

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

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**Combined Financial Report  
with Additional Information**

**December 31, 2003**





**Auditor of State  
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the Memorial Hospital of Union County and Affiliates, Union County, prepared by Plante & Moran, PLLC, for the audit period January 1, 2003 through December 31, 2003. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

December 8, 2004

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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  
Marysville, Ohio

We have audited the accompanying combined financial statements of Memorial Hospital of Union County and Affiliates as of December 31, 2003, and the related combined statements of activities, changes in net assets, and cash flows for the year then ended. These combined 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. The combined financial statements of the Organization as of December 31, 2002, were audited by other auditors, whose report dated April 11, 2004, expressed an unqualified opinion on those statements.

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. 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 audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Memorial Hospital of Union County and Affiliates as of December 31, 2003, and the changes in combined financial position, including cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the combined financial statements, the Hospital adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as of January 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 19, 2004, 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. That 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 audit.

The Management's Discussion and Analysis is presented for purposes of additional analysis and is not a required part of the combined financial statements of Memorial Hospital of Union County and Affiliates. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and, accordingly, do not express an opinion thereon.

*Plante & Moran, PLLC*

March 19, 2004

# Memorial Hospital of Union County and Affiliates

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## Management's Discussion and Analysis

The discussion and analysis of Memorial Hospital of Union County, The Gables at Green Pastures and Union County Health System (Hospital) combined financial statements provides an overview of the Hospital's financial activities for the year ended December 31, 2003. Management is responsible for the completeness and fairness of the combined financial statements and the related footnote disclosures along with the discussion and analysis.

## Using this Annual Report

The Hospital's combined financial statements consist of three statements – 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 the 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, Statement of Cash Flows
- Establishing an operating and non-operating 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 referenced format, notes to financial statements and supplemental information.

## Financial Highlights

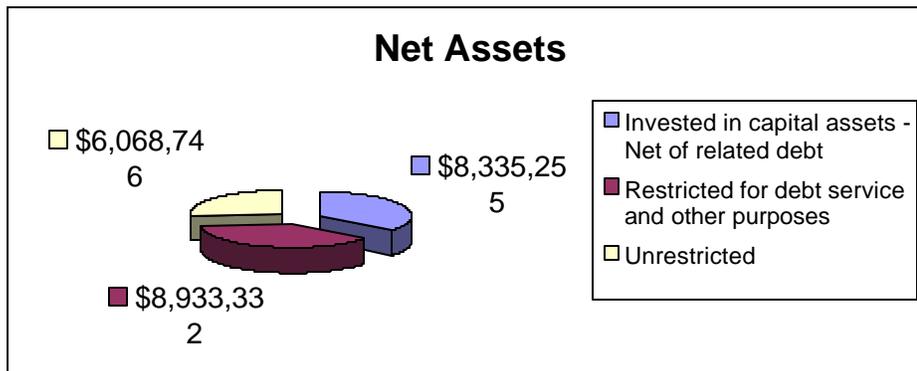
The Hospital's financial position increased for the year ending December 31, 2003. Current assets increased by \$3.7 million or 37.7 percent from the prior year, and assets limited as to use and held by trustee under bond indenture increased by \$5.7 million or 293.2 percent from the prior year. The primary sources of the increases were proceeds from the General Obligation Bonds and Notes issued during the year of \$8.7 million, which were largely unspent at December 31, 2003, and an increase in net patient accounts receivable. In total, the Hospital's assets increased \$9.5 million or 21.0 percent from the previous year. The increase in total assets largely resulted from the unspent debt proceeds, mentioned above, and a \$3.0 million increase in net patient service revenue.

# Memorial Hospital of Union County and Affiliates

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## Financial Highlights (Cont.)

The following chart provides a breakdown of net assets by category at year ended December 31, 2003.



In the year ended December 31, 2003, the Hospital's revenues and other support exceeded expenses and non-operating gains (losses), creating an increase in net assets of \$286,752 (compared to a \$1,880,677 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 or worse off as a result of the year's activities?" The Balance Sheet and the 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 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 non-financial 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

## Condensed Financial Information

The following is a comparative analysis of the major components of the Balance Sheet of the Hospital as of December 31, 2003:

Condensed financial information:

	Year Ended December 31		Change	
	2003	2002	Amount	Percent
Current assets	\$ 13,395,823	\$ 9,730,421	\$3,665,402	37.7%
Non-current assets	7,924,102	4,759,418	3,164,684	66.5%
Capital assets	<u>33,565,548</u>	<u>30,866,508</u>	<u>2,699,040</u>	8.7%
Total assets	<u>54,885,473</u>	<u>45,356,347</u>	<u>9,529,126</u>	21.0%
Current liabilities	10,642,386	6,394,469	4,247,917	66.4%
Long-term liabilities	<u>20,905,754</u>	<u>15,911,297</u>	<u>4,994,457</u>	31.4%
Total liabilities	<u>31,548,140</u>	<u>22,305,766</u>	<u>9,242,374</u>	41.4%
Net assets:				
Invested in capital assets, net of debt	8,335,255	14,167,205	(5,831,950)	-41.2%
Restricted assets	8,933,332	2,708,076	6,225,256	229.9%
Unrestricted	<u>6,068,746</u>	<u>6,175,300</u>	<u>(106,554)</u>	-1.7%
Total net assets	<u><b>\$ 23,337,333</b></u>	<u><b>\$ 23,050,581</b></u>	<u><b>\$ 286,752</b></u>	1.2%

The primary change in the Balance Sheet relates to unspent debt proceeds (restricted assets expendable for capital assets and for debt service), and an increase in patient accounts receivable. The change between current asset and liability classifications from the prior year is directly related to the issuance and utilization of the general obligation bonds and notes in 2003. Operating results were favorable; however certain non-operating items discussed below contributed to and reduced unrestricted net assets.

# Memorial Hospital of Union County and Affiliates

## Operating Results for the Year (in Millions)

	2003	2002	Change	
			Amount	Percent
<b>Operating Revenue</b>				
Net patient service revenue	\$ 57.2	\$ 54.1	\$ 3.1	5.7%
Other	2.0	2.3	(0.3)	-13.0%
Total operating revenue	59.2	56.4	2.8	5.0%
<b>Operating Expenses</b>				
Salaries and benefits	31.8	29.6	2.2	7.4%
Supplies and other	11.2	10.5	0.7	6.7%
Professional fees	1.0	1.1	(0.1)	-9.1%
Purchased services	6.6	6.5	0.1	1.5%
Provision for bad debts	3.3	3.0	0.3	10.0%
Insurance	0.5	0.5	-	0.0%
Depreciation	2.9	2.7	0.2	7.4%
Interest expense	0.8	0.9	(0.1)	-11.1%
Total operating expenses	58.1	54.8	3.3	6.0%
<b>Operating Income</b>	1.1	1.6	(0.5)	-31.2%
<b>Non-Operating Revenue (Expense)</b>				
Gifts and bequests	0.5	0.4	0.1	25.0%
Investment income	0.1	0.1	-	0.0%
Physician grants to Memorial Physicians, Inc	(0.6)	(0.4)	(0.2)	50.0%
Equity in loss of Memorial Physicians, Inc	(0.9)	(0.1)	(0.8)	800.0%
Equity in income of Health Partners, Ltd	0.1	0.2	(0.1)	-50.0%
Total non-operating revenue (expense)	(0.8)	0.2	(1.0)	-500.0%
<b>Increase in Net Assets</b>	0.3	1.8	(1.5)	-83.3%
<b>Net Assets</b> - Beginning of year	23.0	21.2		
<b>Net Assets</b> - End of year	<u>23.3</u>	<u>23.0</u>		

# Memorial Hospital of Union County and Affiliates

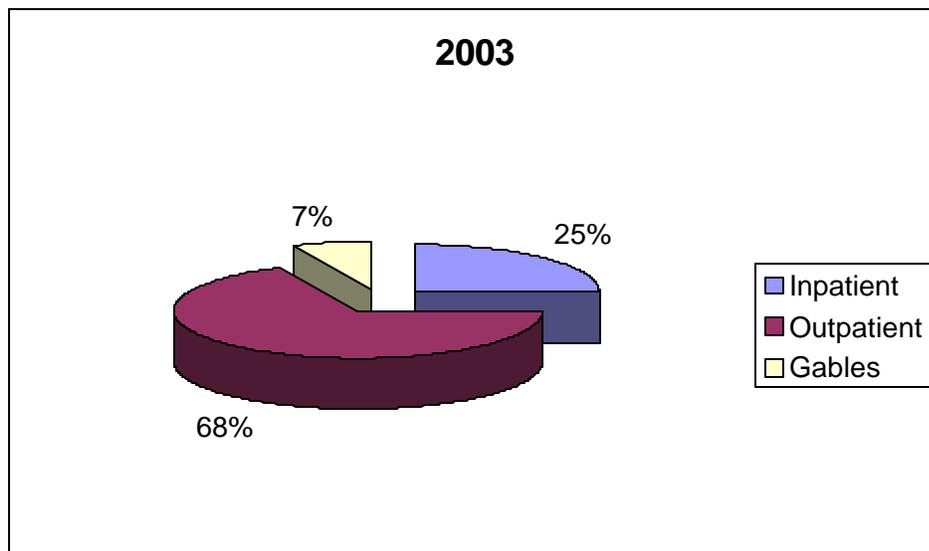
## Management's Discussion and Analysis (Cont.)

### 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 5.7 percent. This was attributable to an increase in outpatient ancillary services of 13.2 percent for Memorial Hospital and a 4.6 percent increase in The 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 41.3 to 42.8 percent as a percentage of gross revenue.
- Other operating revenue decreased 13.0 percent due to MSO services to MPI (payroll and billing), which concluded in July 2003.
- The following is a graphic illustration of total patient/resident revenues by source:



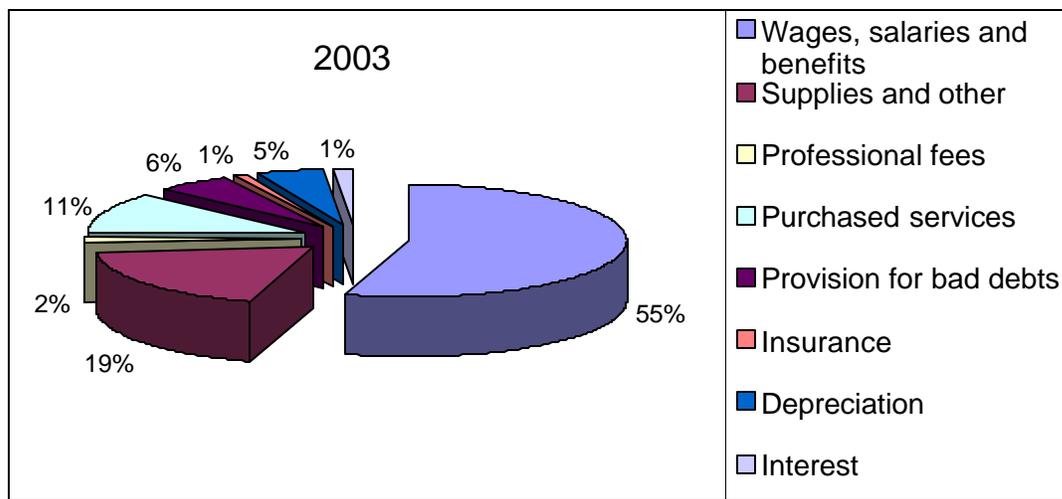
# Memorial Hospital of Union County and Affiliates

## Management's Discussion and Analysis (Cont.)

### 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 7.4 percent due to annual raises, a 3.9 percent increase in the number of FTE's and the additional OPERS expense associated with the salary increase.
- Supplies increased 6.7 percent due to an increase in volumes and the increasing cost of drugs and patient chargeable items.
- Provision for bad debts increased 10 percent due to increased patient visits and as well as an increase in write-offs related to uncollectible balances.
- The following is a graphic illustration of operating expenses by type:



### Non-Operating Gains (Losses)

Non-operating revenue 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 to non-operating gains (losses) were the result of the following factors.

- Expense related to physician income grants increased \$250,000 during the year as several MPI physicians completed the initial term of their grant and entered the forgiveness period of their respective contracts. When a physician satisfies the contractual requirements under this period, the outstanding grant balance is systematically forgiven and expense is recorded.
- UCHS wrote off the investment in MPI of \$936,000. The investment was deemed to have minimal value.
- The Development Council continued its involvement with the community and subsequently showed an increase in gifts of \$152,000 over 2002.

# Memorial Hospital of Union County and Affiliates

## Management's Discussion and Analysis (Cont.)

### 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

	2003	2002	Increase (Decrease)
Cash provided (used) by:			
Operating activities	\$ 4.4	\$ 3.4	\$ 1.0
Capital and related financing activities	1.6	(4.1)	5.7
Noncapital financing activities	0.5	0.4	0.1
Investing activities	(0.8)	(0.3)	(0.5)
Net increase (decrease) in cash	5.7	(0.6)	6.3
<b>Cash</b> - Beginning of the year	3.7	4.3	(0.6)
<b>Cash</b> - End of year	<u>\$ 9.4</u>	<u>\$ 3.7</u>	<u>\$ 5.7</u>

The Hospital's liquidity improved during the year. The following discussion amplifies the overview of cash flows presented above.

Net cash provided by operating activities increased \$1,000,000 over the prior year mainly due to an increase of \$1.8 million received from our patients and third party payors, in addition to a decrease of \$1.3 million paid to our vendors. However, during the year, the Hospital paid an additional \$2.1 million to its employees for wages and benefits.

Net cash provided by capital and related financing activities increased due to the issuance of \$8.7 million of general obligation bonds and notes.

Gifts and bequests provided \$476,000 for non-capital related financing activities while investing activities used \$800,000 due to the MPI-related activity mentioned above.

# Memorial Hospital of Union County and Affiliates

## Management's Discussion and Analysis (Cont.)

### Capital Asset and Debt Administration

#### Capital Assets

At December 31, 2003, the Hospital had \$33.6 million invested in capital assets, which is net of accumulated depreciation of \$24.7 million. Depreciation and amortization totaled \$2.9 million for the current year compared to \$2.7 million in 2002. The increase shown in Construction in Progress is due to the OB/Women's Center, Memorial Professional Park and Annex projects. A summary of these assets for the past two years is shown below.

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
Land and improvements	\$ 1.6	\$ 1.6	\$ -
Buildings and fixed equipment	23.6	23.6	-
Major movable equipment	3.5	3.3	0.2
Property under capital leases	0.9	1.4	
Construction in progress	<u>4.0</u>	<u>1.0</u>	<u>3.0</u>
Total	<u>\$ 33.6</u>	<u>\$ 30.9</u>	<u>\$ 3.2</u>

#### Debt

At year-end, the Hospital had \$24.0 million in outstanding long-term debt and capital lease obligations as compared to \$16.7 million the previous year. The increase between years is due to the issuance of general obligation bonds and notes. The table below summarizes these amounts by year.

	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
Total leases and bonds	<u>\$ 24.0</u>	<u>\$ 16.7</u>	<u>\$ 7.3</u>

The Hospital has made strides to pay down its debt 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 footnotes to the financial statements.

# Memorial Hospital of Union County and Affiliates

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## Management's Discussion and Analysis (Cont.)

### **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 4 percent in the patient 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 2004 and future years will be the opening of an Ambulatory Surgery Center in the fall of 2004, which will have a negative impact on Memorial Hospital's outpatient surgery volume. There will also be continued regulatory issues and the further uncertainty of the State of Ohio's Medicaid programs.

### **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, we welcome you to contact the Chief Financial Officer of Memorial Hospital.

Jeff Ehlers  
Chief Financial Officer

# Memorial Hospital of Union County and Affiliates

## Combined Balance Sheet

	December 31	
	2003	2002
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 419,348	\$ 969,853
Patient accounts receivable - net (Note 3)	7,271,707	6,467,566
Other accounts receivable - net	351,628	346,836
Inventories	563,760	647,903
Prepaid expenses	355,061	436,991
Current portion of assets whose use is limited (Note 2)	<u>4,434,319</u>	<u>861,272</u>
Total current assets	13,395,823	9,730,421
<b>Assets Limited as to Use - By Board of Trustees and Bond Indenture</b>		
Capital improvements	193,389	105,887
Retirement of indebtedness	314,665	90,741
Self-insurance	735,048	536,771
Held by Trustee under bond indenture agreement	7,665,230	1,949,677
Principal for permanent endowment	<u>25,000</u>	<u>25,000</u>
Total assets limited as to use (Note 2)	8,933,332	2,708,076
Less assets limited as to use and required for current liabilities	<u>(4,434,319)</u>	<u>(861,272)</u>
Total assets limited as to use, net	4,499,013	1,846,804
<b>Capital Assets, Net</b> (Note 6)	33,565,548	30,866,508
<b>Deferred Bond Issuance Costs</b>	504,072	439,291
<b>Other Receivables, Net</b>	2,378,230	1,162,781
<b>Other Investments</b>	542,787	357,956
<b>Investment In and Advances to Memorial Physicians, Inc.</b> (Note 14)	<u>-</u>	<u>952,586</u>
Total assets	<u><b>\$ 54,885,473</b></u>	<u><b>\$ 45,356,347</b></u>

# Memorial Hospital of Union County and Affiliates

## Combined Balance Sheet

	December 31	
	2003	2002
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt and capital lease obligation (Note 8)	\$ 4,737,073	\$ 1,384,502
Accounts payable and accrued expenses	2,433,591	1,647,480
Salaries, wages and related accruals (Note 7)	2,483,428	2,781,193
Medicare and Medicaid third-party settlements, net (Note 5)	988,294	581,294
Total current liabilities	10,642,386	6,394,469
<b>Guarantees to Physicians</b>	995,835	-
<b>Accrued Compensated Absences</b>	605,729	596,496
<b>Long-Term Debt and Capital Lease Obligations (Note 8)</b>	19,304,190	15,314,801
Total liabilities	31,548,140	22,305,766
<b>Net Assets</b>		
Invested in capital assets - net of related debt	9,524,285	14,167,205
Restricted		
Expendable for capital improvements, debt service and other purposes	8,908,332	2,683,076
Non-expendable for permanent endowments	25,000	25,000
Unrestricted	4,879,716	6,175,300
Total net assets	23,337,333	23,050,581
Total net assets and liabilities	<b>\$ 54,885,473</b>	<b>\$ 45,356,347</b>

# Memorial Hospital of Union County and Affiliates

## Combined Statement of Revenue, Expenses and Changes in Net Assets

	Year Ended December 31	
	2003	2002
<b>Operating Revenue</b>		
Net patient service revenue (Note 9)	\$ 57,212,364	\$ 54,136,669
Other operating revenue	<u>2,115,940</u>	<u>2,305,043</u>
Total operating revenue	59,328,304	56,441,712
<b>Operating Expenses</b>		
Wages, salaries, and benefits	31,811,968	29,623,456
Supplies and other	11,232,823	10,491,314
Professional fees	969,570	1,064,876
Purchased services	6,586,998	6,479,136
Provision for bad debts	3,274,751	3,004,347
Insurance	543,963	549,141
Depreciation	2,943,884	2,671,132
Interest	<u>819,892</u>	<u>908,099</u>
Total operating expenses	<u>58,183,849</u>	<u>54,791,501</u>
<b>Income from Operations</b>	1,144,455	1,650,211
<b>Non-Operating Gains (Losses)</b>		
Gifts and bequests	476,237	354,264
Investment income and other	141,577	45,611
Physician grant expense to Memorial Physicians, Inc.	(609,258)	(358,751)
Equity in loss and write off of Memorial Physicians, Inc.	(936,090)	(42,871)
Equity in income of other investments	<u>69,831</u>	<u>232,213</u>
Total net non-operating gains (losses)	<u>(857,703)</u>	<u>230,466</u>
<b>Increase in Net Assets</b>	286,752	1,880,677
<b>Net Assets - Beginning of year</b>	<u>23,050,581</u>	<u>21,169,904</u>
<b>Net Assets - End of year</b>	<u><b>\$ 23,337,333</b></u>	<u><b>\$ 23,050,581</b></u>

# Memorial Hospital of Union County and Affiliates

## Combined Statement of Cash Flows

	Year Ended December 31	
	2003	2002
<b>Cash Flows from Operating and Non-Operating Activities</b>		
Cash received from patients and third-party payors	\$ 53,133,472	\$ 51,293,820
Cash paid to employees and for personal services	(32,100,500)	(29,956,319)
Cash paid to suppliers for services and goods	(17,983,383)	(19,320,666)
Other operating revenue received	2,115,940	2,305,043
Cash paid for interest	(758,595)	(912,700)
Net cash provided by operating and non-operating activities	4,406,934	3,409,178
<b>Cash Flows from Investing Activities</b>		
Cash received from investments	141,577	45,611
Cash paid for other investments	(376,603)	(125,743)
Cash received from physician repayments	4,770	168,132
Cash paid to fund physician income grants	(609,258)	(358,751)
Net cash used in investing activities	(839,514)	(270,751)
<b>Cash Flows from Non-Capital and Related Financing Activities</b>		
Gifts and bequests	476,237	364,222
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of capital assets	(5,648,533)	(2,845,672)
Proceeds from sale of capital assets	14,042	40,971
Issuance of long-term debt	8,740,000	-
Repayment of long-term debt	(828,198)	(765,000)
Principal payments under capital lease obligations	(646,217)	(509,982)
Net cash used in capital and related financing activities	1,631,094	(4,079,683)
<b>Net Increase in Cash and Cash Equivalents</b>	5,674,751	(577,034)
<b>Cash and Cash Equivalents - Beginning of year</b>	3,677,929	4,254,963
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 9,352,680</b>	<b>\$ 3,677,929</b>

# Memorial Hospital of Union County and Affiliates

## Combined Statement of Cash Flows (Cont.)

A reconciliation of income from operations to net cash from operating and non-operating activities is as follows:

	Year Ended December 31	
	2003	2002
<b>Reconciliation of Cash and Cash Equivalents to Balance Sheet</b>		
Cash and cash equivalents in current assets	\$ 419,348	\$ 969,853
Cash and cash equivalents in assets limited as to use		
By Board of Trustees	1,243,102	733,399
By Trustee under Bond Indenture	7,665,230	1,949,677
Cash and cash equivalents in restricted net assets	25,000	25,000
	<u>\$ 9,352,680</u>	<u>\$ 3,677,929</u>
<b>Reconciliation of Income from Operations to Net Cash Provided by Operating Activities</b>		
Income from operations	\$ 1,144,455	\$ 1,650,211
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	2,943,884	2,671,132
Provision for bad debts	3,274,751	3,004,347
Changes in assets and liabilities		
Patient accounts receivable	(4,078,892)	(2,743,849)
Inventories and other assets	218,157	(586,584)
Accounts payable and accrued expenses	786,111	(167,847)
Other liabilities	118,468	(418,232)
	<u>\$ 4,406,934</u>	<u>\$ 3,409,178</u>
Net cash provided by operating activities		
	<u>\$ 4,406,934</u>	<u>\$ 3,409,178</u>
<b>Supplemental Information</b>		
Assets purchased under a capital lease	<u>\$ 76,375</u>	<u>\$ 519,474</u>

# Memorial Hospital of Union County and Affiliates

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## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 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 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. 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 was forgiven.

The combined financial statements for the years ended December 31, 2003 and 2002, 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 (Hospital). All inter-company 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 June 1999. The Hospital now follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the Hospital's financial activities. There was no impact to the net assets of the Hospital in adopting GASB No. 34. No component units are required to be reported in the Hospital's financial statements.

# Memorial Hospital of Union County and Affiliates

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## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 1 - Organization and Summary of Significant Accounting Policies (Cont.)

**Enterprise Fund Accounting** - The Hospital uses enterprise fund accounting. The financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenditures are recognized when the related liabilities are incurred and certain measurement and matching criteria are met. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

**Cash and Cash Equivalents** - Cash and cash equivalents include cash and investments in highly liquid investments purchased with a maturity of three months or less. Cash and cash equivalents included in assets limited as to use are considered cash and cash equivalents for purposes 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 loss 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 uncollectible accounts in the period they are deemed to be uncollectible. The allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors using current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors (Note 3).

**Other Accounts Receivable** - The Hospital advances monies to physicians under various loan and support arrangements. The loans are unsecured (not collateralized) and are forgiven systematically in accordance with the loan agreements. Should the arrangement between the Hospital and physician be terminated prior to the end date agreed upon by both parties, the Hospital would pursue collection of any outstanding advances.

**Inventories** - Inventories, consisting of medical and office supplies and pharmaceutical products, are stated at the lower of cost or market, determined by the first-in, first-out method.

# Memorial Hospital of Union County and Affiliates

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## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 1 - Organization and Summary of Significant Accounting Policies (Cont.)

**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.

**Unamortized Debt Issuance Costs** - Costs incurred in obtaining long-term debt financing are being amortized over the term of the obligations using the straight-line method. Amortization expense totaled \$29,871 and \$17,694 in 2003 and 2002 respectively.

**Compensated Absences and Vacation pay** - 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.

# Memorial Hospital of Union County and Affiliates

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## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 1 - Organization and Summary of Significant Accounting Policies (Cont.)

**Classification of Net Assets** – Net assets of the Hospital are classified in four components. *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. *Restricted expendable* net assets are non-capital 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. *Restricted nonexpendable* net assets equal the principal portion of permanent endowments. *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 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.

**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. Retroactive adjustments to these estimated amounts are recorded 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 with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

# Memorial Hospital of Union County and Affiliates

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## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 1 - Organization and Summary of Significant Accounting Policies (Cont.)

**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.

**Income from Operations** - For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as non-operating gains and losses.

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

**Pension Plan** - 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.

**Investment Income** - Investment income on unrestricted and restricted funds are recorded as non-operating gains when received.

**Reclassification** - Certain prior period balances were reclassified for consistency with current year presentation.

# Memorial Hospital of Union County and Affiliates

## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 2 – Deposits and Investments

The Hospital's deposits and investments are composed of the following:

	Cash and Cash Equivalents	Assets Limited as to Use
<u>2003</u>		
Deposits	\$ 419,348	\$ 7,862,591
Certificates of Deposit	<u>-</u>	<u>1,070,741</u>
Total	<u><b>\$ 419,348</b></u>	<u><b>\$ 8,933,332</b></u>
<u>2002</u>		
Deposits	\$ 969,853	\$ 1,182,816
Certificates of Deposit	<u>-</u>	<u>1,525,260</u>
Total	<u><b>\$ 969,853</b></u>	<u><b>\$ 2,708,076</b></u>
<u>Deposits</u>	<u>2003</u>	<u>2002</u>
Amount of deposits reflected on the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit)	\$ 10,947,586	\$ 5,023,343
Amount of deposits covered by federal depository insurance	<u>670,061</u>	<u>400,000</u>
Amount of deposits uninsured	<u><b>\$ 10,277,525</b></u>	<u><b>\$ 4,623,343</b></u>

Amounts of deposits not insured by federal depository insurance are collateralized by pools of securities pledged by the depository banks and held in the name of the respective bank.

# Memorial Hospital of Union County and Affiliates

## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 3 – Patient Accounts Receivable

The details of patient accounts receivable at December 31, 2003 and 2002, are set forth below:

	<u>2003</u>
Total patient accounts receivable	\$ 14,273,707
Less allowance for:	
Contractual adjustments	(5,259,000)
Uncollectible accounts	<u>(1,743,000)</u>
Net patient accounts receivable	<b><u>\$ 7,271,707</u></b>

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

	<u>2003</u>	<u>2002</u>
Medicare	24%	24%
Medicaid	10	8
Self-pay	18	13
Commercial and other	<u>48</u>	<u>55</u>
Total	<b><u>100%</u></b>	<b><u>100%</u></b>

# Memorial Hospital of Union County and Affiliates

## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 4 – 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, 2003 and 2002, is set forth below:

	<u>2003</u>	<u>2002</u>
By Board of Trustees, for capital improvements, retirement of indebtedness and self-insurance - cash	\$ 1,243,102	\$ 733,399
Held by Trustee under bond indenture agreements:		
Cash	6,594,489	472,246
Certificates of deposit	<u>1,070,741</u>	<u>1,477,431</u>
Total held by trustee for bond indenture	7,665,230	1,949,677
Principal of permanent endowment	<u>25,000</u>	<u>25,000</u>
Total assets limited as to use	<u><b>\$ 8,933,332</b></u>	<u><b>\$ 2,708,076</b></u>

# Memorial Hospital of Union County and Affiliates

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## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 5 - Cost Report Settlements

Approximately 37 percent of the Hospital's revenues from patient services are 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 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 are 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, 2003, as the county the Hospital resides in 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 paid at prospectively determined rates per discharge. Capital costs relating to Medicaid inpatients are paid on a cost-reimbursement method. The Hospital is reimbursed for outpatient services on a 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 change in rates, or the payment system itself, could have a material impact on future Medicaid funding to providers.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

# Memorial Hospital of Union County and Affiliates

## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 6 – Capital Assets

Capital Assets activity for the year ended December 31, 2003, was as follows:

	2002	Additions	Retirements	2003	Depreciable Life-Years
Land and land improvements	\$ 2,050,569	\$ 54,336	\$ -	\$ 2,104,905	10-20
Buildings and fixed equipment	34,653,196	1,170,815	-	35,824,011	10-40
Major movable equipment	11,360,698	1,274,654	(19,650)	12,615,702	7-15
Property under capital leases	3,631,619	42,581	-	3,674,200	5-15
Construction in progress	947,260	3,106,147	-	4,053,407	
<b>Total</b>	<b>52,643,342</b>	<b>5,648,533</b>	<b>(19,650)</b>	<b>58,272,225</b>	
Less accumulated depreciation					
Land and land improvements	507,497	32,066	-	539,563	
Buildings and fixed equipment	11,008,387	1,260,410	-	12,268,797	
Major movable equipment	8,048,310	1,101,238	(14,041)	9,135,507	
Property under capital leases	2,212,640	550,170	-	2,762,810	
<b>Total</b>	<b>21,776,834</b>	<b>2,943,884</b>	<b>(14,041)</b>	<b>24,706,677</b>	
<b>Capital Assets - net</b>	<b><u>\$ 30,866,508</u></b>	<b><u>\$ 2,704,649</u></b>	<b><u>\$ (5,609)</u></b>	<b><u>\$ 33,565,548</u></b>	

Depreciation expense totaled \$2,943,884 and \$2,671,132 in 2003 and 2002, respectively.

### Note 7 – Salaries, Wages and Related Accruals

The details of salaries, wages and related accruals are as follows:

	2003	2002
Payroll and related liabilities	\$ 693,162	\$ 963,918
Self-insured benefits	545,000	543,205
Vacation accrual	1,245,266	1,274,070
<b>Net carrying amount</b>	<b><u>\$ 2,483,428</u></b>	<b><u>\$ 2,781,193</u></b>

# Memorial Hospital of Union County and Affiliates

## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 8 – Long-Term Debt and Leases

Long-term debt activity for the year ended December 31, 2003, was as follows:

	Beginning Balance	Current Year Additions	Current Year Reductions	Ending Balance	Current Portion
<b>Union County Improvement Bonds, dated July 15, 1999:</b>					
Serial bonds, 3.50% to 5.10%, payable through 2011, in annual installments ranging from \$55,000 to \$355,000.	3,330,000	-	(320,000)	3,010,000	330,000
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	-
<b>General Obligation Bonds, Series 1996, dated December 1, 1996:</b>					
Serial bonds, 3.75% to 5.15%, payable through 2009, in annual installments ranging from \$80,000 to \$140,000	845,000	-	(105,000)	740,000	110,000
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	-
<b>Union County Improvement Bonds, dated May 15, 1993:</b>					
Serial bonds, 2.50% to 5.25%, payable through 2005, in annual installments ranging from \$135,000 to \$415,000	1,185,000	-	(375,000)	810,000	395,000
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	-
<b>Union County General Obligation Bonds, Series 2003, dated April 1, 2003:</b>					
Serial bonds, 1.50% to 5.00%, payable through 2033, in annual installments ranging from \$25,000 to \$635,000	-	5,290,000	-	5,290,000	25,000
<b>Union County General Obligation Notes, Series 2003, dated April 1, 2003:</b>					
Limited tax general obligation notes, 1.75%, payable April 15, 2004	-	3,450,000	-	3,450,000	3,450,000
Note payable, bearing interest at 6.3%, due in monthly installments of \$6,242 through July 10, 2020	790,208	-	(28,198)	762,010	29,615
Capital lease obligations	1,524,095	76,375	(646,217)	954,253	397,458
Total debt	16,699,303	\$ 8,816,375	\$ (1,474,415)	24,041,263	\$ 4,737,073
Less current portion	(1,384,502)			(4,737,073)	
Total long-term debt	<u>\$ 15,314,801</u>			<u>\$ 19,304,190</u>	

# Memorial Hospital of Union County and Affiliates

## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 8 – Long-Term Debt and Leases (Cont.)

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 re-designing of the obstetrics unit and various other projects.

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 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.

The 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.

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

	<u>2003</u>	<u>2002</u>
Cost of property under capital lease	\$ 3,674,200	\$ 3,631,619
Accumulated amortization	<u>(2,762,810)</u>	<u>(2,212,640)</u>
Net carrying amount	<u><b>\$ 911,390</b></u>	<u><b>\$ 1,418,979</b></u>

The Hospital has entered into various operating lease agreements for equipment. Rent expense for all operating leases approximated \$1,254,000 in 2003, and \$1,045,000 in 2002.

# Memorial Hospital of Union County and Affiliates

## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 8 – Long-Term Debt and Leases (Cont.)

The following is a schedule by years of bond principal and interest, future minimum lease payments and operating lease payments as of December 31, 2003:

	Debt	Debt Interest	Capital Leases	Total	Operating Leases
2004	\$ 4,339,615	\$ 1,051,286	\$ 428,564	\$ 5,819,465	\$ 883,521
2005	936,337	949,589	322,413	2,208,339	722,266
2006	973,039	904,739	218,595	2,096,373	708,266
2007	1,019,833	856,198	32,138	1,908,169	430,722
2008	776,630	804,633	-	1,581,263	150,198
2009-2013	3,080,694	3,520,299	-	6,600,993	478,527
2014-2018	3,276,008	2,687,666	-	5,963,674	406,957
2019-2023	3,199,854	1,860,648	-	5,060,502	296,466
2024-2028	2,595,000	1,080,275	-	3,675,275	-
2029-2033	2,890,000	447,250	-	3,337,250	-
Total	23,087,010	14,162,583	1,001,710	38,251,303	4,076,923
Less amounts representing interest on capital leases	-	-	(47,457)	(47,457)	-
Total	23,087,010	14,162,583	954,253	38,203,846	4,076,923
Less current portion	(4,339,615)	(1,051,286)	(397,458)	(1,384,502)	-
Total long-term portion	<b><u>\$ 18,747,395</u></b>	<b><u>\$ 13,111,297</u></b>	<b><u>\$ 556,795</u></b>	<b><u>\$ 36,819,344</u></b>	<b><u>\$ 4,076,923</u></b>

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 January 2004. There was no balance outstanding at December 31, 2003 or 2002.

# Memorial Hospital of Union County and Affiliates

## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 9 – 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.

Revenue	Year Ended December 31	
	2003	2002
Inpatient services		
Routine services	\$ 8,872,895	\$ 8,589,948
Ancillary services	15,025,176	15,899,666
Outpatient ancillary services	63,900,761	56,435,828
Net resident revenue	<u>6,741,265</u>	<u>6,446,603</u>
Total patient revenue	94,540,097	87,372,045
Revenue deductions		
Provision for contractual allowances	36,786,959	32,652,545
Provision for charity care	<u>540,774</u>	<u>582,831</u>
Total revenue deductions	<u>37,327,733</u>	<u>33,235,376</u>
Total net patient service revenue	<u><b>\$ 57,212,364</b></u>	<u><b>\$ 54,136,669</b></u>

### Note 10 – Deferred Compensation Plan

Any employee of the Hospital may participate in a deferred compensation plan created by the State of Ohio under the provisions of the 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.

# Memorial Hospital of Union County and Affiliates

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## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 11 - 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 post-retirement healthcare benefits to qualifying members of both the Traditional and the Combined Plans; however, healthcare benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment 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 2003, member and employer contribution rates were consistent across all three plans (TP, MD, and CO), and are actuarially-determined. The 2003 member contribution rate for members of local government units was 8.50 percent of their annual covered salary. The 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, 2003, 2002, and 2001, were approximately \$3,439,000, \$3,126,000, and \$2,708,000, respectively. Required employer contributions for all plans are equal to 100% of employer charges and must be extracted from the employer's records.

# Memorial Hospital of Union County and Affiliates

## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 11 – Defined Benefit Pension Plan (Cont.)

**Post-Retirement Benefits** – In order to qualify for post-retirement health care coverage, 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 post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2002 and 2001 employer contribution rate for local government employer units was 13.55 percent of covered payroll. Of this amount, 5.0 percent was the portion that was used to fund health care during 2002 and 2001, respectively. The portion of the employer's contribution used to fund post-employment benefits for 2003 and 2002 was \$1,269,000 and \$1,154,000, respectively.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement 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% of unrealized market appreciation or depreciation on investment assets annually. The investment return assumption rate for 2002 was 8.00%. An annual increase of 4.00 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% base increase, were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase 4.00% annually. These assumptions and calculations are based on the System's latest Actuarial Review performed as of December 31, 2002.

The number of active contributing participants in the Traditional and Combined Plans during 2002 was 364,881. As of December 31, 2002, the actuarial value of the Retirement System's net assets available for OPEB was \$10 billion. The actuarially-accrued liability and the unfunded actuarially-accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

# Memorial Hospital of Union County and Affiliates

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## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 11 - Defined Benefit Pension Plan (Cont.)

**Health Care Plan** – In December 2002, the Board adopted the Health Care “Choices” Plan in its continuing effort to respond to the rise in the cost of health care. The Choice Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a broader range of health care options. The plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year “cliff” eligibility standard for the present plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The plan will also offer a spending account feature, enabling the benefit recipient to apply his or her allowance toward specific medical expenses, much like a Medical Spending Account.

In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending “Choices” type cost cutting measures to all active members and benefit recipients. As of December 31, 2003, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

### Note 12 - Risk Management

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, health insurance expenses and employee injuries (workers’ compensation). The Hospital has purchased commercial insurance for malpractice, general liability, property, directors and officers, employee dishonesty, employee medical and workers’ compensation claims.

The Hospital self-insures for employee medical coverage up to \$90,000 per individual with an aggregate stop loss of \$1,000,000. 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.

# Memorial Hospital of Union County and Affiliates

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## Notes To Combined Financial Statements December 31, 2003 and 2002

### Note 12 - Risk Management (Cont.)

The Hospital is insured against medical malpractice claims under a claims-made-based policy. The policy covers claims resulting from incidents that occurred during the policy terms, regardless of when the claims are reported to the insurance carrier. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claim 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.

### Note 13 - Commitments

Prior to December 31, 2003, the Hospital entered into agreements for a redesign of their obstetrics unit, additional offsite storage area, and building of a professional park at a total cost of approximately \$8,000,000. Total costs incurred through December 31, 2003, were approximately \$3,600,000. Remaining costs will be funded via assets limited as to use for capital projects.

### Note 14 - Related Parties

During 1995, Memorial Physicians, Inc. (MPI), was formed in which UCHS had a 100% ownership interest. In 2000, UCHS transferred 50% 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. Their goals include increasing efficiency, sharing information and resources, and managing the care of their patients throughout the integrated system of care. UCHS has guaranteed certain lease obligations of MPI. Additionally, the Hospital leased employees to staff the MPI offices and provides certain other support services on a contractual basis ending July 2003. The Hospital charged 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 2003 and 2002 for these support services were \$56,918 and \$195,586, respectively, and are recorded in other operating revenue.

The Hospital's combined financial statements include \$0 and \$952,586 as assets classified as investment in and advances to MPI at December 31, 2003 and 2002. UCHS wrote down the investment in MPI in 2003 when it was determined to have minimal value. In 2003 and 2002, the Hospital provided physician grants to MPI amounting to \$609,258 and \$358,751, respectively. These grants largely provide recruitment support for physicians. The physician group is not liable to the Hospital for its share of losses incurred by MPI. In 2003 and 2002, UCHS guaranteed a \$262,500 note between MPI and a local financial institution. As of December 31, 2003, the UCHS also guaranteed a \$50,000 line of credit between MPI and a local financial institution.

# Memorial Hospital of Union County and Affiliates

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Notes To Combined Financial Statements  
December 31, 2003 and 2002

## Note 14 - Related Parties

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% 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 2003 and 2002, the Hospital received distributions from Health Partners totaling \$167,000 and \$65,963, respectively, through UCHS.

## **Additional Information**

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To the Board of Trustees  
Memorial Hospital of Union County and Affiliates  
Marysville, Ohio

We have audited the combined financial statements of Memorial Hospital of Union County and Affiliates for the year ended December 31, 2003. Our audit was made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The accompanying combining balance sheet and consolidating statement of revenues, expenses and changes in net assets, are presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and operating results of the individual entities, and are not a required part of the basic financial statements. The information has been subjected to the procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

*Plante & Moran, PLLC*

March 19, 2004

# Memorial Hospital of Union County and Affiliates

## Combining Balance Sheet December 31, 2003

Assets	Memorial Hospital of Union County	The Gables	Union County Health System	Eliminations	Total
Current Assets					
Cash and cash equivalents	\$ 263,582	\$ 132,518	\$ 23,248	\$ -	\$ 419,348
Patient accounts receivable - net	6,441,517	830,190	-	-	7,271,707
Other accounts receivable - net	6,200,564	-	762,010	(6,610,946)	351,628
Inventories	563,760	-	-	-	563,760
Prepaid expenses	329,364	25,697	-	-	355,061
Current portion of assets limited as to use	4,185,618	248,701	-	-	4,434,319
Total current assets	17,984,405	1,237,106	785,258	(6,610,946)	13,395,823
Assets Limited as to Use - by Board of Trustees and Bond Indenture					
Capital improvements	193,389	-	-	-	193,389
Retirement of indebtedness	314,665	-	-	-	314,665
Self-insurance	735,048	-	-	-	735,048
Held by Trustee under bond indenture agreement	7,205,309	459,921	-	-	7,665,230
Principal for permanent endowment	25,000	-	-	-	25,000
Total assets limited as to use by Board of Trustees and Bond Indenture	8,473,411	459,921	-	-	8,933,332
Less assets limited as to use and required for current liabilities	(4,185,618)	(248,701)	-	-	(4,434,319)
Assets Whose use is Limited - less current portion	4,287,793	211,220	-	-	4,499,013
Capital Assets - net	25,282,879	7,948,655	334,014	-	33,565,548
Deferred Bond Issuance Costs	301,901	202,171	-	-	504,072
Other Receivables - net	2,378,230	-	-	-	2,378,230
Other Investments	-	-	542,787	-	542,787
Total assets	<u>\$ 50,235,208</u>	<u>\$ 9,599,152</u>	<u>\$ 1,662,059</u>	<u>\$ (6,610,946)</u>	<u>\$ 54,885,473</u>

# Memorial Hospital of Union County and Affiliates

## Combining Balance Sheet December 31, 2003

	Memorial Hospital of Union County	The Gables	Union County Health System	Eliminations	Total
<b>Liabilities</b>					
Current Liabilities					
Current portion of long-term debt and capital lease obligations	\$ 4,500,802	\$ 236,271	\$ -	\$ -	4,737,073
Accounts payable and accrued expenses	2,323,766	4,399,884	1,131,857	(5,421,916)	2,433,591
Salaries, wages and related accruals	2,131,728	351,700	-	-	2,483,428
Medicare and Medicaid third-party settlements - net	973,000	15,294	-	-	988,294
Total current liabilities	9,929,296	5,003,149	1,131,857	(5,421,916)	10,642,386
Guarantees to Physicians	995,835	-	-	-	995,835
Accrued Compensated Absences	553,576	52,153	-	-	605,729
Long-Term Debt and Capital Lease Obligations	13,009,614	6,294,576	1,189,030	(1,189,030)	19,304,190
Total liabilities	24,488,321	11,349,878	2,320,887	(6,610,946)	31,548,140
Net Assets					
Invested in capital assets - net of related debt	7,772,463	1,417,808	334,014	-	9,524,285
Restricted					
Expendable for capital improvements, debt service and other purposes	8,448,411	459,921	-	-	8,908,332
Non-expendable for permanent endowments	25,000	-	-	-	25,000
Unrestricted	9,501,013	(3,628,455)	(992,842)	-	4,879,716
Total net assets (deficit)	25,746,887	(1,750,726)	(658,828)	-	23,337,333
Total liabilities and net assets	\$ 50,235,208	\$ 9,599,152	\$ 1,662,059	\$ (6,610,946)	\$ 54,885,473

# Memorial Hospital of Union County and Affiliates

## Combining Statement of Revenues, Expenses and Change in Net Assets Year Ended December 31, 2003

	Memorial Hospital of Union County	The Gables	Union County Health System	Total
<b>Operating Revenue</b>				
Net patient service revenue	\$ 50,471,099	\$ 6,741,265	\$ -	\$ 57,212,364
Other operating revenue	2,113,712	-	2,228	2,115,940
Total operating revenue	52,584,811	6,741,265	2,228	59,328,304
<b>Operating Expenses</b>				
Wages, salaries and benefits	27,198,628	4,613,340	-	31,811,968
Supplies and other	10,311,142	918,762	2,919	11,232,823
Professional fees	886,548	83,022	-	969,570
Purchased services	6,385,105	201,893	-	6,586,998
Provision for bad debts	3,246,613	28,138	-	3,274,751
Insurance	466,541	77,422	-	543,963
Depreciation	2,622,197	314,347	7,340	2,943,884
Interest	465,610	341,246	13,036	819,892
Total operating expenses	51,582,384	6,578,170	23,295	58,183,849
Income (loss) from operations	1,002,427	163,095	(21,067)	1,144,455
<b>Non-Operating Gains (Losses)</b>				
Gifts and bequests	466,893	9,344	-	476,237
Investment income	131,824	9,753	-	141,577
Physician grant expense to Memorial Physicians, Inc.	(609,258)	-	-	(609,258)
Equity in loss and write off of Memorial Physicians, Inc.	-	-	(936,090)	(936,090)
Equity in income of other investments	-	-	69,831	69,831
Total non-operating gains (losses)	(10,541)	19,097	(866,259)	(857,703)
<b>Increase (Decrease) in Net Assets</b>	991,886	182,192	(887,326)	286,752
<b>Net Assets (Deficit)- Beginning of year</b>	24,755,001	(1,932,918)	228,498	23,050,581
<b>Net Assets (Deficit) - End of year</b>	<b>\$ 25,746,887</b>	<b>\$ (1,750,726)</b>	<b>\$ (658,828)</b>	<b>\$ 23,337,333</b>



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Report Letter on Compliance with Laws and Regulations and Internal Control – General Purpose  
Financial Statements

To the Board of Trustees  
Memorial Hospital of Union County and Affiliates  
Marysville, Ohio

We have audited the financial statements of Memorial Hospital of Union County and Affiliates as of and for the year ended December 31, 2003, and have issued our report thereon dated March 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered 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 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.

However, a report was issued to management and the Board of Trustees under separate cover regarding internal control issues and operating efficiencies which we did not consider to be material weaknesses.

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

March 19, 2004







**Auditor of State  
Betty Montgomery**

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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  
DECEMBER 21, 2004**