

**Deloitte &  
Touche**

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***Memorial Hospital of  
Union County and  
Affiliate***

*Combined Financial Statements for the  
Years Ended December 31, 1999 and  
1998 and Supplemental Schedules for  
the Year Ended December 31, 1999  
and Independent Auditors' Report*

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATE

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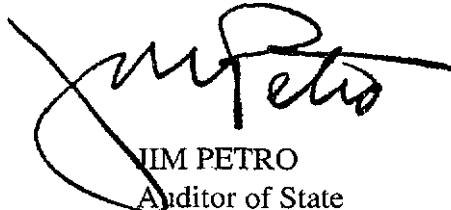
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Board of Trustees  
Memorial Hospital of Union County and Affiliate  
Marysville, Ohio 43040

We have reviewed the Independent Auditor's Report of the Memorial Hospital of Union County and Affiliate, Union County, prepared by Deloitte & Touche LLP, for the audit period January 1, 1999 through December 31, 1999. 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 Affiliate is responsible for compliance with these laws and regulations.



JIM PETRO  
Auditor of State

June 23, 2000



## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Memorial Hospital of Union County

We have audited the accompanying combined balance sheets of Memorial Hospital of Union County and Affiliate (the Hospital) (a component unit of Union County, Ohio) as of December 31, 1999 and 1998, and the related combined statements of revenue and expenses - general fund, changes in fund balances and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 audit 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.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Memorial Hospital of Union County and affiliate as of December 31, 1999 and 1998, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplemental schedules on pages 20 - 23 are presented for the purpose of additional analysis and are not a required part of the basic combined financial statements. These schedules are the responsibility of the Hospital's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic combined financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic combined financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2000, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

*DeLoitte & Touche LLP*

April 21, 2000

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATE

## COMBINED BALANCE SHEETS DECEMBER 31, 1999 AND 1998

ASSETS	1999	1998
GENERAL FUND:		
Current assets:		
Cash and cash equivalents	\$ 616,138	\$ 643,609
Patient accounts receivable	6,050,466	5,955,056
Other accounts receivable	202,682	338,907
Materials and supplies, at lower of cost (first-in, first-out) or market	696,079	569,824
Prepaid expenses	150,344	147,648
Current portion of assets whose use is limited	<u>1,613,645</u>	<u>1,161,405</u>
Total current assets	<u>9,329,354</u>	<u>8,816,449</u>
Assets whose use is limited:		
By Board of Trustees for:		
Capital improvements	76,093	236,136
Retirement of indebtedness	199,898	36,367
Self-insurance	1,065,073	1,459,543
Held by Trustee under bond indenture agreements	<u>8,509,605</u>	<u>2,633,961</u>
Total	9,850,669	4,366,007
Less assets whose use is limited and required for current liabilities	<u>(1,613,645)</u>	<u>(1,161,405)</u>
Assets whose use is limited, less current portion	8,237,024	3,204,602
Property, plant and equipment, net	20,798,684	15,983,197
Deferred bond issuance costs	522,714	167,169
Receivable from Memorial Physicians, Inc.	<u>1,422,194</u>	<u>1,101,406</u>
<b>TOTAL GENERAL FUND ASSETS</b>	<u><b>\$ 40,309,970</b></u>	<u><b>\$ 29,272,823</b></u>
<b>DONOR RESTRICTED FUNDS - CASH AND CASH EQUIVALENTS</b>	<u><b>\$ 137,844</b></u>	<u><b>\$ 775,600</b></u>

See notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATE

## COMBINED BALANCE SHEETS, CONTINUED DECEMBER 31, 1999 AND 1998

LIABILITIES AND FUND BALANCES	1999	1998
GENERAL FUND:		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 1,211,645	\$ 1,044,515
Accounts payable and accrued expenses	1,467,383	999,963
Salaries, wages and related accruals	2,491,296	2,660,707
Medicare and Medicaid third-party settlements, net	<u>505,294</u>	<u>447,441</u>
Total current liabilities	5,675,618	5,152,626
Accrued compensated absences	486,463	495,529
Long-term debt and capital lease obligations	<u>16,188,168</u>	<u>6,861,699</u>
Total liabilities	22,350,249	12,509,854
FUND BALANCE	<u>17,959,721</u>	<u>16,762,969</u>
TOTAL GENERAL FUND LIABILITIES AND FUND BALANCE	<u>\$40,309,970</u>	<u>\$29,272,823</u>
DONOR RESTRICTED FUNDS - FUND BALANCE	<u>\$ 137,844</u>	<u>\$ 775,600</u>

See notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATE

## COMBINED STATEMENTS OF REVENUE AND EXPENSES - GENERAL FUND FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
OPERATING REVENUE:		
Net patient service revenue	\$37,205,390	\$37,562,766
Other operating revenue	<u>2,842,204</u>	<u>3,459,785</u>
Total operating revenue	<u>40,047,594</u>	<u>41,022,551</u>
OPERATING EXPENSES:		
Wages, salaries and benefits	22,094,807	21,180,819
Supplies and other	7,505,522	7,106,049
Professional fees	1,052,321	1,011,179
Purchased services	3,788,617	3,630,843
Provision for bad debts	2,304,701	1,879,904
Insurance	240,466	234,990
Depreciation and amortization	1,757,385	1,793,113
Interest expense	<u>419,695</u>	<u>450,625</u>
Total operating expenses	<u>39,163,514</u>	<u>37,287,522</u>
INCOME FROM OPERATIONS	<u>884,080</u>	<u>3,735,029</u>
NONOPERATING INCOME (EXPENSES):		
Unrestricted gifts and bequests	170,809	279,291
Investment income	233,247	236,853
Income from Memorial Physicians, Inc.	482,152	457,000
Subsidy expense to Memorial Physicians, Inc.	(1,508,564)	
Write-down of Memorial Physicians, Inc. receivable		<u>(4,049,540)</u>
Total nonoperating expenses	<u>(622,356)</u>	<u>(3,076,396)</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 261,724</u>	<u>\$ 658,633</u>

See notes to combined financial statements.



# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATE

## COMBINED STATEMENTS OF CHANGES IN FUND BALANCES FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999		1998	
	General	Donor-Restricted	General	Donor-Restricted
BALANCE, BEGINNING OF YEAR	\$ 16,762,969	\$ 775,600	\$ 14,690,637	\$ 1,435,065
Excess of revenue over expenses	261,724	2,559	658,633	66,757
Gifts, grants and bequests		386,614		789,739
Restricted expenditures		(91,901)		(102,262)
Transfer to finance property and equipment additions	<u>935,028</u>	<u>(935,028)</u>	<u>1,413,699</u>	<u>(1,413,699)</u>
BALANCE, END OF YEAR	<u>\$ 17,959,721</u>	<u>\$ 137,844</u>	<u>\$ 16,762,969</u>	<u>\$ 775,600</u>

See notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATE

## COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from patients and third-party payors	\$ 34,863,132	\$ 34,384,340
Cash paid to employees and for personal services	(22,264,218)	(21,550,548)
Cash paid to suppliers for services and goods	(12,515,888)	(11,890,433)
Other operating revenue received	2,842,204	3,459,785
Cash paid for interest	(380,650)	(452,159)
Net cash provided by operating activities	<u>2,544,580</u>	<u>3,950,985</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash received from investments	233,247	236,853
Cash received from MPI	161,364	457,000
Cash paid to fund MPI's operating requirements	(1,508,564)	(2,018,625)
Net cash used in investing activities	<u>(1,113,953)</u>	<u>(1,324,772)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Unrestricted gifts and bequests	170,809	156,411
Restricted gifts and bequests	386,614	789,739
Restricted expenditures	(91,901)	(102,262)
Net cash provided by noncapital financing activities	<u>465,522</u>	<u>843,888</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of property and equipment	(6,310,303)	(3,173,274)
Proceeds from sale of property	9,750	127,146
Proceeds from bond issuance	11,000,000	
Repayment of long-term debt	(1,610,000)	(610,000)
Principal payments under capital lease obligations	(166,161)	(308,025)
Net cash provided (used) in capital and related financing activities	<u>2,923,286</u>	<u>(3,964,153)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,819,435	(494,052)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,785,216</u>	<u>6,279,268</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 10,604,651</u>	<u>\$ 5,785,216</u>

See notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATE

## COMBINED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 616,138	\$ 643,609
Cash and cash equivalents in assets whose use is limited:		
By Board of Trustees	1,341,064	1,732,046
Held by Trustee	8,509,605	2,633,961
Cash and cash equivalents in restricted fund	<u>137,844</u>	<u>775,600</u>
Total cash and cash equivalents	<u>\$ 10,604,651</u>	<u>\$ 5,785,216</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 884,080	\$ 3,735,029
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,757,385	1,793,113
Provision for bad debts	2,304,701	1,879,904
Changes in assets and liabilities:		
Receivables	(2,400,111)	(3,139,867)
Supplies and other assets	(348,271)	166,739
Accounts payable and other current liabilities	467,420	(56,294)
Other liabilities	<u>(120,624)</u>	<u>(427,639)</u>
Net cash provided by operating activities	<u>\$ 2,544,580</u>	<u>\$ 3,950,985</u>
Supplemental Information:		
Assets purchased under a capital lease obligation	<u>\$ 269,785</u>	<u>\$ 137,718</u>

See notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATE

## NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

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### 1. ORGANIZATION AND SUMMARY OF 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 to be a component unit of Union County and is included as a component unit in the general purpose financial statements of the county. Memorial is considered a political subdivision of a state and is, therefore, exempt from Federal income taxes under Section 115 of the Internal Revenue Code.

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.

Union Manor will reimburse Union County \$400,000, payable in four consecutive annual installments of \$100,000 (see Note 8). Union County will forgive the \$400,000 when a new nursing home facility is completed no later than July 1, 2000 and the old facility is abandoned. In the event the facility is not completed by July 1, 2000, Union County is entitled to repayment of the \$400,000 obligation.

The combined financial statements included herein consist of the financial position, results of operations, changes in fund balances and cash flows of Memorial Hospital of Union County and Union Manor ("the Hospital"). All intercompany balances and transactions between Memorial Hospital of Union County and Union Manor have been eliminated.

On January 1, 2000, the Hospital entered into a transition agreement with the Charles B. Mills Center, Inc., a local mental health facility, to manage the inpatient operations of the facility. This transition agreement has a maximum length of six months, at which time the Hospital and the Charles B. Mills Center, Inc. can develop a definitive purchase agreement.

**Method of Accounting** - The Hospital applies the provisions of Governmental Accounting and Financial Reporting Standard No. 29, *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*. This statement provides that governmental entities that use proprietary fund accounting should apply only those Statement of Financial Accounting Standards and Interpretations issued after November 30, 1989 that are developed for business enterprises. These entities should not apply Statement of Financial Accounting Standards and Interpretations whose provisions are limited to not-for-profit organizations or address issues concerning primarily such organizations.

**Estimates** - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Charity Care** - The Hospital maintains a policy whereby patients in need of medical services are treated without regard to their ability to pay for such services. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for service and supplies furnished under this charity care policy. General assistance under this program totaled approximately \$688,000 and \$841,000 in 1999 and 1998, respectively.

**Net Patient Service Revenue** - Normal billing rates for patient services are included in patient service revenue. Patient accounts receivable are adjusted for contractual allowances which are recorded on the basis of preliminary estimates of the amounts to be received from third-party payers. Final adjustments are made in the period such amounts are finally determined.

**Donor-Restricted Funds** - Donor restricted funds are segregated from general funds that are under the Hospital's discretionary control. Restricted gifts and other restricted resources are recorded as direct additions to the appropriate restricted fund. Resources restricted by donors for plant replacement and expansion are added to the general fund balance to the extent expended within the period. Resources restricted by donors or grantors are reported in other revenue to the extent used within the period. Unrestricted gifts and bequests are included in nonoperating gains in the statements of revenue and expenses.

**Cash** - The Hospital defines cash as currency on hand and demand deposits with financial institutions. Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less.

**Assets Whose Use is Limited** - Assets whose use is limited consist of invested funds designated by the Hospital's Trustees for the replacement, improvement, and expansion of the Hospital's facilities, self-insured health insurance and workers' compensation plans and the Hospital's Section 125 Cafeteria Plan, and invested funds held by a trustee in connection with the Hospital's obligation and revenue bonds (see Note 8).

**Property, Plant and Equipment** - Property and equipment are recorded at cost, or, if donated, at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method (see Note 6). When an asset is retired or sold, its cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized.

**Deferred Bond Issuance Costs** - Deferred bond issuance costs consist of underwriting fees and other costs incurred in the issuance of bonds which are deferred and amortized over the life of the related bonds (see Note 8).

**Professional Liability Insurance** - The Hospital purchases, through a commercial carrier, professional liability insurance on a claims-made basis up to specified policy limits of \$1,000,000 per claim, \$3,000,000 in the annual aggregate, and total excess coverage of \$5,000,000.

**Self-Insurance** - The Hospital self-insures for employee medical coverage up to \$60,000 per individual with an aggregate stop loss of \$1,500,000. Claims in excess of these limits are covered by a private insurance carrier. The Hospital also self-insures for workers' compensation. The

Hospital has a \$400,000 per claim stop loss policy with a private insurance carrier. Liabilities for self-insurance are included in accrued expenses.

**Recently Issued Accounting Standards** - In December 1998, the Governmental Accounting Standards Board (GASB) issued Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources (i.e. donations). The statement addresses the timing of recognition of nonexchange transactions and will be effective for the year ending December 31, 2001. Management has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 33 and is unable to disclose the impact this statement will have on its combined financial position and results of operations when such statement is adopted.

In June, 1999, the Governmental Accounting Standards Board (GASB) issued Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management, Discussion and Analysis for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments, which consist of management’s discussion and analysis and required supplementary information. Management has not yet determined the impact of this statement on the Hospital.

## 2. NET PATIENT SERVICE REVENUE

The Hospital provides services to certain patients covered by various third-party payor arrangements that provide for payments to the Hospital amounts different than their established rates. Gross patient service revenue and the allowances to reconcile net patient service revenue are as follows:

	1999	1998
Gross patient service revenue	\$56,109,956	\$ 52,963,582
Less third-party allowances:		
Medicare	8,107,611	7,463,100
Medicaid	1,772,606	1,692,518
Other	<u>9,024,349</u>	<u>6,245,198</u>
Total allowances	<u>18,904,566</u>	<u>15,400,816</u>
Net patient service revenue	<u>\$37,205,390</u>	<u>\$ 37,562,766</u>

## 3. DEPOSITS AND INVESTMENTS

The classification of cash and cash equivalents and assets whose use is limited on the balance sheets differs from criteria set forth in GASB Statement No. 3, *Deposits With Financial Institutions, Investments and Reverse Repurchase Agreements*. A reconciliation between the General Fund and Donor Restricted Fund classifications of cash and cash equivalents and assets whose use is limited on the financial statements and the classifications of deposits and investments per GASB Statement No. 3 at December 31, 1999 is as follows:

	Cash and Cash Equivalents	Assets Whose Use Is Limited
Financial statements	\$ 753,982	\$ 9,850,669
Certificates of deposit		(6,562,578)
Cash on hand	<u>(950)</u>	<u>                    </u>
GASB Statement No. 3 deposits	<u>\$ 753,032</u>	<u>\$ 3,288,091</u>

At December 31, 1999 and 1998, the carrying amounts of the Hospital's bank deposits for all funds was \$10,604,651 and \$5,785,216 as compared to bank balances of \$11,510,156 and \$6,124,210, respectively. The differences in carrying amounts and bank balances are caused primarily by outstanding checks and deposits in transit. Of the bank balances, as of December 31, 1999 and 1998, \$400,000 are covered by federal insurance programs; \$11,110,156 and \$5,724,210 is collateralized with securities held by a financial institution or by its trust department or agent in the Hospital's name as of December 31, 1999 and 1998, respectively.

#### 4. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable at December 31, 1999 and 1998 are set forth below:

	1999	1998
Total patient accounts receivable	\$ 10,834,779	\$ 9,566,046
Less allowance for:		
Contractual adjustments	(3,179,000)	(2,106,398)
Uncollectible accounts	<u>(1,605,313)</u>	<u>(1,504,592)</u>
Net patient accounts receivable	<u>\$ 6,050,466</u>	<u>\$ 5,955,056</u>

#### 5. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited that are required for obligations classified as current liabilities are reported as current assets. The composition of assets whose use is limited at December 31, 1999 and 1998 is set forth below.

	1999	1998
By Board of Trustees, for capital improvements, retirement of indebtedness and self-insurance - cash	<u>\$ 1,341,064</u>	<u>\$ 1,732,046</u>
Held by Trustee, under bond indenture agreements:		
Cash	\$ 1,947,027	\$ 782,636
Certificates of deposit	6,562,578	1,723,867
Money market accounts	<u>                    </u>	<u>127,458</u>
Total	<u>\$ 8,509,605</u>	<u>\$ 2,633,961</u>

## 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 1999 and 1998 consists of the following:

	1999	1998	Depreciable Lives (Years)
Land and land improvements	\$ 1,512,306	\$ 1,488,610	10-20
Buildings and fixed equipment	23,175,951	17,754,766	10-40
Major movable equipment	11,630,073	10,846,070	7-15
Property under capital leases	4,496,903	4,225,659	5-15
Construction in progress	<u>2,364,017</u>	<u>2,336,613</u>	
Total	43,179,250	36,651,718	
Less allowance for accumulated depreciation and amortization	<u>(22,380,566)</u>	<u>(20,668,521)</u>	
Property, plant and equipment, net	<u>\$ 20,798,684</u>	<u>\$ 15,983,197</u>	

During 1999, construction began on a new nursing home facility to replace Union Manor. At December 31, 1999, construction in progress for the facility totaled \$1,544,000, and the estimate to complete this project is \$6,000,000. The Hospital also started installation of a new HVAC system. The construction in progress at December 31, 1999 is \$149,000 and the estimate to complete this project is \$253,000. The remaining construction in progress balance represents miscellaneous projects in which the estimate to complete is not significant.

## 7. MEDICARE AND MEDICAID THIRD-PARTY SETTLEMENTS

Reimbursement for Medicare and Medicaid patients is subject to audit and final settlements by the respective intermediaries. Final settlements have been reached for the Hospital and Union Manor with Medicare through 1996 and with Medicaid through 1993. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 1999 and 1998, which Hospital management believes will approximate final settlements after audit by the respective agencies. Interim settlements that occurred during 1999 and 1998 resulted in receipts of \$125,000 and \$139,000, respectively.



## 8. LONG-TERM DEBT AND LEASES

Long-term debt at December 31 consists of the following:

	1999	1998
Union County Improvement Bonds, dated July 15, 1999:		
Serial bonds, 3.50% to 5.10%, payable through 2011, in annual installments ranging from \$55,000 to \$355,000	\$ 4,205,000	
Term bonds, 5.00%, due December 1, 2014, mandatory annual sinking fund redemption beginning December 1, 2012, ranging from \$375,000 to \$415,000	1,185,000	
Term bonds, 5.30%, due December 1, 2019, mandatory annual sinking fund redemption beginning December 1, 2015, ranging from \$435,000 to \$535,000	2,420,000	
Term bonds, 5.25%, due December 1, 2024, mandatory annual sinking fund redemption beginning December 1, 2020, ranging from \$565,000 to \$690,000	3,135,000	
Union County Improvement Bonds, dated May 15, 1993:		
Serial bonds, 2.50% to 5.25%, payable through 2005, in annual installments ranging from \$135,000 to \$415,000	2,220,000	\$ 2,530,000
Term bonds, 5.55%, due December 1, 2008, mandatory annual sinking fund redemption beginning December 1, 2006, ranging from \$435,000 to \$460,000	1,085,000	1,085,000
General Obligation Bonds Series 1996, dated December 1, 1996:		
Serial bonds, 3.75% to 5.15%, payable through 2009, in annual installments ranging from \$80,000 to \$140,000	1,135,000	1,225,000
Term bonds, 5.50%, due December 1, 2016, mandatory annual sinking fund redemption beginning December 1, 2010, ranging from \$145,000 to \$200,000	1,200,000	1,200,000
Payable to Union County with four annual interest-free installments beginning September 1, 1997	400,000	400,000
Capital lease obligations	414,813	311,214
Ohio Variable Rate Demand Hospital Revenue Bonds, Series 1989		360,000
Union County Improvement Bonds, dated May 1, 1990		795,000
	<hr/>	<hr/>
Total debt	17,399,813	7,906,214
Less current portion	(1,211,645)	(1,044,515)
	<hr/>	<hr/>
Long-term debt	<u>\$ 16,188,168</u>	<u>\$ 6,861,699</u>

The Union County Improvements Bonds, dated May 15, 1993, were issued in the amount of \$5,170,000. Proceeds of the 1993 issue were deposited into an escrow account with a trustee to advance refund the 1987 general obligation bonds and to provide the Hospital additional funds for improvements of approximately \$2,000,000.

The General Obligation Bonds, Series 1996, were issued in the amount of \$2,590,000 to finance the acquisition and construction of capital improvements to the Hospital's facilities, including the emergency room, to purchase land for the new Union Manor site, and to repay the bond anticipation notes which matured in 1995.

The Union County Improvement Bonds, dated July 15, 1999, were issued in the amount of \$11,000,000. Proceeds of the 1999 issue were divided 67% to Union Manor and 33% to Memorial. Union Manor's portion is being utilized to finance the construction of the new nursing home facility. The Hospital's portion is being utilized to complete the emergency room HVAC system, phone system and lab software projects, as well as to repay the 1990 improvement bonds.

The Hospital leases medical equipment, office equipment, furniture and fixtures used in its operations under capital leases which generally require the Hospital to pay insurance and maintenance costs. These capital leases are due in monthly installments including interest at rates ranging from 4.54% to 12.75% annually. These leases expire at various dates through 2004 and are collateralized by the equipment leased.

	1999	1998
Cost of equipment under capital lease	\$ 4,496,903	\$ 4,225,659
Accumulated amortization	<u>(4,033,419)</u>	<u>(3,840,575)</u>
Net carrying amount	<u>\$ 463,484</u>	<u>\$ 385,084</u>

The Hospital has entered into various operating lease agreements for equipment. Rent expense for all operating leases totaled \$818,997 in 1999 and \$697,676 in 1998.

Minimum payments on these obligations to maturity as of December 31, 1999 are as follows:

	<u>Debt</u>	<u>Capital Leases</u>	<u>Total</u>	<u>Operating Leases</u>
2000	\$ 1,105,000	\$ 127,521	\$ 1,232,521	\$ 727,466
2001	730,000	119,765	849,765	709,564
2002	765,000	114,225	879,225	672,264
2003	800,000	99,545	899,545	615,400
2004	835,000	10,068	845,068	360,651
Thereafter	<u>12,750,000</u>		<u>12,750,000</u>	<u>306,231</u>
Subtotal	16,985,000	471,124	17,456,124	3,391,576
Less amounts representing interest on capital leases		<u>(56,311)</u>	<u>(56,311)</u>	
Total	16,985,000	414,813	17,399,813	3,391,576
Less current portion	<u>(1,105,000)</u>	<u>(106,645)</u>	<u>(1,211,645)</u>	
Long-term portion	<u>\$ 15,880,000</u>	<u>\$ 308,168</u>	<u>\$ 16,188,168</u>	<u>\$ 3,391,576</u>

The Hospital has a \$500,000 revolving line of credit, the borrowings of which would be collateralized by certain Hospital assets. The line bears interest at 65% of the bank's prime commercial rate and expires in 2000. There were no borrowings at December 31, 1999 and 1998.

## 9. PENSION PLAN

All Hospital employees are required to participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing, multiple employer, defined benefit public employee plan.

PERS provides retirement, disability and death benefits and annual cost of living adjustments to plan members and beneficiaries. The PERS plan also provides health care benefits to vested retirees. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

PERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by contacting PERS as follows: Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215, Telephone (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The required contribution rates for the Hospital and for the employee are:

<u>Hospital Share (%)</u>	<u>Employee Share (%)</u>
13.55 %	8.5 %

The Hospital's contributions, representing 100% of employer contributions, for the periods ended December 31, 1999 and for each of the two preceding years, are as follows:

<u>Fiscal Year</u>	<u>PERS</u>
1999	\$2,384,431
1998	2,303,226
1997	2,177,614

#### **10. OTHER POST-EMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 9 above, PERS provides post-retirement health care coverage, commonly referred to as OPEB (Other Post-employment Benefits). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to PERS.

PERS provides post-retirement health care coverage to age and service retirants and dependents with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. A portion of each employer's contribution to PERS (4.2% in 1999 and 1998) is used to fund health care.

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

Expenditures for OPEB during 1999 and 1998 were \$523,599,349 and \$440,596,663, respectively. As of December 31, 1999 and 1998 the unaudited estimated net assets available for future OPEB payments were \$9,870,285,641 and \$9,447,325,318, respectively. The number of benefit recipients eligible for OPEB at December 31, 1999 and 1998 were 118,062 and 115,579, respectively.

#### **11. DEFERRED COMPENSATION**

Employees of the Hospital may elect to participate in the Ohio Public Employees Deferred Compensation Program, the Aetna Life Insurance and Annuity Company Deferred Compensation Program, or the County Deferred Compensation Plan (the Programs), which are deferred compensation plans under Internal Revenue Code Section 457. Under the Programs, employees may elect to defer a portion of their pay until a later date, usually after retirement. The deferred pay and any income earned thereon is not subject to federal and state income taxes until actually received by the employee.

IRC Section 457 was revised during 1997, with varying effective dates. The provision for qualifying employers was drastically changed. Prior to the revision, all amounts of compensation deferred under a plan, all property rights purchased with those amounts, and all income attributable to those amounts, property, or rights were the sole property of the qualified employer and subject to the claims of the employer's general creditors. Participants' rights under the plan were equal to those of a general creditor of the employer in the amount equal to the fair value of the deferred account for each participant. The deferred compensation assets were included in the financial statements of the employer.

The revision to IRC Section 457 sets forth that the amount of compensation assets deferred under a plan, all property and rights, and all income attributable to those amounts, property, or rights be held in trust for the benefit of the participants. This change insulates the retirement benefits of employees from the claims of the employer's general creditors. The employer does not include the deferred compensation assets in its financial statements.

The State sponsored plan implemented the revisions to IRC Section 457 as of January 1, 1998. The Hospital has not included the deferred compensation assets of the related liability in the accompanying combined financial statements as of December 31, 1999 and 1998.

Investments in the programs in 1999 are not evidenced by securities and, accordingly, are not categorized into one of the three categories of custodial credit risk.

## **12. CONTINGENCIES**

The Hospital is involved from time to time in various legal actions arising in the normal course of business. In the opinion of management, these matters, individually and in the aggregate, are not expected to result in a material adverse effect on the Hospital's combined financial position or results of operations.

## **13. RELATED PARTIES**

During 1994, the Board of Trustees formed a related entity, Union County Health System (the Foundation) 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. The Foundation is organized as a not-for-profit organization as described in Section 501c(3) of the Internal Revenue Code (the Code), under which the Foundation will be exempt from federal income taxes on related income under Section 501(a) of the Code. During 1999 and 1998, the Foundation held various investments on the Hospital's behalf. Additionally, in 1998, the Foundation received funds from the Hospital in order to finance operating costs of Memorial Physicians, Inc. (MPI). The Foundation received no funding from the Hospital in 1999.

During 1995, the Board of Trustees formed another related entity, MPI. This entity is a professional for-profit corporation organized to bring primary care physicians together from multiple sites. Their goals include increasing efficiency, sharing information and resources, and managing the care of their patients throughout the integrated system of care. Additionally, the Hospital has guaranteed certain lease obligations of MPI. The Hospital provides billing and administrative services to MPI. Management fees charged to MPI in 1999 and 1998 were \$482,152 and \$457,000, respectively. Additionally, the Hospital leases employees to staff the MPI offices and provides certain other support services on a contractual basis. The Hospital charges MPI for these services at cost plus a mark-up percentage and reflects the cost for these services as other operating revenue and the mark-up percentage as income from MPI in nonoperating revenue. Total fees charged to MPI in 1999 and 1998 for these support services were \$1,421,000 and \$2,035,000, respectively, and is recorded in other operating revenue. The Hospital's combined financial statements include a \$1,422,194 and \$1,101,406 receivable from MPI at December 31, 1999 and 1998, respectively. Included in 1998 nonoperating income is \$4,049,540 related to a write-down of this receivable. There was no such write-down in 1999. However, there were cash subsidies provided to MPI in 1999 amounting to \$1,508,564. These subsidies provide funding for operating losses (if any), recruitment support and capital assistance. In 1999, the Hospital also guaranteed a \$250,000 demand line of credit between MPI and a local financial institution.

During 1996, the Hospital and two other area healthcare entities formed Health Partners, Ltd. (Health Partners). 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 the Foundation. During 1998 and 1999 the Hospital received distributions from Health Partners totaling \$67,007 and \$5,000, respectively, through the Foundation. The remaining investment of \$27,993 is recorded in the receivable from Memorial Physicians, Inc. in the accompanying balance sheets.

\* \* \* \* \*

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATE

## SUPPLEMENTAL SCHEDULE - COMBINING BALANCE SHEET, DECEMBER 31, 1999

ASSETS	Memorial Hospital of Union County	Union Manor	Eliminations	Total
<b>GENERAL FUND:</b>				
Current assets:				
Cash and cash equivalents	\$ 493,144	\$ 122,994		\$ 616,138
Patient accounts receivable	5,608,383	442,083		6,050,466
Other accounts receivable	3,726,640		\$(3,523,958)	202,682
Materials and supplies, at lower of cost (first-in, first-out) or market	696,079			696,079
Prepaid expenses	142,482	7,862		150,344
Current portion of assets whose use is limited	<u>1,245,145</u>	<u>368,500</u>		<u>1,613,645</u>
Total current assets	<u>11,911,873</u>	<u>941,439</u>	<u>(3,523,958)</u>	<u>9,329,354</u>
Assets whose use is limited:				
By Board of Trustees for:				
Capital improvements	76,093			76,093
Retirement of indebtedness	199,898			199,898
Self-insurance	1,065,073			1,065,073
Held by Trustee under bond indenture agreements	<u>2,087,260</u>	<u>6,422,345</u>		<u>8,509,605</u>
Total	3,428,324	6,422,345		9,850,669
Less assets whose use is limited and required for current liabilities	<u>(1,245,145)</u>	<u>(368,500)</u>		<u>(1,613,645)</u>
Assets whose use is limited, less current portion	2,183,179	6,053,845		8,237,024
Property, plant and equipment, net	17,964,477	2,834,207		20,798,684
Deferred bond issuance costs	280,089	242,625		522,714
Receivable from Memorial Physicians, Inc.	<u>1,422,194</u>			<u>1,422,194</u>
<b>TOTAL GENERAL FUND ASSETS</b>	<u>\$ 33,761,812</u>	<u>\$ 10,072,116</u>	<u>\$ (3,523,958)</u>	<u>\$ 40,309,970</u>
<b>DONOR RESTRICTED FUNDS - CASH AND CASH EQUIVALENTS</b>				
	<u>\$ 137,844</u>	<u>\$</u>	<u>\$</u>	<u>\$ 137,844</u>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATE

## SUPPLEMENTAL SCHEDULE - COMBINING BALANCE SHEET, DECEMBER 31, 1999 (Continued)

LIABILITIES AND FUND BALANCE	Memorial Hospital of Union County	Union Manor	Eliminations	Total
GENERAL FUND:				
Current liabilities:				
Current portion of long-term debt and capital lease obligations	\$ 624,885	\$ 586,760		\$ 1,211,645
Accounts payable and accrued expenses	1,379,792	3,611,549	\$(3,523,958)	1,467,383
Salaries, wages and related accruals	2,189,611	301,685		2,491,296
Medicare and Medicaid third-party settlements, net	490,000	15,294		505,294
<b>Total current liabilities</b>	<b>4,684,288</b>	<b>4,515,288</b>	<b>(3,523,958)</b>	<b>5,675,618</b>
Accrued compensated absences	446,557	39,906		486,463
Long-term debt and capital lease obligations	9,074,613	7,113,555		16,188,168
<b>Total liabilities</b>	<b>14,205,458</b>	<b>11,668,749</b>	<b>(3,523,958)</b>	<b>22,350,249</b>
FUND BALANCE (DEFICIT)	19,556,354	(1,596,633)		17,959,721
<b>TOTAL GENERAL FUND LIABILITIES AND FUND BALANCE</b>	<b>\$ 33,761,812</b>	<b>\$ 10,072,116</b>	<b>\$ (3,523,958)</b>	<b>\$ 40,309,970</b>
DONOR RESTRICTED FUNDS - FUND BALANCE	\$ 137,844	\$	\$	\$ 137,844



## MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATE

### SUPPLEMENTAL SCHEDULE - COMBINING STATEMENT OF REVENUE AND EXPENSES - GENERAL FUND FOR THE YEAR ENDED DECEMBER 31, 1999

	Memorial Hospital of Union County	Union Manor	Eliminations	Total
<b>OPERATING REVENUE:</b>				
Net patient service revenue	\$ 33,482,497	\$ 3,722,893		\$ 37,205,390
Other operating revenue	<u>2,900,401</u>	<u>1,803</u>	\$ (60,000)	<u>2,842,204</u>
Total operating revenue	<u>36,382,898</u>	<u>3,724,696</u>	<u>(60,000)</u>	<u>40,047,594</u>
<b>OPERATING EXPENSES:</b>				
Wages, salaries and benefits	19,082,224	3,012,583		22,094,807
Supplies and other	6,828,672	676,850		7,505,522
Professional fees	1,051,367	60,954	(60,000)	1,052,321
Purchased services	3,570,991	217,626		3,788,617
Provision for bad debts	2,194,000	110,701		2,304,701
Insurance	224,819	15,647		240,466
Depreciation and amortization	1,649,971	107,414		1,757,385
Interest expense	<u>419,695</u>	<u>73,716</u>	<u>(73,716)</u>	<u>419,695</u>
Total operating expenses	<u>35,021,739</u>	<u>4,275,491</u>	<u>(133,716)</u>	<u>39,163,514</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<u>1,361,159</u>	<u>(550,795)</u>	<u>73,716</u>	<u>884,080</u>
<b>NONOPERATING INCOME (EXPENSES):</b>				
Unrestricted gifts and bequests	170,651	158		170,809
Investment income	282,673	24,290	(73,716)	233,247
Income from Memorial Physicians, Inc.	482,152			482,152
Subsidy expense to Memorial Physicians, Inc.	<u>(1,508,564)</u>			<u>(1,508,564)</u>
Total nonoperating income (expenses)	<u>(573,088)</u>	<u>24,448</u>	<u>(73,716)</u>	<u>(622,356)</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES</b>	<u>\$ 788,071</u>	<u>\$ (526,347)</u>	<u>\$</u>	<u>\$ 261,724</u>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATE

## SUPPLEMENTAL SCHEDULE - COMBINING STATEMENT OF CHANGES IN GENERAL FUND BALANCE FOR THE YEAR ENDED DECEMBER 31, 1999

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	<u>Memorial Hospital of Union County</u>	<u>Union Manor</u>	<u>Total</u>
GENERAL FUND:			
Balance, beginning of year	\$17,833,255	\$(1,070,286)	\$16,762,969
Excess (deficiency) of revenue over expenses	788,071	(526,347)	261,724
Transfer to finance property and equipment additions	<u>935,028</u>	<u>                    </u>	<u>935,028</u>
 BALANCE, END OF YEAR	 <u>\$19,556,354</u>	 <u>\$(1,596,633)</u>	 <u>\$17,959,721</u>



## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of  
Memorial Hospital of Union County

We have audited the combined financial statements of Memorial Hospital of Union County (the Hospital) as of and for the year ended December 31, 1999 and have issued our report thereon dated April 21, 2000. We conducted our audit 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.

### COMPLIANCE

As a part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the combined financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Hospital, in a separate letter dated April 21, 2000.

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

*Deloitte & Touche LLP*

April 21, 2000



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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MEMORIAL HOSPITAL OF UNION COUNTY

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.

By: Susan Babbitt

Date: JULY 13, 2000