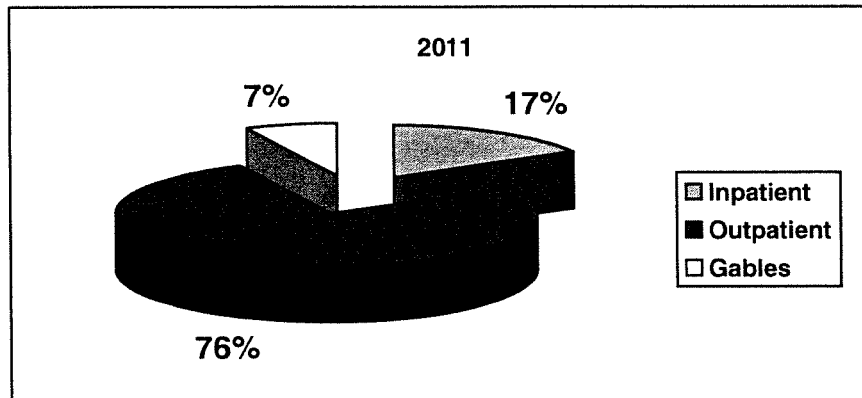
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### Operating Revenues

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

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased approximately \$6,688,000. This was attributable to increases in gross rates charged for inpatient and outpatient services offset by increases in revenue deductions. Revenue deductions are the amounts that are not paid to the Hospital under contractual arrangements with Medicare, Medicaid, and other payors. These revenue deductions remained consistent at 50% as a percentage of gross revenue.
- The following is a graphic illustrations of patient revenues by source:



# Memorial Hospital of Union County and Affiliates

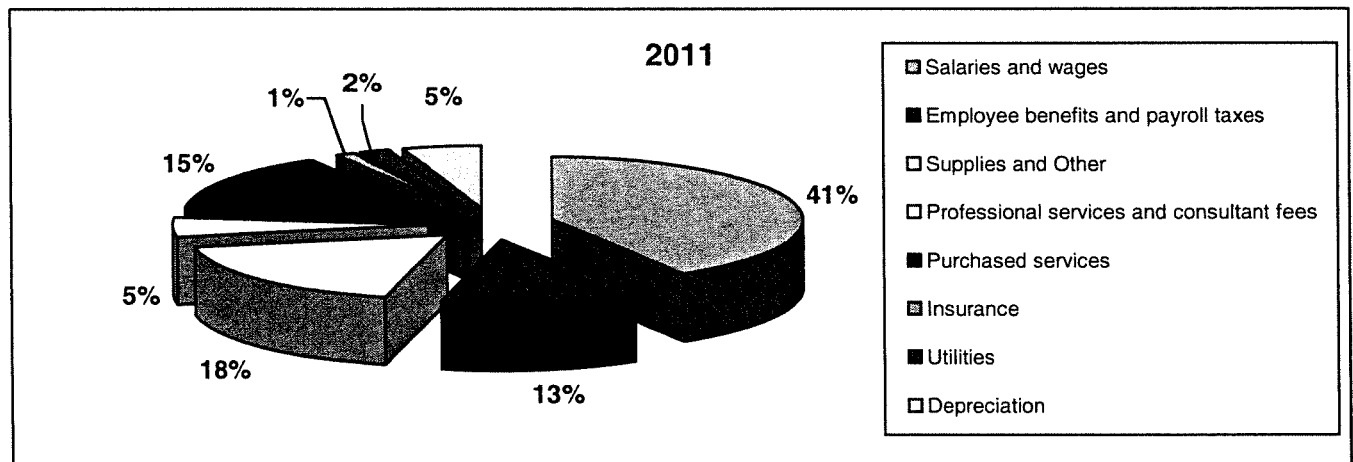
## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### Operating Expenses

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

- Salaries and wages increased 4% due to pay rate increases.
- Employee benefits and payroll taxes increased 10% due to increased health claims.
- Purchased services increased 14% due to a new Heart Partnership agreement with Ohio State Medical Center, as well as increased services provided due to increased volumes.
- Professional services and consultant fees increased 16% due to strategic planning services in 2011 and increases in physician coverage.

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



### Other Income (Expense)

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

Significant changes were the result of the following factors:

- Other decreased \$153,000 due to lower earnings from Union County Hospital Association's investment in joint ventures.
- Grants and contributions decreased \$33,000.

# Memorial Hospital of Union County and Affiliates

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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### Statement of Cash Flows

Another way to assess the financial health of the Hospital is to look at the statement of cash flows. The primary purpose of the statements of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows helps assess:

- An entity's ability to generate future net cash flows
- The ability to meet its obligations as they come due
- The needs for external financing

	Year Ended December 31		
	2011	2010	2009
Cash provided by (used in):			
Operating activities	\$ 10,270,341	\$ 5,523,414	\$ 8,000,425
Capital and related financing activities	(6,168,956)	(3,916,766)	(4,113,554)
Investing activities	104,537	38,965	52,622
Noncapital financing activities	208,640	362,083	295,402
Total	4,414,562	2,007,696	4,234,895
Cash - beginning of year	29,404,086	27,396,390	23,161,495
Cash - end of year	<u>\$ 33,818,648</u>	<u>\$ 29,404,086</u>	<u>\$ 27,396,390</u>

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

Net cash flows provided by operating activities increased from the prior year due mainly to an increase in operating income.

Net cash used by capital and related financing activities increased from the prior year due to purchases of new capital assets and debt issuance during the current year.

# Memorial Hospital of Union County and Affiliates

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### Capital Asset and Debt Administration

#### Capital Assets

At December 31, 2011, the Hospital had \$85.9 million invested in capital assets. Accumulated depreciation totaled \$44.9 million. Net capital assets totaled \$41.0 million. Depreciation totaled \$3.5 million during the year compared to \$3.1 million in 2010. A summary is shown below.

	2011	December 31 2010	2009
<u>Capital assets not being depreciated</u>			
Land	\$ 6,456,994	\$ 6,456,994	\$ 6,446,194
Construction in progress	1,946,614	990,766	1,099,284
Subtotal	8,403,608	7,447,760	7,545,478
 <u>Capital assets being depreciated - net of accumulated depreciation</u>			
Land improvements	2,029,730	2,205,377	2,555,059
Buildings and improvements	22,453,377	23,466,822	24,614,918
Major moveable equipment	6,962,931	6,713,822	5,084,217
Property under capital leases	1,129,993	349,371	388,749
Subtotal	32,576,031	32,735,392	32,642,943
Total	\$ 40,979,639	\$ 40,183,152	\$ 40,188,421

#### Debt

At year end, the Hospital had \$25.6 million in long-term debt and capital lease obligations outstanding compared to \$26.2 million the previous year. The table below summarizes these amounts by year.

	2011	2010	2009
Total leases and bonds	\$ 25,580,746	\$ 26,216,105	\$ 26,275,760

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



# Memorial Hospital of Union County and Affiliates

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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### **Economic Factors that Will Affect the Future**

During the economic decline of 2009, several community hospitals, such as ours, experienced a material decline in both inpatient and outpatient volumes. In addition, based on the instability of the economy, our Hospital experienced a large shift in the uninsured and underinsured patient population.

These declines caused our Hospital to focus on finding viable solutions to endure the economic storm. During this time, our management team focused on additional expense control. We continued to follow our productivity model for the appropriate staffing levels and began to scrutinize the supply chain for opportunities within our group purchasing organizations (GPOs). In 2010 and 2011, we experienced over \$150,000 and \$140,000, respectively, in annualized savings. While these solutions were difficult to communicate and implement, we strongly believe they were necessary to our primary goals of providing quality patient care, securing jobs, health insurance and retirement for our team members. By taking these initial steps, we believed they would have a favorable outcome on sustaining our current financial position while strengthening the organization for future growth.

With the collaboration of The Ohio State University Medical Center, the Hospital continues to make progress on the development of new service lines in the area of cardiology. We have witnessed continued growth in this area during 2011 and believe it will continue to flourish for the next several years.

In the late fall of 2011, the Hospital broke ground on a 23,000 square foot addition to its campus. The new space will house the current OSU Medical Center cardiologists and allow our Heart Partnership to provide services to the people within Union County and the other communities we serve. The addition will provide a multi-use catheterization lab for cardiac and peripheral vascular services and the ability to implant pacemakers and other rhythm devices. The new state-of-the-art facility is projected to open in late 2012 and provide peace of mind to thousands of patients per year.

# Memorial Hospital of Union County and Affiliates

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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One of the largest pending economic factors on the horizon is Health Care Reform. While the overall financial impact has yet to truly be determined, there have been policy changes due to the passing of the Patient Protection Affordable Care Act (PPACA) signed by President Obama in March 2010. In order for hospitals to maintain their tax exemption, they must comply with the regulations requiring them to supply data to both the IRS and Congress. While the regulation pertains to 501(c)(3) and dual status organizations, there has been some discussion on the inclusion of governmental hospitals. Under PPACA, a hospital must comply with the following:

- Adopt and publicize to the community its financial assistance policy
- Limitation on charges for patients in need of financial assistance
- Not undertaking extraordinary collection actions
- Conduct a community health needs assessment every three years

The above standards include provisions that the results or policies must be publically reported or available for review. Failure to meet the standards could result in a hospital losing its tax exemption status and/or being penalized \$50,000. The penalty could be assessed every year in which an organization remains non-compliant.

### **Contacting the Hospital's Management**

This financial report is intended to provide the reader with a general overview of the Hospital's finances. If you have questions about this report or need additional information, we welcome you to contact the chief financial officer at 500 London Avenue, Marysville, OH 43040.

Jeff Ehlers  
Chief Financial Officer

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINED BALANCE SHEETS DECEMBER 31, 2011 AND 2010

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	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 31,640,856	\$ 26,664,377
Patient accounts receivable, net of allowances for uncollectible accounts: \$4,581,057 in 2011 and \$4,099,353 in 2010	8,051,210	7,937,668
Assets limited as to use	2,177,792	2,739,709
Prepaid expenses and other current assets	663,098	633,068
Inventories	639,693	670,506
Current portion of physician advances receivable	94,930	664,977
Other current assets	<u>315,084</u>	<u>305,181</u>
 Total current assets	 43,582,663	 39,615,486
 <b>Capital assets, net</b>	 40,979,639	 40,183,152
 <b>Other assets</b>		
Physician advances receivable, net of current	296,197	197,482
Investment in joint ventures	672,863	630,407
Bond issue costs	<u>1,166,770</u>	<u>1,223,446</u>
Total other assets	<u>2,135,830</u>	<u>2,051,335</u>
 Total assets	 <u><u>\$ 86,698,132</u></u>	 <u><u>\$ 81,849,973</u></u>

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*See accompanying notes to combined financial statements.*

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED BALANCE SHEETS  
DECEMBER 31, 2011 AND 2010

## LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 1,776,639	\$ 1,025,439
Accounts payable	2,470,085	2,560,575
Estimated third-party settlements	749,584	585,108
Salaries, wages, and related accruals	<u>3,368,971</u>	<u>2,581,342</u>
Total current liabilities	8,365,279	6,752,464
<b>Long-term debt, net of current portion</b>	23,804,107	25,190,666
<b>Other liabilities</b>		
Accrued compensated absences	<u>2,649,703</u>	<u>2,540,921</u>
Total long-term liabilities	<u>26,453,810</u>	<u>27,731,587</u>
Total liabilities	34,819,089	34,484,051
<b>Net assets</b>		
Invested in capital assets - net of related debt	15,398,893	13,967,047
Restricted:		
Nonexpendable permanent endowments	25,000	25,000
Restricted for debt service, capital acquisitions and self-insurance	2,152,792	2,714,709
Unrestricted	<u>34,302,358</u>	<u>30,659,166</u>
Total net assets	<u>51,879,043</u>	<u>47,365,922</u>
Total liabilities and net assets	<u>\$ 86,698,132</u>	<u>\$ 81,849,973</u>

*See accompanying notes to combined financial statements.*

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b>Operating revenues</b>		
Net patient service revenue	\$ 78,417,777	\$ 71,729,744
Other operating revenue	<u>2,025,103</u>	<u>2,016,935</u>
Total operating revenues	80,442,880	73,746,679
<b>Operating expenses</b>		
Salaries and wages	31,279,404	30,101,720
Employee benefits and payroll taxes	9,965,133	9,062,846
Supplies and other	13,783,117	13,431,401
Professional services and consultant fees	3,393,722	2,936,959
Purchased services	11,593,461	10,165,740
Insurance	543,451	555,916
Utilities	1,292,535	1,257,658
Depreciation	<u>3,549,428</u>	<u>3,075,279</u>
Total operating expenses	<u>75,400,251</u>	<u>70,587,519</u>
<b>Operating income</b>	5,042,629	3,159,160
<b>Other income (expense)</b>		
Interest income	146,993	113,581
Grants and contributions	326,233	359,032
Interest expense	(1,211,374)	(1,192,875)
Other	<u>208,640</u>	<u>362,083</u>
Total other income (expense)	<u>(529,508)</u>	<u>(358,179)</u>
<b>Change in net assets</b>	4,513,121	2,800,981
<b>Net assets - beginning of year</b>	<u>47,365,922</u>	<u>44,564,941</u>
<b>Net assets - end of year</b>	<u><u>\$ 51,879,043</u></u>	<u><u>\$ 47,365,922</u></u>

See accompanying notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<b>Operating activities</b>		
Cash received from patients and third-party payors	\$ 78,468,711	\$ 70,678,029
Cash payments to suppliers for services and goods	(29,875,347)	(27,688,139)
Cash payments to employees for services	(40,348,126)	(39,483,411)
Other operating revenue	2,025,103	2,016,935
Net cash flows from operating activities	10,270,341	5,523,414
<b>Investing activities</b>		
Investment in joint ventures	(42,456)	(74,616)
Proceeds from investments	146,993	113,581
Net cash flows from investing activities	104,537	38,965
<b>Cash flows from noncapital financing activities</b>		
Other nonoperating activities	208,640	362,083
Net cash from noncapital financing activities	208,640	362,083
<b>Capital and related financing activities</b>		
Acquisition and construction of capital assets	(4,705,132)	(3,087,253)
Grants and contributions	326,233	359,032
Issuance of long-term debt	2,473,102	1,002,109
Interest paid on long-term debt	(1,154,698)	(1,128,890)
Principal payments on long-term debt	(3,108,461)	(1,061,764)
Net cash flows from capital and related financing activities	(6,168,956)	(3,916,766)
<b>Change in cash and cash equivalents</b>	4,414,562	2,007,696
Cash and cash equivalents - beginning of year	29,404,086	27,396,390
Cash and cash equivalents- end of year	\$ 33,818,648	\$ 29,404,086
<b>Balance sheet classification of cash</b>		
Cash and cash equivalents	\$ 31,640,856	\$ 26,664,377
Cash included in assets limited as to use	2,177,792	2,739,709
	\$ 33,818,648	\$ 29,404,086

*See accompanying notes to combined financial statements.*

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINED STATEMENTS OF CASH FLOWS (continued) YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	<u>2011</u>	<u>2010</u>
Operating income	\$ 5,042,629	\$ 3,159,160
<b>Adjustments to reconcile operating income to net cash from operating activities</b>		
Depreciation	3,549,428	3,075,279
Provision for bad debt	5,124,831	4,919,808
Loss on disposal of capital assets	359,217	17,243
Changes in assets and liabilities		
Patient accounts receivable	(5,238,373)	(5,259,033)
Other assets	462,212	449,758
Accounts payable	(90,490)	499,909
Other accrued expenses	<u>1,060,887</u>	<u>(1,338,710)</u>
Net cash flows from operating activities	<u>\$ 10,270,341</u>	<u>\$ 5,523,414</u>

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See accompanying notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Principles of Combination

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

The financial statements of Memorial Hospital of Union County and its Affiliates are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Union County that are attributable to the transactions of Memorial Hospital of Union County and Affiliates. They do not purport to, and do not, present fairly the financial position of Union County as of December 31, 2011 and 2010, the changes in its financial position or, where applicable, its cash flows for the years then ended.

In 2008, the board of trustees formed Union County Physician Corporation (UCPC) in order to enhance the recruitment of new physicians and retention of existing physicians by offering employment for those physicians and specialties that are of strategic importance to the hospital.

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

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

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



# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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The combined financial statements for the years ended December 31, 2011 and 2010 included herein consist of the financial positions, results of operations, changes in net assets, and cash flows of Memorial Hospital of Union County, UCHA, UCPC, and The Gables (collectively, the "Hospital"). All intercompany accounts and transactions between all entities have been eliminated.

### Basis of Presentation

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

### Enterprise Fund Accounting

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

### Cash and Cash Equivalents

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

### Inventories

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### Investments in Joint Venture

The Hospital holds investments in other companies which are accounted for using the equity method of accounting. The carrying value of these investments is carried at cost, adjusted based for its proportionate share of their undistributed earnings or losses.

### Patient Accounts Receivable

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

### Debt Issuance Costs

Costs incurred in obtaining long-term debt financing are being amortized over the term of the obligations. Amortization expense totaled \$56,676 and \$63,985 in 2011 and 2010, respectively.

### Assets Limited as to Use

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

### Capital Assets

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### Physician Advances Receivable

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

### Compensated Absences

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

### Restricted Resources

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

### Classification of Net Assets

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### Use of Estimates

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

### Operating Revenue and Expenses

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

### Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for service rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

### Contributions

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

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# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### Charity Care

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

Of the Hospital's total reported expenses (approximately \$75,400,000 and \$70,588,000 during 2011 and 2010, respectively), an estimated \$1,897,000 and \$1,641,000 arose from providing services to charity patients during 2011 and 2010, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue. The Hospital participates in the Hospital Care Assurance Program (HCAP) which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled approximately \$552,000 and \$509,000 for 2011 and 2010, respectively.

### Pension Plans

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

### Federal Income Tax

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

### Risk Management

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

### Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the combined balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued, which is March 22, 2012.

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# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 2. CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

- Bonds, notes, or other obligations that are guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- Bonds, notes debentures, or other obligations or securities issued by any federal governmental agency.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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- No-load money market mutual funds consisting exclusively of obligations described in the Ohio Revised Code and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- Interim deposits in the eligible institutions applying for interim funds to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by saving or deposit accounts, including but not limited to, passbook accounts.
- Bonds and other obligations of the State of Ohio.
- The Ohio State Treasurer's investment pool (STAR Ohio).
- Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Section 135.142.
- Under limited circumstances, corporate debt interest in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date 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.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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

**Custodial Credit Risk of Bank Deposits-** Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. At year end, the Hospital had \$33,210,910 of bank deposits (certificates of deposits, checking and savings accounts) that were uninsured but were collateralized with securities held by the pledging financial institution. The Hospital believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance it is impractical to insure all deposits. As a result, the Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used.

The Hospital had the following investments and maturities:

	Carrying Amount	Maturities	
December 31, 2011		< than 1 year	1 - 5 years
Certificates of deposit	\$ 13,154,844	\$ 13,154,844	-

### 3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2011	2010
Patient accounts receivable	\$ 20,069,587	\$ 19,492,786
Allowance for uncollectible accounts	(4,581,057)	(4,099,353)
Allowance for contractual adjustments	(7,437,320)	(7,455,765)
Patient accounts receivable, net	\$ 8,051,210	\$ 7,937,668

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

	2011		2010	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	21%	34%	23%	33%
Medicaid	9%	12%	9%	12%
Commercial insurance and other	36%	47%	36%	48%
Self-pay	34%	7%	32%	7%
	100%	100%	100%	100%



# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 4. PATIENT SERVICE REVENUE

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

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

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

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying combined financial statements. Medicare and Medicaid cost reports have both been settled through 2006.

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

### 5. CAPITAL ASSETS

Capital assets for the years ended December 31, 2011 and 2010 were as follows:

	2010	Reclassifica- tions	Additions	Disposals and Adjustments	2011
Capital assets not being depreciated:					
Land and land improvements	\$ 6,456,994	\$ -	\$ -	\$ -	\$ 6,456,994
Construction in progress	990,766	(1,040,192)	1,996,040	-	1,946,614
Subtotal	7,447,760	(1,040,192)	1,996,040	-	8,403,608
Capital assets being depreciated:					
Land improvements	2,988,445	-	-	-	2,988,445
Building	42,963,224	(13,522)	342,384	(7,729)	43,284,357
Major movable equipment	24,939,247	1,053,714	1,546,708	(1,220,844)	26,318,825
Property under capital leases	4,179,702	-	820,000	(67,853)	4,931,849
Subtotal	75,070,618	1,040,192	2,709,092	(1,296,426)	77,523,476
Accumulated depreciation:					
Land improvements	783,068	-	175,647	-	958,715
Building	19,496,402	-	1,342,807	(8,229)	20,830,980
Major moveable equipment	18,225,425	-	1,991,596	(861,127)	19,355,894
Property under capital leases	3,830,331	-	39,378	(67,853)	3,801,856
Subtotal	42,335,226	-	3,549,428	(937,209)	44,947,445
Capital assets, net	\$ 40,183,152	\$ -	\$ 1,155,704	\$ (359,217)	\$ 40,979,639
	2009	Reclassifica- tions	Additions	Disposals and Adjustments	2010
Capital assets not being depreciated:					
Land and land improvements	\$ 6,446,194	\$ 10,800	\$ -	\$ -	\$ 6,456,994
Construction in progress	1,099,284	(1,426,896)	1,318,378	-	990,766
Subtotal	7,545,478	(1,416,096)	1,318,378	-	7,447,760
Capital assets being depreciated:					
Land improvements	3,150,526	(162,081)	-	-	2,988,445
Building	42,759,381	75,230	151,276	(22,663)	42,963,224
Major movable equipment	22,587,403	1,502,947	1,617,599	(768,702)	24,939,247
Property under capital leases	4,179,702	-	-	-	4,179,702
Subtotal	72,677,012	1,416,096	1,768,875	(791,365)	75,070,618
Accumulated depreciation:					
Land improvements	595,467	-	187,601	-	783,068
Building	18,144,463	(7)	1,377,740	(25,794)	19,496,402
Major moveable equipment	17,503,186	7	1,470,560	(748,328)	18,225,425
Property under capital leases	3,790,953	-	39,378	-	3,830,331
Subtotal	40,034,069	-	3,075,279	(774,122)	42,335,226
Capital assets, net	\$ 40,188,421	\$ -	\$ 11,974	\$ (17,243)	\$ 40,183,152

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 6. ASSETS LIMITED AS TO USE

Assets limited as to use are reported as current assets. The composition of assets limited as to use at December 31, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
By board of trustees for capital improvements	\$ 875,925	\$ 929,540
By board of trustees retirement of indebtedness	3,591	95,345
By board of trustees and self-insurance	1,011,469	1,486,130
Held by trustee under bond indenture agreement	<u>261,807</u>	<u>203,694</u>
Total board-designated and trustee held	2,152,792	2,714,709
Principal for permanent endowments	<u>25,000</u>	<u>25,000</u>
Total board-designated and trustee held	<u><u>\$ 2,177,792</u></u>	<u><u>\$ 2,739,709</u></u>

### 7. SALARIES, WAGES AND RELATED ACCRUALS

The details of accrued liabilities at December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Payroll and related items	\$ 2,828,352	\$ 1,799,642
Self-insured benefits	160,000	326,000
Health insurance claims	<u>380,619</u>	<u>455,700</u>
Total salaries, wages and related accruals	<u><u>\$ 3,368,971</u></u>	<u><u>\$ 2,581,342</u></u>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

### 8. LONG-TERM DEBT

Long-term debt activity for the year December 31, 2011 was as follows:

	2010	Additions	Reductions	2011	Amounts Due Within One Year
Union County General Obligation Bonds, dated July 1, 2005:					
Serial bonds, 3.50% to 5.00% payable through 2016, in annual installments ranging from \$75,000 to \$680,000	\$ 3,705,000	\$ -	\$ (565,000)	\$ 3,140,000	\$ 580,000
Term bonds, 4.10% due December 1, 2018, mandatory annual sinking fund redemption beginning December 1, 2017, ranging from \$515,000 to \$530,000	1,045,000	-	-	1,045,000	-
Serial bonds, 4.00% to 4.125% payable through 2024, in annual installments ranging from \$555,000 to \$675,000	3,695,000	-	-	3,695,000	-
Union County General Obligation Bonds, dated April 1, 2003:					
Serial bonds, 1.50% to 5.00% payable through 2033, in annual installments ranging from \$25,000 to \$635,000	780,000	-	(25,000)	755,000	25,000
Hospital Facilities Revenue Bonds (Build America Bonds) dated December 1, 2009:					
Term bonds, 4.72% payable through 2015, in annual principal installments ranging from \$112,000 to \$149,000, and a lump sum due January 1, 2015 of \$3,334,719	3,887,795	-	(128,651)	3,759,144	134,885
Hospital Facilities Revenue Bonds (Build America Bonds) dated July 7, 2010:					
Term bonds, 2.51% payable through 2015, in annual principal installments ranging from \$46,000 to \$67,000	1,002,109	1,506,363	-	2,508,472	485,247

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

	2010	Additions	Reductions	2011	Amounts Due Within One Year
Commercial Installment Note					
Note payable, bearing interest at 6.63%, due in monthly installments of \$20,362 through January 1, 2012	2,749,173	-	(1,687,782)	1,061,391	200,591
2005 Union County General Obligation Notes:					
Note payable, bearing interest at 5.3%, due in monthly installments of \$6,242 through July 10, 2020	517,028	-	(517,028)	-	-
Union County General Obligation Bonds, Series 2007:					
Series bonds, 4.00% to 5.00% payable through 2033, in annual installments ranging from \$334,000 to \$1,010,000	8,835,000	-	(185,000)	8,650,000	195,000
Hospital Facilities Revenue Bonds (Heart Pavilion Project) dated December 13, 2011: Term bonds, 2.40%					
payable through 2021, in annual principal installments ranging from \$28,000 to \$36,000, beginning January 2013.	-	146,739	-	146,739	-
Capital Lease Obligation, interest rate of 2.50%, monthly payments of \$14,552 through January 2016	-	820,000	-	820,000	155,916
<b>Total long-term debt</b>	<b><u>\$ 26,216,105</u></b>	<b><u>\$ 2,473,102</u></b>	<b><u>\$ (3,108,461)</u></b>	<b><u>\$ 25,580,746</u></b>	<b><u>\$ 1,776,639</u></b>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

Long-term debt activity for the year ended December 31, 2010 follows:

	<u>2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>2010</u>	<u>Amounts Due Within One Year</u>
Union County General Obligation Bonds, dated July 1, 2005:					
Serial bonds, 3.5% to 5.00% payable through 2016, in annual installments ranging from \$75,000 to \$680,000	\$ 4,340,000	\$ -	\$ (635,000)	\$ 3,705,000	\$ 565,000
Term bonds, 4.10% due December 1, 2018, mandatory annual sinking fund redemption beginning December 1, 2017, ranging from \$515,000 to \$530,000	1,045,000	-	-	1,045,000	-
Serial bonds, 4.00% to 4.125% payable through 2024, in annual installments ranging from \$555,000 to \$675,000	3,695,000	-	-	3,695,000	-
Union County General Obligation Bonds, dated April 1, 2003:					
Serial bonds, 1.50% to 5.00% payable through 2033, in annual installments ranging from \$25,000 to \$635,000	805,000	-	(25,000)	780,000	25,000
Hospital Facilities Revenue Bonds (Build America Bonds) dated December 1, 2009:					
Term bonds, 4.72% due payable through 2015, in annual principal installments ranging from \$112,000 to \$149,000, and a lump sum due in January 1, 2015 of \$3,334,719	4,000,000	-	(112,205)	3,887,795	128,676
Term bonds, 1.847% due  payable through 2015, in annual principal installments ranging from \$17,000 to \$44,000, and a lump sum due in January 1, 2015 of \$833,850	-	1,002,109	-	1,002,109	17,327

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

	2009	Additions	Reductions	2010	Amounts Due Within One Year
Commercial Installment Note Note Payable, bearing interest at 6.63%, due in monthly installments of \$20,362 through January 1, 2012	2,806,597	-	(57,424)	2,749,173	61,406
2005 Union County General Obligation Notes: Note payable, bearing interest at 5.3%, due in monthly installments \$6,242 through July 10, 2020	557,841	-	(40,813)	517,028	43,030
Union County General Obligation Bonds, Series 2007: Series bonds, 4.00% to 5.00% payable through 2033, in annual installments ranging from \$334,000 to \$1,010,000	9,015,000	-	(180,000)	8,835,000	185,000
Installment obligations	11,322	-	(11,322)	-	-
Total long-term debt	\$ 26,275,760	\$ 1,002,109	\$ (1,061,764)	\$ 26,216,105	\$ 1,025,439

The bonds and notes payable are summarized as follows:

**2011 Hospital Facilities Revenue Bonds (Heart Pavilion Project)** - dated December 13, 2011, were issued in the amount of \$9,000,000 to finance the acquisition, construction, equipping and installation of a new heart pavilion located on the Hospital's main campus. Currently the Hospital has drawn \$146,739 of the bonds with the remainder to be drawn in 2012. The bonds have annual principal payments ranging from \$28,000 to \$36,000 and a fixed interest rate of 2.40%. The bonds mature on December 1, 2021, and are subject to redemption at the option of the issuer on any interest payment date.

**2010 Hospital Facilities Revenue Bonds (Build America Bonds)** - dated July 7, 2010, were issued in the amount of \$2,750,000 to finance the acquisition of an electronic medical records system for the Hospital. Currently the hospital has drawn \$2,508,472 of the bonds, with the remainder to be drawn in 2012. The bonds have annual principal payments ranging from \$46,000 to \$67,000 and a fixed interest rate of 2.51%. The bonds mature on July 1, 2015, and are subject to redemption at the option of the issuer on any interest payment date.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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**2009 Hospital Facilities Revenue Bonds (Build America Bonds)** - dated December 1, 2009, were issued in the amount of \$4,000,000 to finance the acquisition of property by the Hospital. The bonds have annual principal payments ranging from \$112,000 to \$149,000 and a fixed interest rate of 4.72%. The bonds have a lump sum due on December 31, 2014 of \$3,334,719.

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

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

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

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

Under the terms of the bond agreements, the Hospital has pledged a security interest in property, equipment and present and future gross receipts, as defined. The Hospital is bound by terms under the bond agreements to various debt covenants. The Hospital believes it is in compliance with these covenants at December 31, 2011.

The Hospital has a \$2,950,000 commercial installment note, proceeds from which were used to purchase medical buildings in December 2006. The loan bears interest at 6.63% with monthly payments of \$20,362. The balance on the loan was \$1,061,391 and \$2,749,173 at December 31, 2011 and 2010, respectively. In March, 2012, the Hospital refinanced this note over five years at 2.5% interest, with monthly payments of \$18,761.

The Hospital leased PACS software and equipment used in its operations under a capital lease. This lease includes interest at 2.499% with monthly payments of \$14,552 through January 2016. Depreciation of the asset under the capital lease is included in depreciation expense for 2011.



# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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

Years Ending December 31	Long-term Debt	
	Principal	Interest
2012	\$ 1,776,639	\$ 942,454
2013	2,245,646	941,665
2014	5,504,186	872,373
2015	1,746,995	583,331
2016	1,323,376	601,369
2017-2021	4,218,904	2,212,474
2022-2026	4,505,000	1,274,151
2027-2031	3,025,000	623,648
2032-2034	1,235,000	79,264
Total	\$ 25,580,746	\$ 8,130,729

The Hospital has various operating lease agreements for equipment and rental space. Minimum lease payments at December 31, 2011 are as follows:

2012	\$ 1,391,140
2013	644,423
2014	647,590
2015	525,090
2016	147,479
Thereafter	457,763
Total	\$ 3,813,485

Rent expense for all operating leases approximated \$2,474,000 in 2011 and \$2,482,000 in 2010.

## 9. COMMITMENTS

The Hospital is committed to construction costs related to the construction of facilities to house its cardiovascular services collaboration with the Ohio State University (see footnote 16). Management estimates that an additional \$8,100,000 will be expended to complete this project in 2012.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 10. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	<u>2011</u>	<u>2010</u>
Patient Revenue:		
Inpatient services:		
Routine services	\$ 14,628,991	\$ 13,797,166
Ancillary services	12,269,056	10,595,479
Outpatient services	117,687,428	108,310,604
Resident revenue	<u>11,571,688</u>	<u>10,224,611</u>
Total patient revenue	156,157,163	142,927,860
Revenue deductions:		
Provision for contractual allowances	68,491,425	62,794,170
Provision for bad debt allowances	5,124,831	4,919,808
Charity care, net of Hospital Care Assurance	<u>4,123,130</u>	<u>3,484,138</u>
Total revenue deductions	<u>77,739,386</u>	<u>71,198,116</u>
Total net patient service revenue	<u>\$ 78,417,777</u>	<u>\$ 71,729,744</u>

### 11. PENSION PLANS

The Hospital contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost sharing multiple-employer defined benefit pension plan. The Member-Directed Plan (MD) is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings. The Combined Plan (CO) is a cost sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed 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. OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. The 2011 member contribution rates were 10.0% of covered payroll for members in state and local classifications.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by 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.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 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.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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

<u>Year</u>	<u>Contribution</u>
2011	\$ 4,519,000
2010	\$ 4,037,000
2009	\$ 4,069,000

Hospital contributions made to fund post-employment healthcare benefits approximated \$1,291,000, \$1,351,000 and \$1,702,000 for 2011, 2010 and 2009, respectively, which are included in the table above.

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 on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 12. MEDICAL MALPRACTICE CLAIMS

Based on the nature of its operations, the Hospital is at times subject to pending or threatened legal actions, which arise in the normal course of its activities. The Hospital is insured against medical malpractice claims under a claims-based policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding \$1,000,000, or aggregate claims \$3,000,000, for claims asserted in the policy year. In addition, the hospital has an umbrella policy with an additional \$5,000,000 of coverage. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on the occurrences during the claims-made term, but reported subsequently, will be uninsured.

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

### 13. DEFERRED COMPENSATION

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

### 14. SELF-INSURED BENEFITS

The Hospital is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$125,000 per covered person up to an aggregate of \$1,000,000. Claims in excess of employee premiums are charged to operations. Claims were approximately \$4,620,000 and \$4,002,000 for the years ended December 31, 2011 and 2010, respectively. In addition, the Hospital self-insures for worker's compensation. The Hospital has a \$500,000 per claim stop-loss policy with a private insurance carrier for worker's compensation.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

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### 15. INVESTMENT IN JOINT VENTURES

During 1996, the Hospital and two other area health care entities formed Health Partners, Ltd. (Health Partners), for which the Hospital has a 33 1/3 percent ownership interest. This corporation was formed to provide management services to the clinic of a major area corporation. In 1996, the Hospital contributed \$100,000 to Health Partners through UCHA. During 2011 and 2010, the Hospital received distributions from Health Partners totaling \$111,295 and \$194,450, respectively, through UCHA.

During 2003, the Hospital and other health providers formed Marysville Ohio Surgery Center, LLC, of which the Hospital has a 27.4 percent ownership interest. The organization was formed to promote health care and provide outpatient surgical service in the area. During 2003, the Hospital contributed \$159,000 through UCHA. During 2011 and 2010, the Hospital received distributions of \$13,699 and \$60,548, respectively.

During 2003, the Hospital and other area health providers formed Marysville Ohio Medical Properties, LLC, of which the Hospital has a 25.97 percent ownership interest. The organization was formed as the property owner for the Marysville Ohio Surgery Center facility. During 2003, the Hospital contributed \$130,000 through UCHA. During 2011 and 2010, the Hospital received \$41,560 and \$32,468, respectively, through UCHA.

### 16. HEART PAVILION COLLABORATION AGREEMENT

On January 1, 2011, the Hospital entered into cardiovascular collaboration and management service agreements with The Ohio State University (OSU) to provide cardiovascular services to the Hospital's patients on its campus. Under the terms of the agreements, each party provides certain equipment, facilities, personnel and management services. Program earnings, as defined, are determined and distributed under the terms of the agreements. At December 31, 2011, the program was still under development and no earnings were due or payable.



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

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

We have audited the combined financial statements of Memorial Hospital of Union County and Affiliates as of and for the year ended December 31, 2011, and have issued our report thereon dated March 22, 2012. Our report included additional language stating the financial statements of the Hospital and its affiliates are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business type activities of Union County that is attributable to the transactions of Memorial Hospital of Union County and Affiliates. Those financial statements do not purport to, and do not, present fairly the financial position of Union County, Ohio as of December 31, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A 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 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.

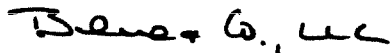
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (continued)**

**Compliance and Other Matters**

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

We noted certain matters that we reported to management in a separate letter dated March 22, 2012.

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



March 22, 2012



## SUPPLEMENTARY FINANCIAL INFORMATION

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# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINING BALANCE SHEET DECEMBER 31, 2011

### ASSETS

	Memorial Hospital of Union County	The Gables	Union County Hospital Association	Union County Physician Corp.	Eliminating Entries	Total
<b>Current assets</b>						
Cash and cash equivalents	\$ 29,428,361	1,217,543	\$ 948,648	\$ 46,304	-	\$ 31,640,856
Patient accounts receivable	6,922,860	987,105	-	141,245	-	8,051,210
Assets limited as to use	1,863,413	314,379	-	-	-	2,177,792
Prepaid expenses	623,412	39,686	-	-	-	663,098
Inventories	639,693	-	-	-	-	639,693
Current portion of physician advances receivable	94,930	-	-	-	-	94,930
Other current assets	307,635	-	-	74,766	(67,317)	315,084
<b>Total current assets</b>	<b>39,880,304</b>	<b>2,558,713</b>	<b>948,648</b>	<b>262,315</b>	<b>(67,317)</b>	<b>43,582,663</b>
<b>Capital assets - net</b>						
	34,352,550	6,627,089	-	-	-	40,979,639
<b>Other assets</b>						
Notes and advances to affiliates net of current portion	846,178	-	-	-	(846,178)	-
Physician advances receivable	296,197	-	-	-	-	296,197
Investment in joint ventures	-	-	722,863	-	(50,000)	672,863
Bond issue costs	744,461	422,309	-	-	-	1,166,770
<b>Total assets</b>	<b>\$ 76,119,690</b>	<b>\$ 9,608,111</b>	<b>\$ 1,671,511</b>	<b>\$ 262,315</b>	<b>\$ (963,495)</b>	<b>\$ 86,698,132</b>

See report of independent auditors on page 1.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINING BALANCE SHEET DECEMBER 31, 2011

### LIABILITIES AND NET ASSETS

	Memorial Hospital of Union County	The Gables	Union County Hospital Association	Union County Physician Corp.	Eliminating Entries	Total
<b>Current liabilities</b>						
Current portion of long-term debt	\$ 1,496,639	\$ 280,000	\$ -	\$ -	\$ -	\$ 1,776,639
Accounts payable	2,284,682	242,566	-	10,154	(67,317)	2,470,085
Estimated third-party settlements	705,000	44,584	-	-	-	749,584
Salaries, wages and related accruals	2,769,671	417,677	-	181,623	-	3,368,971
Total current liabilities	7,255,992	984,827	-	191,777	(67,317)	8,365,279
<b>Long-term debt - net of current portion</b>	19,387,190	4,416,917	-	-	-	23,804,107
<b>Other liabilities</b>						
Notes and advances to affiliates	-	846,178	-	-	(846,178)	-
Accrued compensated absences	2,382,847	266,856	-	-	-	2,649,703
Total liabilities	29,026,029	6,514,778	-	191,777	(913,495)	34,819,089
<b>Net assets</b>						
Invested in capital assets - net of related debt	13,468,721	1,930,172	-	-	-	15,398,893
Nonexpendable permanent endowments	25,000	-	-	-	-	25,000
Restricted for debt service, capital acquisitions and self-insurance	1,838,413	314,379	-	-	-	2,152,792
Unrestricted	31,761,527	848,782	1,671,511	70,538	(50,000)	34,302,358
Total liabilities and net assets	\$ 76,119,690	\$ 9,608,111	\$ 1,671,511	\$ 262,315	\$ (963,495)	\$ 86,698,132

See report of independent auditors on page 1.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2011

	Memorial Hospital of Union County	The Gables	Union County Hospital Association	Union County Physician Corp.	Eliminating Entries	Total
<b>Operating revenues</b>						
Net patient service revenue	\$ 67,768,384	\$ 9,704,553	-	\$ 944,840	-	\$ 78,417,777
Other operating revenue	2,198,523	-	-	849,865	(1,023,285)	2,025,103
Total operating revenue	<u>69,966,907</u>	<u>9,704,553</u>	<u>-</u>	<u>1,794,705</u>	<u>(1,023,285)</u>	<u>80,442,880</u>
<b>Operating expenses</b>						
Salaries and wages	26,581,263	4,184,857	-	1,226,910	(713,626)	31,279,404
Employee benefits and payroll taxes	8,071,420	1,625,595	-	268,118	-	9,965,133
Supplies and other	13,559,762	910,175	23,968	175,497	(886,285)	13,783,117
Professional services and consultant fees	3,385,021	145,701	-	-	(137,000)	3,393,722
Purchased services	9,562,095	1,170,675	-	147,065	713,626	11,593,461
Insurance	409,059	56,939	-	77,453	-	543,451
Utilities	1,014,085	240,063	31,004	7,383	-	1,292,535
Depreciation	3,155,292	394,136	-	-	-	3,549,428
Total operating expenses	<u>65,737,997</u>	<u>8,728,141</u>	<u>54,972</u>	<u>1,902,426</u>	<u>(1,023,285)</u>	<u>75,400,251</u>
<b>Operating income (loss)</b>	4,228,910	976,412	(54,972)	(107,721)	-	5,042,629
<b>Other income (expenses)</b>						
Interest income	142,485	17	4,491	-	-	146,993
Grants and contributions	529,699	4,034	(207,500)	-	-	326,233
Interest expense	(979,414)	(231,960)	-	-	-	(1,211,374)
Other	-	-	208,640	-	-	208,640
Total other income (expense)	<u>(307,230)</u>	<u>(227,909)</u>	<u>5,631</u>	<u>-</u>	<u>-</u>	<u>(529,508)</u>
<b>Change in net assets</b>	\$ 3,921,680	\$ 748,503	\$ (49,341)	\$ (107,721)	\$ -	\$ 4,513,121

See report of independent auditors on page 1.



# Dave Yost • Auditor of State

**MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES**

**UNION COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 29, 2012**