

Memorial Hospital of Union County and Affiliates

**Combined Financial Report
with Additional Information
December 31, 2005**



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the Memorial Hospital of Union County and Affiliates, prepared by Plante & Moran, PLLC, for the audit period January 1, 2005 through December 31, 2005. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 14, 2006

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Memorial Hospital of Union County and Affiliates

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Independent Auditor's Report

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

We have audited the accompanying combined balance sheet of Memorial Hospital of Union County and Affiliates (the "Hospital") as of December 31, 2005 and 2004 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, 2005, 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.

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 at December 31, 2005 and 2004 and the changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2006 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. 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 opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Plante & Moran, PLLC

March 17, 2006

Memorial Hospital of Union County and Affiliates

Management's Discussion and Analysis

The management's discussion and analysis of Memorial Hospital of Union County, the Gables at Green Pastures, and Union County Health System (collectively, the "Hospital") provides an overview of the combined financial activities for the year ended December 31, 2005. Management is responsible for the completeness and fairness of the combined financial statements and the related footnote disclosures along with the management's discussion and analysis.

Using this Annual Report

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

In June 1999, GASB released Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Changes in Statement No. 34 require a comprehensive one-line look at the entity as a whole.

The major changes from the fund-basis financial statements presented by the Hospital in the past and the "one-line look at the entity as a whole" are as follows:

- New reporting standards - statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows
- Establishing an operating and nonoperating basis of reporting whereby revenues that are charges for services are recorded as operating revenue. Essentially all other types of revenue are non-operating or other revenue
- Reporting net assets versus fund balance by donor classification

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

Financial Highlights

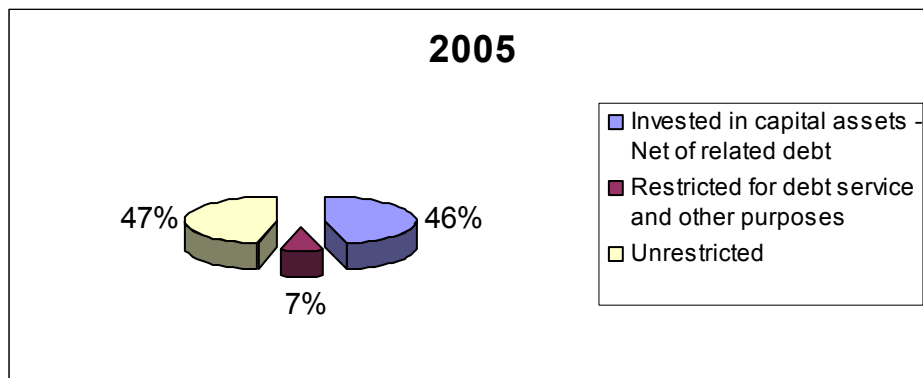
The combined financial position of the Hospital improved in 2005. In total, the Hospital's net assets increased by \$2.7 million in 2005. Operating revenues of \$60.5 million exceeded operating expenses of \$56.9 million, producing income from operations of \$3.7 million. Other expenses decreased between years, further boosting the increase. Cash and cash equivalents, including assets limited as to use, increased by \$2.2 million, capital assets decreased by \$2.1 million, and long-term liabilities held steady over 2004.

Memorial Hospital of Union County and Affiliates

Management's Discussion and Analysis (Continued)

Financial Highlights (Continued)

The following chart provided a breakdown of net assets by category for the year ended December 31, 2005.



In the year ended December 31, 2005, operating revenues exceeded operating expenses and other expenses, creating an increase in net assets of \$2,721,571 (compared to a \$1,183,246 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 the 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 nonfinancial factors, such as the trend in patient days, outpatient visits, state and federal regulatory issues, conditions 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.

Memorial Hospital of Union County and Affiliates

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following is a comparative analysis of the major components of the balance sheet of the Hospital as of December 31, 2005:

	<u>Year Ended December 31</u>			<u>Change 2005/2004</u>	
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>Amount</u>	<u>Percent</u>
Current assets	\$19,557,725	\$15,505,699	\$17,894,836	\$ 4,052,026	26.1%
Noncurrent assets	3,591,012	2,635,747	3,425,090	955,265	36.2%
Capital assets	<u>33,680,071</u>	<u>35,743,623</u>	<u>33,565,547</u>	<u>(2,063,552)</u>	-5.8%
Total assets	<u>56,828,808</u>	<u>53,885,069</u>	<u>54,885,473</u>	<u>2,943,739</u>	5.5%
Current liabilities	6,050,029	5,950,080	6,697,121	99,949	1.7%
Long-term liabilities	<u>23,536,630</u>	<u>23,414,411</u>	<u>24,851,020</u>	<u>122,219</u>	0.5%
Total liabilities	<u>29,586,659</u>	<u>29,364,491</u>	<u>31,548,141</u>	<u>222,168</u>	0.8%
Net assets:					
Invested in capital assets, net of debt	12,584,337	14,170,638	9,524,285	(1,586,301)	-11.2%
Restricted assets	1,914,465	4,909,633	8,933,332	(2,995,168)	-61.0%
Unrestricted	<u>12,743,347</u>	<u>5,440,307</u>	<u>4,879,715</u>	<u>7,303,040</u>	134.2%
Total net assets	<u>\$27,242,149</u>	<u>\$24,520,578</u>	<u>\$23,337,332</u>	<u>\$2,721,571</u>	11.1%

Current assets increased 26.1 percent, driven by an increase in cash and patient accounts receivable. Capital assets decreased by 5.8 percent due to reduced capital outlays during the year in preparation of moving forward with a long-term capital acquisition plan in support of the Hospital's strategic plan. Noncurrent assets increased during the year, primarily due to bond issuance costs for the 2005 bonds. Total liabilities increased 0.8 percent during the year due to the refunding, refinancing, and retirement of debt. Net assets invested in capital assets, net of related debt, decreased 11.2 percent due to capital acquisitions as mentioned above. Net assets restricted for debt service and capital acquisitions decreased 61.0 percent between years due to the transfer of reserves to unrestricted net assets that were no longer required for debt service. Unrestricted net assets increased 134.2 percent due to the transfers of reserves mentioned previously combined with positive operating results and donor contributions.

Memorial Hospital of Union County and Affiliates

Management's Discussion and Analysis (Continued)

Operating Results for the Year

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>Change 2005/2004</u>	
				<u>Amount</u>	<u>Percent</u>
Operating Revenue					
Net patient service revenue	\$58,674,289	\$54,589,205	\$54,012,949	\$4,085,084	7.5%
Other	<u>1,859,601</u>	<u>1,760,239</u>	<u>2,057,891</u>	<u>99,362</u>	5.6%
Total operating revenue	60,533,890	56,349,444	56,070,840	4,184,446	7.4%
Operating Expenses					
Salaries and wages	25,494,013	25,366,526	25,260,195	127,487	0.5%
Employee benefits and payroll taxes	7,626,393	7,319,187	6,551,776	307,206	4.2%
Supplies and other	9,917,162	9,487,268	10,177,691	429,894	4.5%
Professional services and consultant fees	1,195,970	1,253,795	971,570	(57,825)	-4.6%
Purchased services	7,853,316	6,114,500	6,585,003	1,738,816	28.4%
Insurance	576,391	513,243	544,516	63,148	12.3%
Utilities	1,085,583	1,014,925	973,543	70,658	7.0%
Depreciation and amortization	<u>3,113,907</u>	<u>2,971,246</u>	<u>2,949,029</u>	<u>142,661</u>	4.8%
Total operating expenses	<u>56,862,735</u>	<u>54,040,690</u>	<u>54,013,323</u>	<u>2,822,045</u>	5.2%
Operating Income	<u>3,671,155</u>	<u>2,308,754</u>	<u>2,057,517</u>	<u>1,362,401</u>	59.0%
Other Income (Expense)					
Interest income	226,078	83,193	141,578	142,885	171.8%
Noncapital grants and contributions	543,753	613,455	475,617	(69,702)	-11.4%
Interest expense	(906,249)	(786,342)	(833,258)	(119,907)	15.2%
Other expense	<u>(813,166)</u>	<u>(1,035,814)</u>	<u>(1,554,702)</u>	<u>222,648</u>	-21.5%
Total Other Expense	<u>(949,584)</u>	<u>(1,125,508)</u>	<u>(1,770,765)</u>	<u>175,924</u>	-15.6%
Increase in Net Assets	2,721,571	1,183,246	286,752	1,538,325	130.0%
Net Assets - Beginning of year	<u>24,520,578</u>	<u>23,337,332</u>	<u>23,050,580</u>		
Net Assets - End of year	<u>\$27,242,149</u>	<u>\$24,520,578</u>	<u>\$23,337,332</u>		

Memorial Hospital of Union County and Affiliates

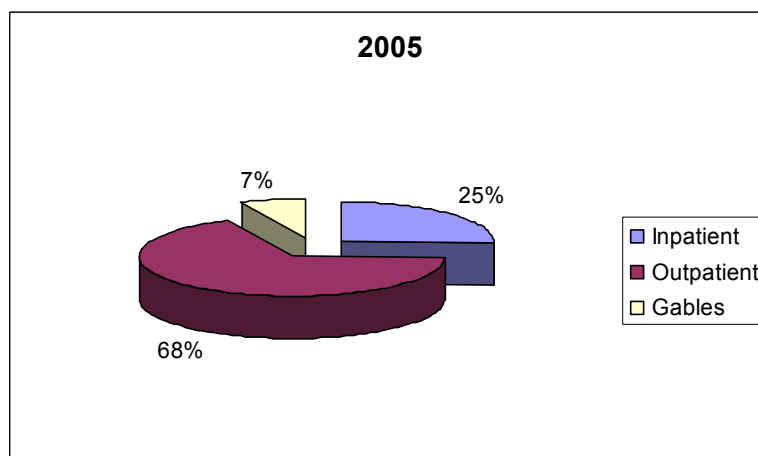
Management's Discussion and Analysis (Continued)

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, and the cafeteria. In addition, certain federal, state, and private grants are considered operating if they are not utilized 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 7.5 percent overall. This was attributable to an increase in inpatient services of 13.3 percent, combined with an increase in outpatient ancillary services of 8.9 percent and a 5.1 percent increase in Gables' net resident revenue. Gross patient revenue is reduced by revenue deductions. These deductions are the amounts that are not paid to the Hospital under contractual arrangements with Medicare, Medicaid, and other payors. These revenue deductions increased from 43.8 percent to 44.9 percent as a percentage of gross revenue.
- Other operating revenue increased 5.6 percent from 2004 due, in general, to an increase in grant receipts and rental income.
- The following is a graphic illustration of total patient revenues by source:



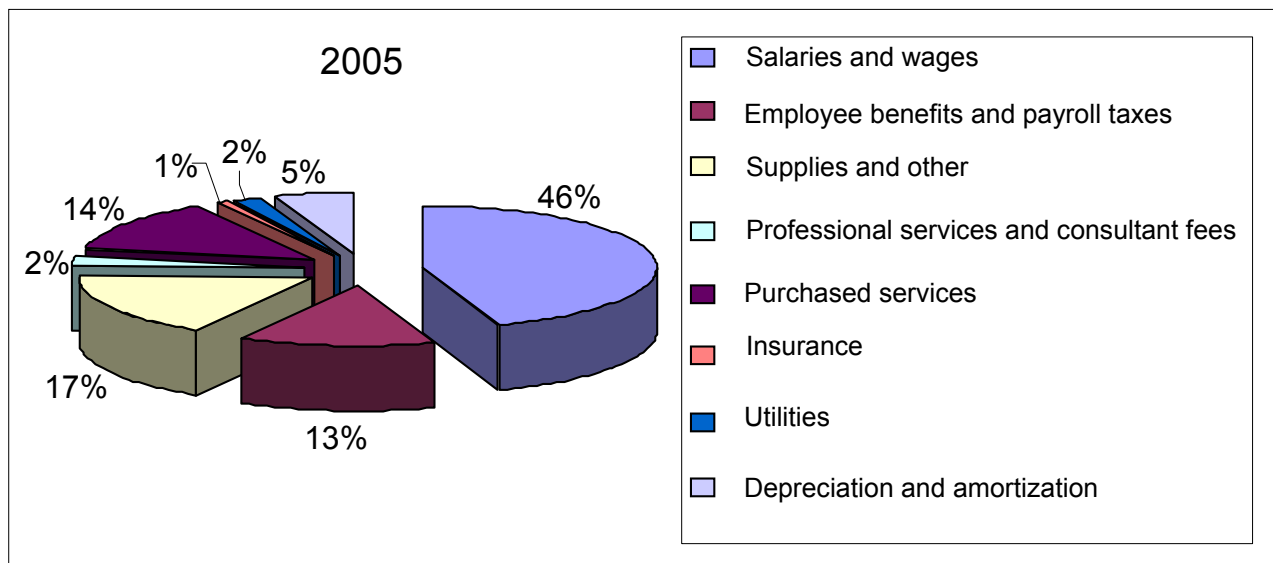
Memorial Hospital of Union County and Affiliates

Management's Discussion and Analysis (Continued)

Operating Expenses

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

- Salaries and benefits increased 1.3 percent due to the rising cost of health insurance.
- Supplies and other expenses increased 4.5 percent due to the increase in net patient service revenue mentioned above.
- Purchased services increased 28.4 percent due to purchased anesthesiology services and purchased advertising.
- Insurance increased 12.3 percent due to the rising cost of medical liability coverage.
- The following is a graphic illustration of operating expenses by type:



Other Income (Expenses)

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

Significant changes were the result of the following factors:

- Interest income increased \$143,000 due to the increase in cash during the year combined with rising interest rates.
- Interest expense decreased \$120,000 due to the refunding, refinancing, and retirement of debt during the year.
- Expense related to physician income grants decreased \$223,000 during the year due to the timing of physicians reaching the end of their initial grant periods and entering the forgiveness periods of their respective contracts. When a physician satisfies the contractual requirements, the grant balance is systematically forgiven and expense is recorded.

Memorial Hospital of Union County and Affiliates

Management's Discussion and Analysis (Continued)

Statement of Cash Flows

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

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>	Change 2005/2004 Increase (Decrease)
Cash provided (used) by:				
Operating activities	\$3,954,170	\$8,380,096	\$4,406,934	\$(4,425,926)
Capital and related financing activities	\$(1,981,403)	\$(7,547,782)	\$1,621,799	\$5,566,379
Investing activities	<u>226,078</u>	<u>\$(1,434,455)</u>	<u>\$(353,981)</u>	<u>\$1,660,533</u>
Net increase (decrease) in cash	\$2,198,845	\$(602,141)	\$5,674,752	\$2,800,986
Cash - Beginning of year	<u>\$8,750,540</u>	<u>\$9,352,681</u>	<u>\$3,677,929</u>	<u>\$(602,141)</u>
Cash - End of year	<u>\$10,949,385</u>	<u>\$8,750,540</u>	<u>\$9,352,681</u>	<u>\$2,198,845</u>

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

Net cash flows provided by operating activities decreased \$3.6 million over the prior year, due mainly to an increase in cash payments to suppliers for goods and services.

Net cash used by capital and related financing activities increased due to the reduction in capital acquisitions mentioned previously, combined with refunding, refinancing, and retirement of debt.

Memorial Hospital of Union County and Affiliates

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

Capital Assets

At December 31, 2005, the Hospital had \$33.7 million invested in capital assets, net of accumulated depreciation of \$30.7 million. Depreciation and amortization totaled \$3.1 million during the year compared to \$3.0 million in 2004. A summary of these assets is shown below.

	<u>2005</u>	<u>2004</u>	<u>2003</u>	Change 2005/2004 Increase (Decrease)
<u>Capital assets not being depreciated</u>				
Land	\$1,367,780	\$1,394,280	\$1,337,203	\$(26,500)
Construction in progress	<u>241,870</u>	<u>5,830,399</u>	<u>4,053,407</u>	<u>(5,588,529)</u>
Subtotal	<u>\$1,609,650</u>	<u>\$7,224,679</u>	<u>\$5,390,610</u>	<u>\$(5,615,029)</u>
<u>Capital assets being depreciated - net of accumulated depreciation</u>				
Land improvements	\$1,457,314	\$1,510,288	\$228,139	\$(52,974)
Buildings and fixed equipment	24,605,634	20,792,770	20,861,469	3,812,864
Major movable equipment	5,071,800	4,880,886	5,324,048	190,914
Property under capital leases	<u>935,673</u>	<u>1,335,000</u>	<u>1,761,281</u>	<u>(399,327)</u>
Subtotal	<u>\$32,070,421</u>	<u>\$28,518,944</u>	<u>\$28,174,937</u>	<u>\$3,551,477</u>
Total	<u>\$33,680,071</u>	<u>\$35,743,623</u>	<u>\$33,565,547</u>	<u>\$(2,063,552)</u>

Debt

At year end, the Hospital had \$21.8 million in long-term debt and capital lease obligations outstanding as compared to \$22.3 million the previous year. The table below summarizes these amounts by year.

	<u>2005</u>	<u>2004</u>	<u>2003</u>	Change 2005/2004 Increase (Decrease)
Total leases and bonds	<u>\$21,796,792</u>	<u>\$22,305,380</u>	<u>\$24,041,263</u>	<u>\$(508,588)</u>

The Hospital has made strides to pay down its financial obligations and has done so in alignment with its prescribed debt schedules. More detailed information about the Hospital's long-term liabilities is presented in the notes to the financial statements.

Memorial Hospital of Union County and Affiliates

Management's Discussion and Analysis (Continued)

Economic Factors That Will Affect the Future

The economic position of the Hospital is closely tied to that of the local economy. In addition, the board of trustees approved an average increase of 5 percent in the charge structure for the upcoming fiscal year.

The Hospital's current financial and capital plans indicate that the infusion of additional financial resources from the foregoing actions will enable it to maintain its present level of service.

Factors affecting the Hospital during 2006 and future years will be the ambulatory surgery center (opened 2004) and the 2007 opening of OhioHealth's facility in Dublin, combined with State budget constraints on reimbursements and the ongoing payor shift to the underinsured and uninsured. To offset any potential financial impacts, the Hospital has implemented its strategic plan. The multiyear plan focuses on expanding and retaining our physician base, developing comprehensive service lines in cardiology, oncology, and surgery, increasing the marketability of our facility, and improving our quality and customer service initiatives.

Contacting the Hospital's Management

This financial report is intended to provide the users with a general overview of the Hospital's finances, and to demonstrate the Hospital's accountability. If you have questions about this report or need additional information, please feel free to contact me.

Jeff Ehlers
Chief Financial Officer

Memorial Hospital of Union County and Affiliates

Combined Balance Sheet

	December 31, 2005	December 31, 2004
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 9,034,920	\$ 3,840,907
Patient accounts receivable (Note 3)	7,308,073	5,629,586
Assets limited as to use (Note 6)	1,914,465	4,909,633
Prepaid expenses and other	465,748	380,046
Inventory	389,407	479,337
Other current assets	445,112	266,190
Total current assets	19,557,725	15,505,699
Capital Assets (Note 5)	33,680,071	35,743,623
Other Assets		
Physician advances receivable	2,118,273	1,753,850
Investment in joint ventures	347,448	435,339
Bond issue costs	1,125,291	446,558
Total assets	\$ 56,828,808	\$ 53,885,069
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 8)	\$ 1,291,882	\$ 1,257,005
Accounts payable	2,215,915	2,401,139
Cost report settlements payable	669,620	849,294
Salaries, wages, and related accruals (Note 7)	1,872,612	1,442,642
Total current liabilities	6,050,029	5,950,080
Long-term Debt - Net of current portion (Note 8)	20,504,910	21,048,375
Other Liabilities		
Accrued compensated absences (Note 8)	1,951,148	1,851,996
Other long-term liabilities	1,080,572	514,040
Total liabilities	29,586,659	29,364,491
Net Assets		
Invested in capital assets - Net of related debt	12,584,337	14,170,638
Restricted:		
Nonexpendable permanent endowments	25,000	25,000
Restricted for debt service and capital acquisitions	1,889,465	4,884,633
Unrestricted	12,743,347	5,440,307
Total net assets	27,242,149	24,520,578
Total liabilities and net assets	\$ 56,828,808	\$ 53,885,069

Memorial Hospital of Union County and Affiliates

Combined Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended	
	December 31, 2005	December 31, 2004
Operating Revenues		
Net patient service revenue (Note 9)	\$ 58,674,289	\$ 54,589,205
Other	1,859,601	1,760,239
Total operating revenues	60,533,890	56,349,444
Operating Expenses		
Salaries and wages	25,494,013	25,366,526
Employee benefits and payroll taxes	7,626,393	7,319,187
Supplies and other	9,917,162	9,487,268
Professional services and consultant fees	1,195,970	1,253,795
Purchased services	7,853,316	6,114,500
Insurance	576,391	513,243
Utilities	1,085,583	1,014,925
Depreciation and amortization	3,113,907	2,971,246
Total operating expenses	56,862,735	54,040,690
Operating Income	3,671,155	2,308,754
Other Income (Expenses)		
Interest income	226,078	83,193
Grants and contributions	543,753	613,455
Interest expense	(906,249)	(786,342)
Other expense	(813,166)	(1,035,814)
Total other expenses	(949,584)	(1,125,508)
Increase in Net Assets	2,721,571	1,183,246
Net Assets - Beginning of year	24,520,578	23,337,332
Net Assets - End of year	\$ 27,242,149	\$ 24,520,578

Memorial Hospital of Union County and Affiliates

Combined Statement of Cash Flows

	Year Ended	
	December 31, 2005	December 31, 2004
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 56,995,802	\$ 56,231,326
Cash payments to suppliers for services and goods	(22,552,223)	(18,926,632)
Cash payments to employees for services	(32,349,010)	(31,744,812)
Other receipts from operations	1,859,601	1,760,239
Net cash provided by operating activities	3,954,170	7,320,121
Cash Flows from Investing Activities		
Proceeds from other investments	226,078	83,193
Cash paid for other investments	-	(457,673)
Net cash provided by (used in) investing activities	226,078	(374,480)
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(1,143,806)	(5,657,025)
Grants and contributions	543,753	613,455
Issuance of long-term debt	14,459,770	1,805,000
Interest paid on long-term debt	(872,762)	(768,329)
Principal payments on long-term debt	(14,968,358)	(3,540,883)
Net cash used in capital and related financing activities	(1,981,403)	(7,547,782)
Net Increase (Decrease) in Cash and Cash Equivalents	2,198,845	(602,141)
Cash and Cash Equivalents - Beginning of year	8,750,540	9,352,681
Cash and Cash Equivalents - End of year	\$ 10,949,385	\$ 8,750,540
Supplemental Cash Flow Information		
Cash	\$ 9,034,920	\$ 3,840,907
Cash included in assets limited as to use	1,914,465	4,909,633

Memorial Hospital of Union County and Affiliates

Combined Statement of Cash Flows (Continued)

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

	Year Ended	
	December 31, 2005	December 31, 2004
Cash Flows from Operating Activities		
Operating income	\$ 3,671,155	\$ 2,308,754
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	3,113,907	2,971,246
Provision for bad debts	4,078,580	3,311,665
Loss on disposal of capital assets	93,451	-
(Increase) decrease in assets:		
Patient accounts receivable	(5,757,067)	(1,669,544)
Other assets	(1,376,593)	42,639
Increase (decrease) in liabilities:		
Accounts payable	(218,711)	(59,951)
Other accrued expenses	349,448	415,312
Net cash provided by operating activities	<u>\$ 3,954,170</u>	<u>\$ 7,320,121</u>

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note I - 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

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 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.

The combined financial statements for the years ended December 31, 2005 and 2004 included herein consist of the financial positions, results of operations, changes in net assets, and cash flows of Memorial Hospital of Union County, UCHS, and The Gables/Union Manor (collectively, the "Hospital"). All intercompany accounts and transactions between all entities have been eliminated.

Basis of Presentation - The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Hospital follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provide a comprehensive look at the Hospital's financial activities. The financial statements included UCHS and The Gables/Union Manor as blended in 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) Statement No. 20, *Accounting and Financial Reporting for 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.

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note I - Nature of Business and Significant Accounting Policies (Continued)

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

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

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

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, 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 bonds. Assets limited as to use also include funds whose use is specified by the donor, as well as permanently restricted endowments, the earnings of which can be used for certain purposes as specified by the donor.

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

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

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note I - Nature of Business and Significant Accounting Policies (Continued)

Debt Issuance Costs - Costs incurred in obtaining long-term debt financing are being amortized over the term of the obligations. Amortization expense totaled \$51,267 and \$72,042 in 2005 and 2004, respectively.

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

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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 services 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, measured at fair value. Contributions with donor-imposed time or purpose restrictions are reported as restricted support. All other contributions are reported as unrestricted support.

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

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

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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

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

Reclassification - Certain 2004 amounts have been reclassified to conform to the 2005 presentation.

Note 2 - Cash and Cash Equivalents

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

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

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

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

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 2 - Cash and Cash Equivalents (Continued)

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 law permits interim funds to be invested or deposited in the following securities:

- Bonds, notes, or other obligations that are guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest
- Bonds, notes debentures, or other obligations or securities issued by any federal governmental agency
- No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above 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 savings 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 bankers' acceptances which meet the requirements established by Ohio Revised Code, SEC 135.142
- Under limited circumstances, corporate debt interest in either of the two highest rating classifications by at least two nationally recognized rating agencies

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

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 2 - Cash and Cash Equivalents (Continued)

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

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 \$11,339,443 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured but are collateralized with securities held by the pledging financial institution. The Hospital believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	2005	2004
Patient accounts receivable	\$ 14,451,073	\$ 11,562,586
Allowance for uncollectible accounts	(2,166,000)	(1,923,000)
Allowance for contractual adjustments	(4,977,000)	(4,010,000)
Total patient accounts receivable	<u>\$ 7,308,073</u>	<u>\$ 5,629,586</u>

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

	Percent	
	2005	2004
Medicare	20	20
Medicaid	9	7
Commercial insurance and other	46	48
Self-pay	25	25
Total	<u>100</u>	<u>100</u>

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 4 - Patient Service Revenue

Approximately 38 percent of the Hospital's net patient service revenue is received from the Medicare and Medicaid programs. The Hospital has agreements with these 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 services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors is as follows:

- **Medicare** - Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain outpatient services, including ambulatory surgery, radiology, and laboratory services, are reimbursed on an established fee-for-service methodology. Beginning August 1, 2000, reimbursement for most outpatient services is based on the prospectively determined ambulatory payment classification system. However, the Hospital is held harmless until July 31, 2003 under this new outpatient payment system, should it result in less reimbursement than the payment system in place before August 1, 2000. The Medicare Modernization Act of 2003 extended these hold harmless provisions until January 1, 2006. The Hospital has recorded a liability for certain outpatient payments received prior to December 31, 2004, as the county in which the Hospital resides has been reclassified to an urban area and as such, the Hospital would not be eligible for such payments under the hold harmless reimbursement provision.
- **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 a prospective one, 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.

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 4 - Patient Service Revenue (Continued)

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.

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 includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Note 5 - Capital Assets

Capital assets for the years ended December 31, 2005 and 2004 were as follows:

	2004	Reclassifica- tions	Additions	Disposals and Adjustments	2005
Capital assets not being depreciated:					
Land and land improvements	\$ 1,394,280	\$ -	\$ -	\$ (26,500)	\$ 1,367,780
Construction in progress	5,830,399	(5,797,382)	208,853	-	241,870
Subtotal	7,224,679	(5,797,382)	208,853	(26,500)	1,609,650
Capital assets being depreciated:					
Land improvements	2,090,900	-	7,477	-	2,098,377
Building	32,751,048	4,933,614	218,395	(64,764)	37,838,293
Major movable equipment	16,820,670	863,768	709,081	(108,094)	18,285,425
Property under capital leases	4,524,091	-	-	-	4,524,091
Subtotal	56,186,709	5,797,382	934,953	(172,858)	62,746,186
Accumulated depreciation:					
Land improvements	580,612	-	60,451	-	641,063
Building	11,958,278	-	1,274,381	-	13,232,659
Major movable equipment	11,939,784	-	1,379,748	(105,907)	13,213,625
Property under capital leases	3,189,091	-	399,327	-	3,588,418
Subtotal	27,667,765	-	3,113,907	(105,907)	30,675,765
Net capital assets	\$ 35,743,623	\$ -	\$ (1,970,101)	\$ (93,451)	\$ 33,680,071

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 5 - Capital Assets (Continued)

	2003	Reclassifica- tions	Additions	Disposals and Adjustments	2004
Capital assets not being depreciated:					
Land and land improvements	\$ 1,337,203	\$ (4,623)	\$ 168,026	\$ (106,326)	\$ 1,394,280
Construction in progress	4,053,407	(2,623,392)	4,400,486	(102)	5,830,399
Subtotal	5,390,610	(2,628,015)	4,568,512	(106,428)	7,224,679
Capital assets being depreciated:					
Land improvements	767,702	1,519,639	20,607	(217,048)	2,090,900
Building	31,686,822	1,050,652	206,138	(192,564)	32,751,048
Major movable equipment	15,912,295	57,724	861,768	(11,117)	16,820,670
Property under capital leases	4,524,091	-	-	-	4,524,091
Subtotal	52,890,910	2,628,015	1,088,513	(420,729)	56,186,709
Accumulated depreciation:					
Land improvements	539,563	(1,330)	61,833	(19,454)	580,612
Building	10,825,353	1,330	1,131,595	-	11,958,278
Major movable equipment	10,588,247	-	1,351,537	-	11,939,784
Property under capital leases	2,762,810	-	426,281	-	3,189,091
Subtotal	24,715,973	-	2,971,246	(19,454)	27,667,765
Net capital assets	\$ 33,565,547	\$ -	\$ 2,685,779	\$ (507,703)	\$ 35,743,623

Depreciation expense totaled \$3,113,907 and \$2,971,246 in 2005 and 2004, respectively.

Note 6 - Assets Limited as to Use

Assets limited as to use that are required for obligations classified as current liabilities are reported as current assets. The composition of assets limited as to use at December 31, 2005 and 2004 consists of the following:

	2005	2004
By board of trustees for capital improvements - Cash	\$ 783,743	\$ 728,022
By board of trustees retirement of indebtedness - Cash	347,864	456,935
By board of trustees and self-insurance - Cash	182,951	381,196
Held by trustee under bond indenture agreement - Cash	574,907	1,824,509
Held by trustee under bond indenture agreement - Money market	-	1,493,971
Total board-designated and trustee held	1,889,465	4,884,633
Principal for permanent endowments	25,000	25,000
Total assets limited as to use	\$ 1,914,465	\$ 4,909,633

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 7 - Salaries, Wages, and Related Accruals

The details of accrued liabilities at December 31, 2005 and 2004 are as follows:

	2005	2004
Payroll and related items	\$ 1,208,173	\$ 885,642
Self-insured benefits	664,439	557,000
Total salaries, wages, and related accruals	<u>\$ 1,872,612</u>	<u>\$ 1,442,642</u>

Note 8 - Long-term Debt and Accrued Compensated Absences

Long-term liability activity for the year ended December 31, 2005 was as follows:

	2004	Current Year Additions	Current Year Reductions	2005	Amounts Due Within One Year
Union County General Obligation Bonds, dated July 1, 2005:					
Serial bonds, 3.5% to 5.00%, payable through 2016, in annual installments ranging from \$75,000 to \$680,000	\$ -	\$ 5,110,000	\$ (75,000)	\$ 5,035,000	\$ 80,000
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	5,265,000	-	(25,000)	5,240,000	25,000
Union County Improvement Bonds, dated July 15, 1999:					
Serial bonds, 3.5% to 5.10%, payable through 2011, in annual installments ranging from \$55,000 to \$355,000	2,680,000	-	(1,135,000)	1,545,000	360,000

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 8 - Long-term Debt and Accrued Compensated Absences (Continued)

	<u>2004</u>	<u>Current Year Additions</u>	<u>Current Year Reductions</u>	<u>2005</u>	<u>Amounts Due Within One Year</u>
Union County Improvement Bonds, dated July 15, 1999 (Continued):					
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	\$ -	\$ (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	-	(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	-	(3,135,000)	-	-
Union County General Obligation Bonds, Series 1996:					
Serial bonds, 3.75% to 5.15%, payable through 2009, in annual installments ranging from \$80,000 to \$140,000	630,000	-	(510,000)	120,000	120,000
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)	-	-
Union County General Obligation Notes, dated April 12, 2005:					
Limited tax general obligation notes, 3.75%, payable April 11, 2006	-	4,505,000	(430,000)	4,075,000	440,000

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 8 - Long-term Debt and Accrued Compensated Absences (Continued)

	<u>2004</u>	<u>Current Year Additions</u>	<u>Current Year Reductions</u>	<u>2005</u>	<u>Amounts Due Within One Year</u>
Union County General Obligation Notes, dated April 1, 2004:					
Limited tax general obligation notes, 1.75%, payable April 15, 2005	\$ 4,505,000	\$ -	\$ (4,505,000)	\$ -	\$ -
Note payable, bearing interest at 5.3%, due in monthly installments of \$6,242 through July 10, 2020	732,395	-	(31,337)	701,058	33,039
Installment obligations	<u>552,985</u>	<u>104,770</u>	<u>(317,021)</u>	<u>340,734</u>	<u>233,843</u>
Total long-term debt	22,305,380	14,459,770	(14,968,358)	21,796,792	1,291,882
Accrued compensated absence	<u>1,851,996</u>	<u>2,200,259</u>	<u>(2,101,107)</u>	<u>1,951,148</u>	<u>1,472,306</u>
Total noncurrent liabilities	<u>\$ 24,157,376</u>	<u>\$ 16,660,029</u>	<u>\$ (17,069,465)</u>	<u>\$ 23,747,940</u>	<u>\$ 2,764,188</u>

Long-term liability activity for the year ended December 31, 2004 was as follows:

	<u>2003</u>	<u>Current Year Additions</u>	<u>Current Year Reductions</u>	<u>2004</u>	<u>Amounts Due Within One Year</u>
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	\$ 5,290,000	\$ -	\$ (25,000)	\$ 5,265,000	\$ 25,000
Union County Improvement Bonds, dated July 15, 1999:					
Serial bonds, 3.5% to 5.10%, payable through 2011, in annual installments ranging from \$55,000 to \$355,000	3,010,000	-	(330,000)	2,680,000	350,000
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	-	-	1,185,000	-

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 8 - Long-term Debt and Accrued Compensated Absences (Continued)

	2003	Current Year Additions	Current Year Reductions	2004	Amounts Due Within One Year
Union County Improvement Bonds, dated July 15, 1999 (Continued):					
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	\$ -	\$ -	\$ 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	-	-	3,135,000	-
Union County General Obligation Bonds, Series 1996:					
Serial bonds, 3.75% to 5.15%, payable through 2009, in annual installments ranging from \$80,000 to \$140,000	740,000	-	(110,000)	630,000	115,000
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	-
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	810,000	-	(810,000)	-	-
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)	-	-

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 8 - Long-term Debt and Accrued Compensated Absences (Continued)

	2003	Current Year Additions	Current Year Reductions	2004	Amounts Due Within One Year
Union County General Obligation Notes, dated April 1, 2004:					
Limited tax general obligation notes, 1.75%, payable April 15, 2005	\$ -	\$ 5,255,000	\$ (750,000)	\$ 4,505,000	\$ 430,000
Union County General Obligation Notes, dated April 1, 2003:					
Limited tax general obligation notes, 1.75%, payable April 15, 2004	3,450,000	-	(3,450,000)	-	-
Note payable, bearing interest at 5.3%, due in monthly installments of \$6,242 through July 10, 2020	762,010	-	(29,615)	732,395	31,408
Installment obligations	954,253	-	(401,268)	552,985	305,597
Total long-term debt	24,041,263	5,255,000	(6,990,883)	22,305,380	1,257,005
Accrued compensated absence	1,850,995	2,060,300	(2,059,299)	1,851,996	1,433,641
Total noncurrent liabilities	<u>\$ 25,892,258</u>	<u>\$ 7,315,300</u>	<u>\$ (9,050,182)</u>	<u>\$ 24,157,376</u>	<u>\$ 2,690,646</u>

The bonds and notes payable are summarized as follows:

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. There were \$5,110,000 of 3.5 percent to 5.0 percent Serial Bonds, \$1,045,000 of 4.1 percent Term Bonds, and \$3,695,000 of 4.0 percent to 4.125 percent Serial Bonds included in this issue. A total of \$1,655,000 and \$8,195,000 was refunded for the 1996 and 1999 bonds, respectively. The average interest rate on the 2005 issue was 4.03 percent, replacing an average interest rate of the refunded bonds of 5.25 percent. The refunding reduced the total debt service payments over the next 20 years by approximately \$515,000, which represents an economic gain of approximately \$362,000.

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 2004 Union County General Obligation Notes, dated April 1, 2004, were issued in the amount of \$5,255,000 to refinance the 2003 notes and refund the 1993 bonds.

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 8 - Long-term Debt and Accrued Compensated Absences (Continued)

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

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

The 1996 Union County 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 Gables site, and to repay the bond anticipation notes, which matured in 1995. In 2005, \$1,655,000 was refunded by the 2005 bonds.

The 1993 Union County Improvement 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. In 2004, the 1993 bonds were refunded by the 2004 notes.

The Hospital leases medical and office equipment, furniture, and fixtures used in its operations under capital leases which generally require the Hospital to pay insurance and maintenance costs. These capital leases are due in monthly installments including interest at rates ranging from 2.96 percent to 8 percent annually. These leases expire at various dates through 2007 and are collateralized by the equipment leased.

The Hospital has a \$1,000,000 revolving line of credit, the borrowings of which are collateralized by certain Hospital assets. The line bears interest at 65 percent of the bank's prime commercial rate and expires in April 2006. There was no balance outstanding as of December 31, 2005 or 2004.

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 8 - Long-term Debt and Accrued Compensated Absences (Continued)

The following is a schedule by years of debt principal and interest payments, future minimum lease payments, and operating lease payments as of December 31, 2005:

Years Ending December 31	Long-term Debt		Capital Lease Obligation	
	Principal	Interest	Principal	Interest
2006	\$ 1,058,039	\$ 901,881	\$ 233,843	\$ 7,633
2007	4,269,834	722,694	52,213	4,228
2008	656,630	696,785	21,298	1,579
2009	693,714	669,188	22,058	819
2010	700,817	639,145	11,322	116
2011-2015	3,389,757	2,838,887	-	-
2016-2020	3,262,267	2,109,636	-	-
2021-2025	3,090,000	1,446,520	-	-
2026-2030	2,520,000	838,030	-	-
2031-2035	1,815,000	184,500	-	-
Total	<u>\$21,456,058</u>	<u>\$11,047,266</u>	<u>\$ 340,734</u>	<u>\$ 14,375</u>

The Hospital has entered into various operating lease agreements for equipment. Rent expense for all operating leases approximated \$1,348,000 in 2005 and \$916,000 in 2004.

Note 9 - Net Patient Service Revenue

Net patient service revenue consists of the following:

	2005	2004
Patient revenue:		
Inpatient services:		
Routine services	\$ 9,951,486	\$ 8,776,869
Ancillary services	17,128,347	15,121,915
Outpatient ancillary services	71,971,516	66,110,860
Net resident revenue	<u>7,437,554</u>	<u>7,074,903</u>
Total patient revenue	106,488,903	97,084,547
Revenue deductions:		
Provision for contractual allowances	43,519,962	39,076,289
Provision for bad debt	4,263,583	3,311,665
Charity care - Net of Hospital Care Assurance received	<u>31,069</u>	<u>107,388</u>
Total revenue deductions	<u>47,814,614</u>	<u>42,495,342</u>
Total	<u>\$ 58,674,289</u>	<u>\$ 54,589,205</u>

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 10 - Defined Benefit Pension Plan

Plan Description - The Hospital contributes to the Ohio Public Employees' Retirement System of Ohio (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) - a defined contribution plan; and the Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability, survivor and death benefits, annual cost of living adjustments, and postretirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the OPERS board of trustees. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to Ohio Public Employees' Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-6705 or 1-800-222-PERS (7377).

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2005, member and employer contribution rates were consistent across all three plans (TP, MD, and CO), and are actuarially determined. The 2005 member contribution rate for members of local government units was 8.50 percent of their annual covered salary. The 2005, 2004, and 2003 employer contribution rate for local government units was 13.55 percent of covered payroll. The Hospital's contributions to OPERS for the years ended December 31, 2005, 2004, and 2003 were approximately \$3,479,000, \$3,376,000, and \$3,439,000, respectively. Required employer contributions for all plans are equal to substantially all employer charges and must be extracted from the employer's records.

Postretirement Benefits - In order to qualify for postretirement health care coverage under the TP and CO plans, age and service retirees must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-Employment Benefit (OPEB), as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2005 and 2004 employer contribution rate for local government employer units was 13.55 percent of covered payroll. Of this amount, 4.0 percent was the portion that was used to fund health care during both 2005 and 2004. The portion of the employer's contribution used to fund postemployment benefits for 2005, 2004, and 2003 was \$1,027,000, \$997,000, and \$1,269,000, respectively.

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 10 - Defined Benefit Pension Plan (Continued)

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial-accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually. The investment return assumption rate for 2004 was 8.00 percent. An annual increase of 4.00 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00 percent base increase, were assumed to range from 0.50 percent to 6.30 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1.00 percent to 6.00 percent for the next eight years. In subsequent years (nine and beyond), health care costs were assumed to increase at 4.00 percent (the projected wage inflation rate) annually. These assumptions and calculations are based on the system's latest actuarial review performed as of December 31, 2004.

The number of active contributing participants in the Traditional and Combined Plans at December 31, 2005 was 376,109. The number of active contributing participants for both plans used in the December 31, 2004 actuarial valuation was 355,287. As of December 31, 2004, the actuarial value of the Retirement System's net assets available for OPEB was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

Health Care Plan - On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 11 - Medical Malpractice Claims

Based on the nature of its operations, the Hospital is at times subject to pending or threatened legal actions, which arise in the normal course of its activities.

The Hospital is insured against medical malpractice claims under a claims-based policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding \$1,000,000, or aggregate claims exceeding \$3,000,000, for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional \$9,000,000 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.

Note 12 - Deferred Compensation

Any employee of the Hospital may participate in a deferred compensation plan created by the State of Ohio under the provisions of Internal Revenue Code (IRC) Section 457, *Deferred Compensation Plans 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.

Note 13 - Self-insured Benefits

The Hospital is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$90,000 per employee or total claims in excess of \$3,226,092. Claims in excess of employee premiums are charged to operations. Claims were approximately \$3,861,000 and \$3,579,000 for the years ended December 31, 2005 and 2004, respectively.

In addition, the Hospital self-insures for workers' compensation. The Hospital has a \$500,000 per claim stop-loss policy with a private insurance carrier for workers' compensation.

Memorial Hospital of Union County and Affiliates

Notes to Combined Financial Statements December 31, 2005 and 2004

Note 14 - Related Party and Affiliation

During 1995, Memorial Physicians, Inc. (MPI) was formed, in which UCHS had a 100 percent ownership interest. In 2000, UCHS transferred 50 percent of the ownership interest to a group of physicians. This entity is a professional for-profit corporation organized to bring primary care and other specialty physicians together from multiple sites that has filed for dissolution under state law. UCHS has guaranteed 50 percent of a \$262,500 note between MPI and a local financial institution. The remaining balance on the note is approximately \$70,000 at December 31, 2005.

Note 15 - Investment in Joint Ventures

During 1996, the Hospital and two other area health care entities formed Health Partners, Ltd. (Health Partners), of 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 UCHS. During 2005 and 2004, the Hospital received distributions from Health Partners totaling \$100,678 and \$120,829, respectively, through UCHS.

During 1997, the Hospital entered into a partnership with Quantum Health and area physicians to build a local health care network. The purpose of the network was to allow physicians and the Hospital to keep and retain Union County patients within the community and not see them access services in a different setting. The Hospital has a 25 percent ownership interest and received distributions of \$4,809 and \$14,345 during 2005 and 2004, respectively, through UCHS. This partnership was dissolved in March 2006.

During 2002, the Hospital and other area health care entities formed MPI Real Estate, LLC, of which the Hospital has a 20 percent ownership interest. The organization was formed to promote health care and physician services and to own, lease, operate, and provide health care facilities for the promotion of health in the area serviced. During 2002, the Hospital contributed \$50,000 through UCHS. During 2005 and 2004, the Hospital received distributions from MPI Real Estate, LLC of \$7,500 and \$5,000, respectively, through UCHS.

During 2003, the Hospital and other area health providers formed Marysville Ohio Surgery Center, LLC, of which the Hospital has a 21.74 percent ownership interest. The organization was formed to promote health care and to provide outpatient surgical services in the area serviced. During 2003, the Hospital contributed \$159,000 through UCHS. During 2005 and 2004, the Hospital received no distributions.

During 2003, the Hospital and other area health providers formed Marysville Ohio Medical Properties, LLC, of which the Hospital has a 23.26 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 UCHS. During 2005 and 2004, the Hospital has received \$40,698 and \$0, respectively, through UCHS.

Additional Information



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

We have audited the combined financial statements of Memorial Hospital of Union County and Affiliates as of December 31, 2005 and 2004. Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information in the accompanying schedules is presented for the purpose of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities and is not a required part of the basic combined financial statements. The combining information has been subjected to the procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Plante & Moran, PLLC

March 17, 2006

Memorial Hospital of Union County and Affiliates

Combining Balance Sheet December 31, 2005

	Memorial Hospital of Union County	The Gables	Union County Health System	Eliminating Entries	Total
Assets					
Current Assets					
Cash and cash equivalents	\$ 8,619,870	\$ 333,094	\$ 81,956	\$ -	\$ 9,034,920
Patient accounts receivable	6,397,737	910,336	-	-	7,308,073
Assets limited as to use	1,481,753	432,712	-	-	1,914,465
Prepaid expenses and other	448,526	17,222	-	-	465,748
Inventory	389,407	-	-	-	389,407
Other current assets	445,112	-	-	-	445,112
	<u>17,782,405</u>	<u>1,693,364</u>	<u>81,956</u>	<u>-</u>	<u>19,557,725</u>
Total current assets					
Capital Assets	26,112,214	7,448,039	119,818	-	33,680,071
Other Assets					
Notes and advances to affiliates	3,584,043	-	701,058	(4,285,101)	-
Physician advances receivable	2,118,273	-	-	-	2,118,273
Investment in joint ventures	-	-	347,448	-	347,448
Bond issue costs	508,503	616,788	-	-	1,125,291
	<u>508,503</u>	<u>616,788</u>	<u>-</u>	<u>-</u>	<u>1,125,291</u>
Total assets	<u>\$ 50,105,438</u>	<u>\$ 9,758,191</u>	<u>\$ 1,250,280</u>	<u>\$ (4,285,101)</u>	<u>\$ 56,828,808</u>

Memorial Hospital of Union County and Affiliates

Combining Balance Sheet (Continued) December 31, 2005

	Memorial Hospital of Union County	The Gables	Union County Health System	Eliminating Entries	Consolidated Totals
Liabilities and Net Assets					
Current Liabilities					
Current portion of long-term debt	\$ 1,010,482	\$ 281,400	\$ -	\$ -	\$ 1,291,882
Accounts payable	1,983,763	232,152	-	-	2,215,915
Cost report settlements payable	515,326	154,294	-	-	669,620
Salaries, wages, and related accruals	1,698,738	173,874	-	-	1,872,612
Total current liabilities	5,208,309	841,720	-	-	6,050,029
Long-term Debt - Net of current portion	13,599,652	6,204,200	701,058	-	20,504,910
Other Liabilities					
Notes and advances to affiliates	701,058	3,412,067	171,976	(4,285,101)	-
Accrued compensated absences	1,767,431	183,717	-	-	1,951,148
Other long-term liabilities	1,080,572	-	-	-	1,080,572
Total liabilities	22,357,022	10,641,704	873,034	(4,285,101)	29,586,659
Net Assets					
Invested in capital assets - Net of related debt	11,502,080	962,439	119,818	-	12,584,337
Nonexpendable permanent endowments	25,000	-	-	-	25,000
Restricted for debt service and capital acquisitions	1,456,753	432,712	-	-	1,889,465
Unrestricted	14,764,583	(2,278,664)	257,428	-	12,743,347
Total liabilities and net assets	\$ 50,105,438	\$ 9,758,191	\$ 1,250,280	\$ (4,285,101)	\$ 56,828,808

Memorial Hospital of Union County and Affiliates

Combining Statement of Revenues, Expenses, and Changes in Net Assets Year Ended December 31, 2005

	Memorial Hospital of Union County	The Gables	Union County Health System	Eliminations	Totals
Operating Revenues					
Net patient service revenue	\$ 51,452,316	\$ 7,221,973	\$ -	\$ -	\$ 58,674,289
Other	1,859,601	-	-	-	1,859,601
Total operating revenues	53,311,917	7,221,973	-	-	60,533,890
Operating Expenses					
Salaries and wages	21,904,385	3,589,628	-	-	25,494,013
Employee benefits and payroll taxes	6,686,106	940,287	-	-	7,626,393
Supplies and other	8,909,329	870,287	137,546	-	9,917,162
Professional services and consultant fees	1,151,577	44,393	-	-	1,195,970
Purchased services	7,302,932	550,384	-	-	7,853,316
Insurance	497,263	79,128	-	-	576,391
Utilities	829,915	254,696	972	-	1,085,583
Depreciation and amortization	2,817,062	294,409	2,436	-	3,113,907
Total operating expenses	50,098,569	6,623,212	140,954	-	56,862,735
Operating Income (Loss)	3,213,348	598,761	(140,954)	-	3,671,155
Other Income (Expenses)					
Interest income	200,909	25,169	-	-	226,078
Grants and contributions	538,689	5,064	-	-	543,753
Interest expense	(608,883)	(297,366)	-	-	(906,249)
Other expense	(884,552)	-	71,386	-	(813,166)
Total other income (expenses)	(753,837)	(267,133)	71,386	-	(949,584)
Increase (Decrease) in Net Assets	\$ 2,459,511	\$ 331,628	\$ (69,568)	\$ -	\$ 2,721,571

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*; No Reportable Instances of Noncompliance of Other Matters

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*; No Reportable Instances of
Noncompliance of Other Matters

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

We have audited the financial statements of Memorial Hospital of Union County and Affiliates as of and for the year December 31, 2005, and have issued our report thereon dated March 17, 2006. 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.

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 in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 reportable 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 operation that we consider to be material weaknesses.

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 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*.

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

We noted certain matters that we reported to management of Memorial Hospital of Union County and Affiliates in a separate letter dated March 17, 2006.

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.

Plante & Moran, PLLC

March 17, 2006



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Betty Montgomery**

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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.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 27, 2006**