

***Memorial Hospital  
of Union County  
and Affiliates***

*Combined Financial Statements for the  
Years Ended December 31, 2001 and  
2000 and Supplemental Schedules for  
the Year Ended December 31, 2001  
and Independent Auditors' Report*





STATE OF OHIO  
OFFICE OF THE AUDITOR

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Board of Trustees  
Memorial Hospital of Union County and Affiliates

We have reviewed the Independent Auditor's Report of Memorial Hospital of Union County and Affiliates, Union County, prepared by Deloitte & Touche LLP for the audit period January 1, 2001 through December 31, 2001. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO  
Auditor of State

June 10, 2002

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# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

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## **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 Affiliates (the Hospital) (a component unit of Union County, Ohio) as of December 31, 2001 and 2000, 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 Affiliates as of December 31, 2001 and 2000, 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 19 - 22 are presented for the purpose of additional analysis of the basic combined financial statements rather than to present the financial position, results of operations and changes in fund balance of the individual entities, 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 May 3, 2002, 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

May 3, 2002

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINED BALANCE SHEETS DECEMBER 31, 2001 AND 2000

ASSETS	2001	2000
GENERAL FUND:		
Current assets:		
Cash and cash equivalents	\$ 980,457	\$ 800,589
Patient accounts receivable, net	6,713,244	6,048,824
Other accounts receivable, net	490,000	239,369
Materials and supplies, at lower of cost (first-in, first-out) or market	700,551	680,437
Prepaid expenses	441,107	345,922
Current portion of assets whose use is limited	<u>1,647,630</u>	<u>1,647,630</u>
Total current assets	<u>10,972,989</u>	<u>9,762,771</u>
Assets whose use is limited by Board of Trustees for:		
Capital improvements	54,981	11,421
Retirement of indebtedness	470,612	250,477
Self-insurance	763,595	632,304
Held by Trustee under bond indenture agreements	<u>1,869,245</u>	<u>3,657,166</u>
Total	3,158,433	4,551,368
Less assets whose use is limited and required for current liabilities	<u>(1,647,630)</u>	<u>(1,647,630)</u>
Assets whose use is limited, less current portion	1,510,803	2,903,738
Property, plant and equipment, net	30,255,379	28,301,625
Deferred bond issuance costs	467,099	494,906
Other receivable, net	348,461	342,265
Investment in and advances to Memorial Physicians, Inc.	<u>1,163,589</u>	<u>1,498,001</u>
<b>TOTAL GENERAL FUND ASSETS</b>	<u><b>\$44,718,320</b></u>	<u><b>\$43,303,306</b></u>
<b>DONOR RESTRICTED FUNDS - CASH AND CASH EQUIVALENTS</b>	<u><b>\$ 116,073</b></u>	<u><b>\$ 146,429</b></u>

See notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINED BALANCE SHEETS (CONTINUED)

DECEMBER 31, 2001 AND 2000

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LIABILITIES AND FUND BALANCES	2001	2000
GENERAL FUND:		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 1,201,190	\$ 1,280,630
Accounts payable and accrued expenses	1,815,327	1,737,980
Salaries, wages and related accruals	3,114,056	3,111,515
Medicare and Medicaid third-party settlements, net	<u>680,294</u>	<u>652,294</u>
Total current liabilities	6,810,867	6,782,419
Accrued compensated absences	582,865	518,578
Long-term debt and capital lease obligations	<u>16,281,719</u>	<u>16,218,253</u>
Total liabilities	23,675,451	23,519,250
FUND BALANCE	<u>21,042,869</u>	<u>19,784,056</u>
TOTAL GENERAL FUND LIABILITIES AND FUND BALANCE	<u>\$44,718,320</u>	<u>\$43,303,306</u>
DONOR RESTRICTED FUNDS - FUND BALANCE	<u>\$ 116,073</u>	<u>\$ 146,429</u>

See notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINED STATEMENTS OF REVENUE AND EXPENSES - GENERAL FUND FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

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	2001	2000
OPERATING REVENUE:		
Net patient service revenue	\$47,872,379	\$42,044,656
Other operating revenue	<u>2,246,633</u>	<u>1,926,952</u>
Total operating revenue	<u>50,119,012</u>	<u>43,971,608</u>
OPERATING EXPENSES:		
Wages, salaries and benefits	26,475,588	23,494,752
Supplies and other	9,384,065	8,185,064
Professional fees	1,187,585	1,073,201
Purchased services	5,109,602	4,189,202
Provision for bad debts	2,917,083	2,407,022
Insurance	310,345	271,413
Depreciation and amortization	2,311,686	1,951,203
Interest expense	<u>822,055</u>	<u>356,631</u>
Total operating expenses	<u>48,518,009</u>	<u>41,928,488</u>
INCOME FROM OPERATIONS	<u>1,601,003</u>	<u>2,043,120</u>
NONOPERATING INCOME (EXPENSES):		
Unrestricted gifts and bequests	101,453	199,345
Investment income and other	133,021	254,366
Subsidy expense to Memorial Physicians, Inc.	(600,000)	(900,000)
Equity in loss on investment in Memorial Physicians, Inc.	(147,085)	
Other income	<u>70,056</u>	<u>          </u>
Total nonoperating expenses	<u>(442,555)</u>	<u>(446,289)</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 1,158,448</u>	<u>\$ 1,596,831</u>

See notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINED STATEMENTS OF CHANGES IN FUND BALANCES FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001		2000	
	General	Donor-Restricted	General	Donor-Restricted
BALANCE, BEGINNING OF YEAR	\$19,784,056	\$ 146,429	\$17,959,721	\$ 137,844
Excess of revenue over expenses	1,158,448	3,159	1,596,831	4,621
Gifts, grants and bequests		220,730		367,942
Restricted expenditures		(153,880)		(136,474)
Transfer to finance property and equipment additions	<u>100,365</u>	<u>(100,365)</u>	<u>227,504</u>	<u>(227,504)</u>
BALANCE, END OF YEAR	<u>\$21,042,869</u>	<u>\$ 116,073</u>	<u>\$19,784,056</u>	<u>\$ 146,429</u>

See notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

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	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 44,318,876	\$ 39,786,276
Cash paid to employees and for personal services	(26,473,047)	(22,874,533)
Cash paid to suppliers for services and goods	(16,067,794)	(13,701,234)
Other operating revenue received	2,246,633	1,926,952
Cash paid for interest	<u>(826,137)</u>	<u>(354,215)</u>
Net cash provided by operating activities	<u>3,198,531</u>	<u>4,783,246</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from investments	203,077	254,366
Cash received from (paid to) MPI	187,327	(418,072)
Cash paid to fund MPI's operating requirements	<u>(600,000)</u>	<u>(900,000)</u>
Net cash used in investing activities	<u>(209,596)</u>	<u>(1,063,706)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Unrestricted gifts and bequests	101,453	199,345
Restricted gifts and bequests	220,731	367,942
Restricted expenditures	<u>(153,880)</u>	<u>(136,474)</u>
Net cash provided by noncapital financing activities	<u>168,304</u>	<u>430,813</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(3,509,128)	(8,357,816)
Proceeds from sale of property	25,400	2,128
Repayment of long-term debt	(730,671)	(705,000)
Principal payments under capital lease obligations	<u>(186,263)</u>	<u>(195,930)</u>
Net cash used in capital and related financing activities	<u>(4,400,662)</u>	<u>(9,256,618)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,243,423)	(5,106,265)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,498,386</u>	<u>10,604,651</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,254,963</u>	<u>\$ 5,498,386</u>

See notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINED STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 980,457	\$ 800,589
Cash and cash equivalents in assets whose use is limited:		
By Board of Trustees	1,289,188	894,202
Held by Trustee	1,869,245	3,657,166
Cash and cash equivalents in restricted fund	<u>116,073</u>	<u>146,429</u>
Total cash and cash equivalents	<u>\$ 4,254,963</u>	<u>\$ 5,498,386</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 1,601,003	\$ 2,043,120
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	2,311,686	1,951,203
Provision for bad debts	2,917,083	2,407,022
Changes in assets and liabilities:		
Patient accounts receivable	(3,581,503)	(2,405,380)
Supplies and other assets	(344,319)	(188,815)
Accounts payable and accrued expenses	199,751	176,762
Other liabilities	<u>94,828</u>	<u>799,334</u>
Net cash provided by operating activities	<u>\$ 3,198,529</u>	<u>\$ 4,783,246</u>
Supplemental information:		
Assets purchased under a capital lease obligation	<u>\$ 1,138,937</u>	<u>\$ 1,000,000</u>
Property additions included in accounts payable	<u>\$ 122,404</u>	<u>\$ 93,835</u>

See notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

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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 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.

Union Manor was to have reimbursed Union County \$400,000, payable in four consecutive annual installments of \$100,000 (see Note 8). Union County would forgive the \$400,000 when a new nursing home was completed and the old facility abandoned. In March 2001, the new nursing home facility, The Gables at Green Pastures (The Gables), was completed and the debt forgiven.

The combined financial statements for the year ended December 31, 2001 included herein consist of the financial position, results of operations, changes in fund balances and cash flows of Memorial Hospital of Union County, UCHS and The Gables/Union Manor (the Hospital). All intercompany balances and transactions between Memorial, UCHS and The Gables/Union Manor have been eliminated.

On January 1, 2000, Memorial entered into a transition agreement with the Charles B. Mills Center, Inc. (CBMC). Commencing on this date, payments for services were remitted directly to the Hospital. Under terms of the agreement, CBMC continued to operate the inpatient unit until transitioned to hospital management on May 28, 2000. Management fees of \$288,750 were paid to CBMC to cover expenses from January 1, 2000 until May 28, 2000. These expenses are included in supplies and other in the Hospital's combined statements of revenue and expenses.

**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. The preparation of financial statements 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 \$611,000 and \$549,000 in 2001 and 2000, 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. 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 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.

**Property, Plant and Equipment** - Property, plant 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 assets and is computed on the straight-line method. 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.

**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 \$9,000,000.

**Self-Insurance** - The Hospital self-insures for employee medical coverage up to \$80,000 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 for workers' compensation. 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. The Hospital adopted this statement on January 1, 2001. Adoption of this statement did not have a significant impact on the financial position, results of operations, or cash flows of the Hospital.

In June 1999, the GASB issued GASB 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. This statement became effective for the Hospital on January 1, 2002. Management does not believe the adoption of this statement will have a material impact on its combined financial statements other than financial statement presentation and format.

**Reclassifications** - Certain reclassifications have been made to the 2000 financial statements to conform with the 2001 presentation.

## 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 in amounts different than their established rates. Gross patient service revenue and the allowances to reconcile net patient service revenue are as follows:

	<b>2001</b>	<b>2000</b>
Gross patient service revenue	\$76,176,977	\$62,263,787
Less third-party allowances:		
Medicare	10,420,013	8,184,779
Medicaid	3,227,191	1,920,294
Other	<u>14,657,394</u>	<u>10,114,058</u>
Total allowances	<u>28,304,598</u>	<u>20,219,131</u>
Net patient service revenue	<u>\$47,872,379</u>	<u>\$42,044,656</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, 2001 is as follows:

	<b>Cash and Cash Equivalents</b>	<b>Assets Whose Use Is Limited</b>
Financial statements	\$ 1,096,530	\$ 3,158,433
Certificates of deposit		(1,463,535)
Cash on hand	<u>(950)</u>	<u>                    </u>
GASB Statement No. 3 deposits	<u>\$ 1,095,580</u>	<u>\$ 1,694,898</u>

At December 31, 2001 and 2000, the carrying amounts of the Hospital's bank deposits for all funds was \$4,254,013 and \$5,497,436 as compared to bank balances of \$5,599,609 and \$5,966,771, 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, 2001 and 2000, \$400,000 are covered by Federal insurance programs; \$5,199,609 and \$5,566,771 are collateralized with securities held by a financial institution or by its trust department or agent in the Hospital's name as of December 31, 2001 and 2000, respectively.

### 4. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable at December 31, 2001 and 2000 are set forth below:

	<b>2001</b>	<b>2000</b>
Total patient accounts receivable	\$ 12,598,776	\$ 11,358,069
Less allowance for:		
Contractual adjustments	(3,643,000)	(3,520,000)
Uncollectible accounts	<u>(2,242,532)</u>	<u>(1,789,245)</u>
Net patient accounts receivable	<u>\$ 6,713,244</u>	<u>\$ 6,048,824</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, 2001 and 2000 is set forth below.

	<b>2001</b>	<b>2000</b>
By Board of Trustees, for capital improvements, retirement of indebtedness and self-insurance - cash	<u>\$1,289,188</u>	<u>\$ 894,202</u>
Held by Trustee, under bond indenture agreements:		
Cash	\$ 405,710	\$ 331,224
Certificates of deposit	<u>1,463,535</u>	<u>3,325,942</u>
Total	<u>\$1,869,245</u>	<u>\$3,657,166</u>

**6. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment at December 31, 2001 and 2000 consists of the following:

	<b>2001</b>	<b>2000</b>	<b>Depreciable Lives (Years)</b>
Land and land improvements	\$ 1,930,024	\$ 1,544,058	10-20
Buildings and fixed equipment	32,932,836	26,278,483	10-40
Major movable equipment	10,581,726	9,583,807	7-15
Property under capital leases	3,125,109	2,118,124	5-15
Construction in progress	<u>911,983</u>	<u>7,128,069</u>	
Total	49,481,678	46,652,541	
Less allowance for accumulated depreciation and amortization	<u>(19,226,299)</u>	<u>(18,350,916)</u>	
Property, plant and equipment, net	<u>\$ 30,255,379</u>	<u>\$ 28,301,625</u>	

During 1999, construction began on a new nursing home facility, The Gables, to replace Union Manor. Construction on this project was completed in 2001. The Hospital also began construction of Phase III of the HVAC project, the new sleep laboratory and daycare facility. The construction in progress at December 31, 2001 related to these projects totaled \$695,000 with estimated costs to complete approximating \$540,000. 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 The Gables with Medicare through 1998 and with Medicaid through 1996. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 2001 and 2000, which Hospital management believes will approximate final settlements after audit by the respective agencies. Interim settlements that occurred during 2001 and 2000 resulted in receipts of \$192,000 and \$260,000, respectively.

## 8. LONG-TERM DEBT AND LEASES

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

	2001	2000
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	\$ 3,635,000	\$ 3,925,000
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
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 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	1,545,000	1,890,000
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	945,000	1,040,000
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 (Note 1)		400,000
Note payable, bearing interest at 6.3%; due in monthly installments of \$6,242 through July 10, 2020	816,502	839,183
Capital lease obligations	<u>1,516,407</u>	<u>379,700</u>
Total debt	17,482,909	17,498,883
Less current portion	<u>(1,201,190)</u>	<u>(1,280,630)</u>
Long-term debt	<u>\$16,281,719</u>	<u>\$16,218,253</u>

The 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.

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 Gables 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 The Gables and 33% to Memorial. The Gable's 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 system, phone system and lab software projects, as well as to repay the 1990 improvement bonds.

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 3.66% to 8% annually. These leases expire at various dates through 2005 and are collateralized by the equipment leased.

	<b>2001</b>	<b>2000</b>
Cost of property under capital lease	\$ 3,125,109	\$ 2,118,124
Accumulated amortization	<u>(1,727,224)</u>	<u>(1,609,892)</u>
Net carrying amount	<u>\$ 1,397,885</u>	<u>\$ 508,232</u>

The Hospital has entered into various operating lease agreements for equipment. Rent expense for all operating leases approximated \$914,000 in 2001 and \$970,000 in 2000.

Minimum payments on these obligations to maturity as of December 31, 2001 are as follows:

	<u>Debt</u>	<u>Capital Leases</u>	<u>Total</u>	<u>Operating Leases</u>
2002	\$ 789,152	\$ 449,565	\$ 1,238,717	\$ 711,583
2003	825,718	448,973	1,274,691	657,331
2004	862,386	299,857	1,162,243	628,663
2005	909,162	237,547	1,146,709	601,912
2006	946,054	193,290	1,139,344	544,695
Thereafter	<u>11,634,030</u>	<u>                    </u>	<u>11,634,030</u>	<u>881,050</u>
Subtotal	15,966,502	1,629,232	17,595,734	4,025,234
Less amounts representing interest on capital leases	<u>                    </u>	<u>(112,825)</u>	<u>(112,825)</u>	<u>                    </u>
Total	15,966,502	1,516,407	17,482,909	4,025,234
Less current portion	<u>789,152</u>	<u>412,038</u>	<u>1,201,190</u>	<u>                    </u>
Long-term portion	<u>\$15,177,350</u>	<u>\$1,104,369</u>	<u>\$16,281,719</u>	<u>\$4,025,234</u>

The Hospital has a \$500,000 revolving line of credit, the borrowings of which are collateralized by certain Hospital assets. The line bears interest at 65% of the bank's prime commercial rate and expires in July 2002. There is no balance outstanding at December 31, 2001.

## 9. PENSION PLAN

The Hospital contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions and contribution requirements are established by the Ohio State Legislature and are codified in Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to PERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-7377.

Plan members are required to contribute 8.5% of their annual covered salary, while employers are required to contribute 13.55%. Beginning July 1, 2000, PERS gave employers a temporary rollback rate of 8.13% that was effective through December 31, 2000. The Hospital's contributions to PERS for the years ending December 31, 2001, 2000 and 1999 were \$2,707,578, \$2,078,357 and \$2,384,431, respectively, equal to the required contributions for each year.

## 10. OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 9, PERS provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. At December 31, 2001 the plan had approximately 411,076 active participants.

A portion of each employer's contribution to PERS is set-aside for the funding of post retirement health care. The 2001 employer contribution rate was 13.55% of covered payroll, of which 4.3% was the portion used to fund health care for the year.

The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement healthcare through their contributions to PERS.

The actuarial value of PERS' net assets available for OPEB at December 31, 2000 were \$11.7 billion. The actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$12.5 billion and \$1.7 billion, respectively.

The actuarial present value of accrued postemployment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions based on PERS's latest actuarial review performed as of December 31, 2000 are as follows: an investment rate of return of 7.75%, investments valued at market value, adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets, no change in the number of active employees, base pay rate increases of 4.75% and annual pay increases over and above the 4.75% base increase ranging from .54% to 5.1%, and health care costs assume an increase of 4.75% annually.

## **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.

Investments in the programs in 2001 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 1995, Memorial Physicians, Inc. ("MPI") was formed in which the Hospital has a 50% ownership interest. The remaining ownership interest is held by a group of physicians. 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. The Hospital has guaranteed certain lease obligations of MPI. 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. Total fees charged to MPI in 2001 and 2000 for these support services were \$240,418 and \$313,450, respectively, and are recorded in other operating revenue. The

Hospital's combined financial statements include a \$1,163,589 and \$1,498,001 investment in and advances to MPI at December 31, 2001 and 2000, respectively. In 2001 and 2000, the Hospital provided cash subsidies to MPI amounting to \$600,000 and \$900,000, respectively. These subsidies provide additional funding for operations, recruitment support and capital assistance necessary to cover all operating losses. The physician group is not liable to the Hospital for its share of losses incurred by MPI. In 2001 and 2000, the Hospital also guaranteed a \$250,000 note between MPI and a local financial institution. In 2000, the Hospital also guaranteed a \$50,000 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 UCHS. During 2001 and 2000 the Hospital received distributions from Health Partners totaling \$66,000 and \$10,000, respectively, through UCHS. There is no remaining investment.

None of the above related parties are consolidated in these financial statements.

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# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## SUPPLEMENTAL SCHEDULE - COMBINING BALANCE SHEET, DECEMBER 31, 2001

ASSETS	Memorial Hospital of Union County	The Gables	Eliminations	Total
GENERAL FUND:				
Current assets:				
Cash and cash equivalents	\$ 743,034	\$ 237,423		\$ 980,457
Patient accounts receivable, net	6,120,115	593,129		6,713,244
Other accounts receivable	4,636,509		\$(4,146,509)	490,000
Materials and supplies, at lower of cost (first-in, first-out) or market	700,551			700,551
Prepaid expenses	433,955	7,152		441,107
Current portion of assets whose use is limited	<u>1,119,180</u>	<u>528,450</u>		<u>1,647,630</u>
Total current assets	<u>13,753,344</u>	<u>1,366,154</u>	<u>(4,146,509)</u>	<u>10,972,989</u>
Assets whose use is limited by Board of Trustees for:				
Capital improvements	54,981			54,981
Retirement of indebtedness	470,612			470,612
Self-insurance	763,595			763,595
Held by Trustee under bond indenture agreements	<u>1,519,917</u>	<u>349,328</u>		<u>1,869,245</u>
Total	2,809,105	349,328		3,158,433
Less assets whose use is limited and required for current liabilities	<u>(1,119,180)</u>	<u>(528,450)</u>		<u>(1,647,630)</u>
Assets whose use is limited, less current portion	1,689,925	(179,122)		1,510,803
Property, plant and equipment, net	21,857,996	8,397,383		30,255,379
Deferred bond issuance costs	244,701	222,398		467,099
Other receivable, net	348,461			348,461
Investment in and advances to Memorial Physicians, Inc.	<u>1,163,589</u>			<u>1,163,589</u>
<b>TOTAL GENERAL FUND ASSETS</b>	<u><b>\$39,058,016</b></u>	<u><b>\$9,806,813</b></u>	<u><b>\$(4,146,509)</b></u>	<u><b>\$44,718,320</b></u>
DONOR RESTRICTED FUNDS - CASH AND CASH EQUIVALENTS				
	<u>\$ 116,073</u>	<u>\$</u>	<u>\$</u>	<u>\$ 116,073</u>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## SUPPLEMENTAL SCHEDULE - COMBINING BALANCE SHEET, DECEMBER 31, 2001 (CONTINUED)

<b>LIABILITIES AND FUND BALANCE</b>	<b>Memorial Hospital of Union County</b>	<b>The Gables</b>	<b>Eliminations</b>	<b>Total</b>
GENERAL FUND:				
Current liabilities:				
Current portion of long-term debt and capital lease obligations	\$ 996,840	\$ 204,350		\$ 1,201,190
Accounts payable and accrued expenses	1,624,690	4,337,146	\$(4,146,509)	1,815,327
Salaries, wages and related accruals	2,706,137	407,919		3,114,056
Medicare and Medicaid third-party settlements, net	<u>665,000</u>	<u>15,294</u>		<u>680,294</u>
Total current liabilities	5,992,667	4,964,709	(4,146,509)	6,810,867
Accrued compensated absences	537,991	44,874		582,865
Long-term debt and capital lease obligations	<u>9,566,814</u>	<u>6,714,905</u>		<u>16,281,719</u>
Total liabilities	16,097,472	11,724,488	(4,146,509)	23,675,451
FUND BALANCE (DEFICIT)	<u>22,960,544</u>	<u>(1,917,675)</u>		<u>21,042,869</u>
<b>TOTAL GENERAL FUND LIABILITIES AND FUND BALANCE</b>	<b><u>\$39,058,016</u></b>	<b><u>\$ 9,806,813</u></b>	<b><u>\$(4,146,509)</u></b>	<b><u>\$44,718,320</u></b>
DONOR RESTRICTED FUNDS - FUND BALANCE	<u>\$ 116,073</u>	<u>\$</u>	<u>\$</u>	<u>\$ 116,073</u>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## SUPPLEMENTAL SCHEDULE - COMBINING STATEMENT OF REVENUE AND EXPENSES - GENERAL FUND FOR THE YEAR ENDED DECEMBER 31, 2001

	Memorial Hospital of Union County	The Gables	Eliminations	Total
<b>OPERATING REVENUE:</b>				
Net patient service revenue	\$42,562,000	\$5,310,379		\$47,872,379
Other operating revenue	<u>2,306,422</u>	<u>211</u>	\$(60,000)	<u>2,246,633</u>
Total operating revenue	<u>44,868,422</u>	<u>5,310,590</u>	<u>(60,000)</u>	<u>50,119,012</u>
<b>OPERATING EXPENSES:</b>				
Wages, salaries and benefits	22,863,359	3,612,229		26,475,588
Supplies and other	8,581,329	802,736		9,384,065
Professional fees	1,161,124	86,461	(60,000)	1,187,585
Purchased services	4,743,321	366,281		5,109,602
Provision for bad debts	2,844,999	72,084		2,917,083
Insurance	287,303	23,042		310,345
Depreciation and amortization	2,066,035	245,651		2,311,686
Interest expense	<u>516,827</u>	<u>305,228</u>		<u>822,055</u>
Total operating expenses	<u>43,064,297</u>	<u>5,513,712</u>	<u>(60,000)</u>	<u>48,518,009</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<u>1,804,125</u>	<u>(203,122)</u>		<u>1,601,003</u>
<b>NONOPERATING INCOME (EXPENSES):</b>				
Unrestricted gifts and bequests	288,565	(187,112)		101,453
Investment income	95,068	37,953		133,021
Subsidy expense to Memorial Physicians, Inc.	(600,000)			(600,000)
Loss on investment in Memorial Physicians, Inc.	(147,085)			(147,085)
Other income	<u>70,056</u>			<u>70,056</u>
Total nonoperating income (expenses)	<u>(293,396)</u>	<u>(149,159)</u>		<u>(442,555)</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENSES</b>	<u>\$ 1,510,729</u>	<u>\$ (352,281)</u>	<u>\$</u>	<u>\$ 1,158,448</u>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## SUPPLEMENTAL SCHEDULE - COMBINING STATEMENT OF CHANGES IN GENERAL FUND BALANCE FOR THE YEAR ENDED DECEMBER 31, 2001

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	<u>Memorial Hospital of Union County</u>	<u>The Gables</u>	<u>Total</u>
GENERAL FUND (DEFICIT):			
Balance, beginning of year	\$21,349,450	\$(1,565,394)	\$19,784,056
Excess of revenue over (under) expenses	1,510,729	(352,281)	1,158,448
Transfer to finance property and equipment additions	<u>100,365</u>	<u>                    </u>	<u>100,365</u>
 BALANCE, END OF YEAR	 <u>\$22,960,544</u>	 <u>\$(1,917,675)</u>	 <u>\$21,042,869</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 and Affiliates (the Hospital) as of and for the year ended December 31, 2001 and have issued our report thereon dated May 3, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial assets 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 test 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.

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

May 3, 2002





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
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**MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES**

**UNION COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 25, 2002**