

**MEMORIAL HOSPITAL OF UNION COUNTY
AND AFFILIATES**

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008



Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Memorial Hospital of Union County and Affiliates, Union County, prepared by Blue & Co., LLC, for the audit period January 1, 2009 through December 31, 2009. 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 "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 3, 2010

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**MEMORIAL HOSPITAL OF UNION COUNTY
AND AFFILIATES**

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying combined balance sheets of Memorial Hospital of Union County and Affiliates (the "Hospital"), as of December 31, 2009 and 2008 and the related combined statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

As discussed in Note 1, the financial statements of Memorial Hospital of Union County and Affiliates are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Union County that is attributable to the transactions of Memorial Hospital of Union County and Affiliates. They do not purport to, and do not, present fairly the financial position of Union County as of December 31, 2009 and 2008, the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees
MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

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, 2009 and 2008, and the combined results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 25, 2010 on our consideration of Memorial Hospital of Union County and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be read in conjunction with this report when assessing the results of our audits.

Management's discussion and analysis on pages i through x is not a required part of the basic combined financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Blue & Co., LLC

March 25, 2010

Memorial Hospital of Union County and Affiliates

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The management's discussion and analysis of Memorial Hospital of Union County, The Gables at Green Pastures, Union County Physician Corporation and Union County Hospital Association (collectively, the "Hospital") provides an overview of the combined financial activities for the year ended December 31, 2009. Management is responsible for the completeness and fairness of the combined financial statements and the related footnote disclosures along with the management's discussion and analysis.

Using This Annual Report

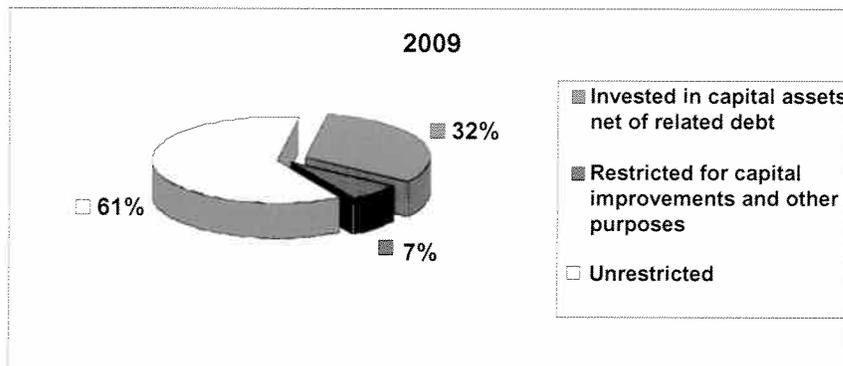
The Hospital's combined financial statements consist of three statements- a balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The combined financial statements and related notes provide information about activities of the Hospital, including resources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

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

Financial Highlights

The combined financial position of the Hospital improved in 2009. In total, the Hospital's net assets increased \$3.7 million in 2009. Operating revenues of \$71.4 million exceeded operating expenses of \$67.7 million, producing income from operations of approximately \$3.7 million. Other income (expenses) increased from prior year. Cash and cash equivalents, including assets limited as to use, increased by \$4.2 million and capital assets increased by \$4.2 million.

The following chart provides a breakdown of net assets by category for the year ended December 31, 2009.



Memorial Hospital of Union County and Affiliates

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the year ended December 31, 2009, total operating revenue exceeded total operating expenses, other expenses and discontinued operations, creating an increase in net assets of \$3,670,984 compared to a \$3,399,757 increase in the previous year.

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

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

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

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

The Statement of Cash Flows

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

Memorial Hospital of Union County and Affiliates

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The following is a comparative analysis of the major components of the balance sheet of the Hospital as of December 31, 2009, 2008 and 2007:

	December 31		
	2009	2008	2007
Assets			
Current assets	\$ 36,732,241	\$ 33,714,961	\$ 31,515,836
Noncurrent assets	3,026,786	2,436,325	2,990,687
Capital assets	40,188,421	35,942,976	36,003,604
Total assets	<u>\$ 79,947,448</u>	<u>\$ 72,094,262</u>	<u>\$ 70,510,127</u>
Liabilities			
Current liabilities	\$ 7,467,939	\$ 6,516,593	\$ 6,967,744
Long-term liabilities	27,914,568	24,683,712	26,048,183
Total liabilities	<u>\$ 35,382,507</u>	<u>\$ 31,200,305</u>	<u>\$ 33,015,927</u>
Net assets			
Invested in capital assets - net of debt	\$ 13,912,661	\$ 12,722,740	\$ 11,569,686
Restricted	2,753,323	3,073,814	4,318,519
Unrestricted	27,898,957	25,097,403	21,605,995
Total net assets	<u>\$ 44,564,941</u>	<u>\$ 40,893,957</u>	<u>\$ 37,494,200</u>

Current assets increased 9%, driven by an increase in cash and prepaid expenses. Non-current assets increased during the year primarily due to physician income guarantees. Total liabilities increased 13% during the year due to the addition of long-term debt during 2009. Net assets invested in capital assets, net of related debt, increased 9% primarily due to new capital additions. Unrestricted net assets increased 11% due to positive operating results.

Memorial Hospital of Union County and Affiliates

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Operating Results and Changes in the Hospital's Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues			
Net patient service revenue	\$ 69,091,683	\$ 66,696,367	\$ 66,166,042
Other operating revenue	2,323,048	1,870,325	1,810,362
Total operating revenues	<u>71,414,731</u>	<u>68,566,692</u>	<u>67,976,404</u>
Operating expenses			
Salaries and wages	29,554,430	28,514,283	26,930,311
Employee benefits and payroll taxes	8,711,903	8,201,837	7,853,246
Supplies and other	12,843,691	12,276,204	11,597,692
Professional services and consultant fees	3,276,434	2,992,517	1,892,817
Purchased services	8,601,581	8,122,890	7,986,260
Insurance	594,776	493,344	483,614
Utilities	1,229,533	1,269,060	1,160,490
Depreciation	2,888,124	2,791,579	2,734,080
Total operating expenses	<u>67,700,472</u>	<u>64,661,714</u>	<u>60,638,510</u>
Operating income before effects of discontinued operations	3,714,259	3,904,978	7,337,894
Discontinued operations	<u>(456,310)</u>	<u>(531,997)</u>	<u>(397,798)</u>
Operating income	3,257,949	3,372,981	6,940,096
Other income (expense)			
Interest income	158,249	523,986	849,320
Noncapital grants and contributions	1,064,803	370,484	557,971
Interest expense	(1,105,419)	(1,153,462)	(1,098,745)
Other	295,402	285,768	387,885
Total other income (expense)	<u>413,035</u>	<u>26,776</u>	<u>696,431</u>
Change in net assets	3,670,984	3,399,757	7,636,527
Net assets, beginning of year	<u>40,893,957</u>	<u>37,494,200</u>	<u>29,857,673</u>
Net assets, end of year	<u>\$ 44,564,941</u>	<u>\$ 40,893,957</u>	<u>\$ 37,494,200</u>

Memorial Hospital of Union County and Affiliates

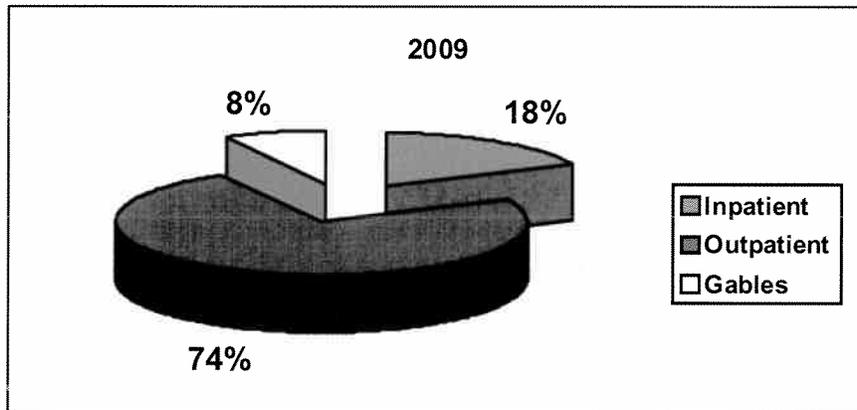
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Operating Revenues

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

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased approximately \$2,395,000. This was attributable to increases in gross inpatient and outpatient services offset by increases in revenue deductions. Revenue deductions are the amounts that are not paid to the Hospital under contractual arrangements with Medicare, Medicaid, and other payors. These revenue deductions increased from 46% to 47% as a percentage of gross revenue.
- The following is a graphic illustrations of patient revenues by source:



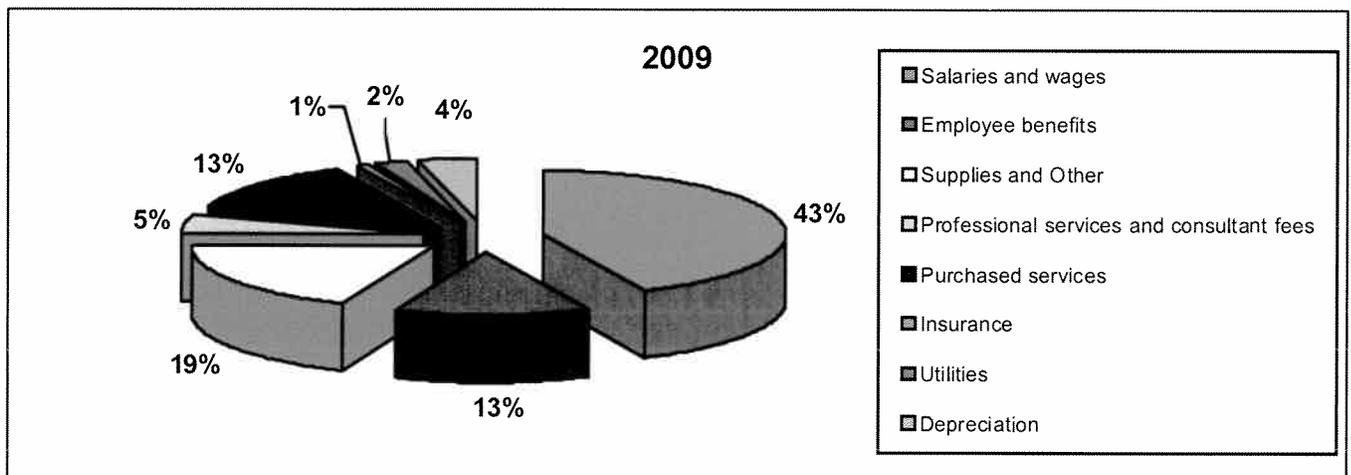
Memorial Hospital of Union County and Affiliates

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Operating Expenses

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

- Salary costs increased 3.6% due to additional physicians added during 2009.
- Supplies and other expenses increased 4.6% due to the increase in patient service activities and recruitment expenses.
- The following is a graphic illustration of operating expenses by type:



Discontinued Operations

During August 2009, the Hospital discontinued behavioral health services provided to the community. The net losses for 2009, 2008 and 2007 were \$456,310, \$531,997 and \$397,758, respectively.

Other Income (Expense)

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

Significant changes were the result of the following factors:

- Interest income decreased \$365,737 due primarily to reduced interest rates available relative to the types of allowable investments available to the Hospital.
- Grants and contributions and other income increased \$694,319 due to higher contributions in 2009 and donation of land valued at \$500,000.

Memorial Hospital of Union County and Affiliates

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Statement of Cash Flows

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

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

	Year Ended December 31		
	2009	2008	2007
Cash provided by (used in):			
Operating activities	\$ 8,000,425	\$ 5,476,737	\$ 8,752,224
Capital and related financing activities	(4,113,554)	(4,660,582)	(2,398,683)
Investing activities	52,622	431,519	849,320
Noncapital financing activities	295,402	285,768	296,713
Total	4,234,895	1,533,442	7,499,574
Cash - beginning of year	23,161,495	21,628,053	14,128,479
Cash - end of year	<u>\$ 27,396,390</u>	<u>\$ 23,161,495</u>	<u>\$ 21,628,053</u>

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

Net cash flows provided by operating activities increased from the prior year due mainly to an increase in cash received from patients and third-party payors.

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

Memorial Hospital of Union County and Affiliates

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Capital Asset and Debt Administration

Capital Assets

At December 31, 2009, the Hospital had \$80.2 million invested in capital assets. Accumulated depreciation totaled \$40.0 million. Net capital assets totaled \$40.2 million. Depreciation totaled \$2.9 million during the year compared to \$2.8 million in 2008. A summary is shown below.

	December 31		
	2009	2008	2007
<u>Capital assets not being depreciated</u>			
Land	\$ 6,446,194	\$ 1,946,194	\$ 1,946,194
Construction in progress	1,099,284	882,814	112,522
Subtotal	7,545,478	2,829,008	2,058,716
 <u>Capital assets being depreciated - net of accumulated depreciation</u>			
Land improvements	2,555,059	1,486,368	1,545,212
Buildings and improvements	24,614,918	25,589,599	26,644,073
Major moveable equipment	5,084,217	5,575,992	5,232,851
Property under capital leases	388,749	462,009	522,752
Subtotal	32,642,943	33,113,968	33,944,888
Total	\$ 40,188,421	\$ 35,942,976	\$ 36,003,604

Debt

At year end, the Hospital had \$26.3 million in long-term debt and capital lease obligations outstanding compared to \$23.2 million the previous year. The table below summarizes these amounts by year.

	2009	2008	2007
Total leases and bonds	\$ 26,275,760	\$ 23,220,236	\$ 24,433,918

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

Memorial Hospital of Union County and Affiliates

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Economic Factors that Will Affect the Future

The fragility of the state's economy continues to pose a threat to most hospitals. Locally, our hospital has not been spared from the economic downturn. For most of 2009 and thus far in 2010, our Hospital has noticed a decline in both inpatient and outpatient volumes and a growing shift toward a larger underinsured and uninsured population. On a positive note, it appears at this time that the volumes have stabilized, however they are still substantially below 2008 levels.

These declines have caused all hospitals to focus on finding viable solutions to endure the current economic storm. While the solutions are often difficult to communicate and implement, administration strongly believes they are necessary to our primary goals of providing quality patient care, securing jobs, health insurance and retirement for our employees. In addition, taking these steps will assist in sustaining our current financial position while strengthening the organization for future growth when the economy recovers.

In July, to complicate the financial outlook even further, the State of Ohio passed its biennial budget including the provision for imposing a franchise fee, or tax, to hospitals and long-term care facilities. The Gables at Green Pastures was excluded from the tax due to its county status. However, Memorial Hospital was not allowed to claim the same exemption. The tax is to be assessed on a percentage of a hospital's operating expenses at 1.52% in the first year and 1.61% in the second. The assessment percentage increased from the original proposal of 1.27% and 1.37%, respectively. The fee will generate \$718 million from hospitals and be used to draw down an additional \$2 billion in federal matching dollars to fund Medicaid health services, all to reduce the pressure off the State's General Revenue Fund. The concern, however, is that the State will only return \$573 million to hospitals by increasing Medicaid reimbursement by 5% and eliminating the fee associated with the Upper Payment Limit program (UPL). This means Ohio hospitals will have to make up the \$136 million difference.

The gross expected impact to Memorial Hospital is estimated to be \$1.5 million over the two-year budget. After factoring in changes to Medicaid reimbursement and the UPL, the net impact will cost Memorial Hospital roughly \$1.0 million. We share the same concerns as many organizations in that the proposed fee will further complicate the future of healthcare as reductions in staff and elimination of low margin or community-based service lines are almost assured. The negative impact it will have on patient care will be profound. In late 2009, the Ohio Hospital Association (OHA) conducted a survey and found the following:

- 50% have incurred reductions in staff
- 67% have not filled open positions (vacancies)
- 33% have eliminated service lines
- 10% have cancelled or delayed expansion or renovation projects

Memorial Hospital of Union County and Affiliates

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

At this time, (OHA) is working with the State to seek an adjustment to the second year tax by allowing hospitals to decrease its operating expenses by the amount of uncompensated care it provides. The current model unfairly taxes hospitals on the amount it provides to the under and uninsured population. This change, if accepted, could reduce the net effect to Memorial Hospital by approximately \$250,000.

Contacting the Hospital's Management

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

Jeff Ehlers
Chief Financial Officer

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED BALANCE SHEETS DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 24,643,067	\$ 20,087,681
Patient accounts receivable, net of allowances for uncollectible accounts: \$3,429,334 in 2009 and \$3,200,497 in 2008	7,598,443	8,451,716
Assets limited as to use	2,753,323	3,073,814
Prepaid expenses and other current assets	651,437	554,208
Inventories	753,244	670,877
Current portion of physician advances receivable	246,350	821,359
Other current assets	<u>86,377</u>	<u>55,306</u>
 Total current assets	 36,732,241	 33,714,961
 Capital assets, net	 40,188,421	 35,942,976
 Other assets		
Physician advances receivable, net of current	1,183,564	654,211
Investment in joint ventures	555,791	450,164
Bond issue costs	<u>1,287,431</u>	<u>1,331,950</u>
Total other assets	<u>3,026,786</u>	<u>2,436,325</u>
 Total assets	 <u>\$ 79,947,448</u>	 <u>\$ 72,094,262</u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
Current liabilities		
Current portion of long-term debt	\$ 1,072,255	\$ 944,474
Accounts payable	2,060,666	1,951,429
Estimated third-party settlements	1,297,598	777,075
Salaries, wages, and related accruals	2,791,070	2,375,581
Other current liabilities	<u>246,350</u>	<u>468,034</u>
Total current liabilities	7,467,939	6,516,593
Long-term debt, net of current portion	25,203,505	22,275,762
Other liabilities		
Accrued compensated absences	2,650,038	2,297,117
Other long-term liabilities	<u>61,025</u>	<u>110,833</u>
	<u>2,711,063</u>	<u>2,407,950</u>
Total liabilities	35,382,507	31,200,305
Net assets		
Invested in capital assets - net of related debt	13,912,661	12,722,740
Restricted:		
Nonexpendable permanent endowments	25,000	25,000
Restricted for debt service and capital acquisitions	2,728,323	3,048,814
Unrestricted	<u>27,898,957</u>	<u>25,097,403</u>
Total net assets	<u>44,564,941</u>	<u>40,893,957</u>
Total liabilities and net assets	<u>\$ 79,947,448</u>	<u>\$ 72,094,262</u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Operating revenues		
Net patient service revenue	\$ 69,091,683	\$ 66,696,367
Other operating revenue	2,323,048	1,870,325
Total operating revenues	71,414,731	68,566,692
Operating expenses		
Salaries and wages	29,554,430	28,514,283
Employee benefits and payroll taxes	8,711,903	8,201,837
Supplies and other	12,843,691	12,276,204
Professional services and consultant fees	3,276,434	2,992,517
Purchased services	8,601,581	8,122,890
Insurance	594,776	493,344
Utilities	1,229,533	1,269,060
Depreciation	2,888,124	2,791,579
Total operating expenses	67,700,472	64,661,714
Operating income before effects of discontinued operations	3,714,259	3,904,978
Discontinued operations	(456,310)	(531,997)
Operating income	3,257,949	3,372,981
Other income (expense)		
Interest income	158,249	523,986
Grants and contributions	1,064,803	370,484
Interest expense	(1,105,419)	(1,153,462)
Other	295,402	285,768
Total other income (expenses)	413,035	26,776
Change in net assets	3,670,984	3,399,757
Net assets - beginning of year	40,893,957	37,494,200
Net assets - end of year	\$ 44,564,941	\$ 40,893,957

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Operating activities		
Cash received from patients and third-party payors	\$ 70,924,114	\$ 67,376,816
Cash payments to suppliers for services and goods	(26,979,722)	(26,352,424)
Cash payments to employees for services	(38,267,015)	(37,417,980)
Other operating revenue	2,323,048	1,870,325
Net cash flows from operating activities	8,000,425	5,476,737
Investing activities		
Investment in joint ventures	(105,627)	(92,467)
Proceeds from investments	158,249	523,986
Net cash flows from investing activities	52,622	431,519
Cash flows from noncapital financing activities		
Other nonoperating activities	295,402	285,768
Net cash from noncapital financing activities	295,402	285,768
Capital and related financing activities		
Acquisition and construction of capital assets	(7,172,981)	(2,740,549)
Proceeds from disposal of capital assets	-	608
Grants and contributions	1,064,803	370,484
Issuance of long-term debt	4,000,000	-
Interest paid on long-term debt	(1,060,900)	(1,077,443)
Principal payments on long-term debt	(944,476)	(1,213,682)
Net cash flows from capital and related financing activities	(4,113,554)	(4,660,582)
Change in cash and cash equivalents	4,234,895	1,533,442
Cash and cash equivalents - beginning of year	23,161,495	21,628,053
Cash and cash equivalents- end of year	\$ 27,396,390	\$ 23,161,495
Balance sheet classification of cash		
Cash and cash equivalents	\$ 24,643,067	\$ 20,087,681
Cash included in assets limited as to use	2,753,323	3,073,814
	\$ 27,396,390	\$ 23,161,495

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS (continued) YEARS ENDED DECEMBER 31, 2009 AND 2008

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

	<u>2009</u>	<u>2008</u>
Operating income	\$ 3,257,949	\$ 3,372,981
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation, includes depreciation from discontinued operations of \$9,183 and \$8,899 in 2009 and 2008, respectively	2,897,307	2,800,478
Provision for bad debt, includes bad debts from discontinued operations of \$30,469 and \$49,146 in 2009 and 2008, respectively	5,313,069	4,519,450
Loss on disposal of capital assets	30,229	91
Changes in assets and liabilities		
Patient accounts receivable	(4,459,796)	(4,742,884)
Other assets	(165,011)	128,561
Accounts payable	109,237	(440,880)
Other accrued expenses	<u>1,017,441</u>	<u>(161,060)</u>
Net cash flows from operating activities	<u>\$ 8,000,425</u>	<u>\$ 5,476,737</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 1,060,900	\$ 1,077,443

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Principles of Combination

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

The financial statements of Memorial Hospital of Union County and its Affiliates are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Union County that is attributable to the transactions of Memorial Hospital of Union County and Affiliates. They do not purport to, and do not, present fairly the financial position of Union County as of December 31, 2009 and 2008, the changes in its financial position or, where applicable, its cash flows for the years then ended.

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

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

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

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

The combined financial statements for the years ended December 31, 2009 and 2008 included herein consists of the financial positions, results of operations, changes in net assets, and cash flows of Memorial Hospital of Union County, UCHA, UCPC, and The Gables (collectively, the "Hospital"). All intercompany accounts and transactions between all entities have been eliminated.

Basis of Presentation

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

Enterprise Fund Accounting

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

Cash and Cash Equivalents

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

Inventories

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Investments in Joint Venture

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

Patient Accounts Receivable

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

Debt Issuance Costs

Costs incurred in obtaining long-term debt financing are being amortized over the term of the obligations. Amortization expense totaled \$44,519 and \$76,019 in 2009 and 2008, respectively.

Assets Limited as to Use

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

Capital Assets

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Physician Advances Receivable

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

Compensated Absences

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

Restricted Resources

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

Classification of Net Assets

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Use of Estimates

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

Operating Revenue and Expenses

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

Net Patient Service Revenue

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

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

Contributions

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Charity Care

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

Pension Plans

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

Federal Income Tax

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

Risk Management

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

Reclassification

Certain amounts in the 2008 combined financial statements have been reclassified to conform to the current year presentation. There were no changes in the change in net assets as a result of these classifications.

Discontinued Operations

Included in discontinued operations are the related revenues and expenses associated with the Hospital's behavioral health services which was discontinued in August 2009. The associated revenue and expenses for 2008 and 2009 have been shown separately on the combined statements of revenues, expenses and changes in net assets. Net revenues from operations were \$458,635 and \$713,910 during 2009 and 2008, respectively.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the combined balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued, which is March 25, 2010.

2. CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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

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

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

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Custodial Credit Risk of Bank Deposits- Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. At year end, the Hospital had \$24,430,381 of bank deposits (certificates of deposits, checking and savings accounts) that were uninsured but are collateralized with securities held by the pledging financial institution. The Hospital believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance it is impractical to insure all deposits. As a result, the Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used.

The Hospital had the following investments and maturities:

	Carrying Amount	Maturities	
December 31, 2009		< than 1 year	1 - 5 years
Certificates of deposit	\$ 5,083,909	\$ 4,817,687	266,222

3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2009	2008
Patient accounts receivable	\$ 18,535,642	\$ 18,804,592
Allowance for uncollectible accounts	(3,429,334)	(3,200,497)
Allowance for contractual adjustments	(7,507,865)	(7,152,379)
Patient accounts receivable, net	<u>\$ 7,598,443</u>	<u>\$ 8,451,716</u>

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

	2009		2008	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	24%	22%	20%	24%
Medicaid	11%	6%	8%	5%
Commerical insurance and other	36%	64%	45%	63%
Self-pay	29%	8%	27%	7%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

4. PATIENT SERVICE REVENUE

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

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

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

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying combined financial statements. Medicare cost reports have been settled through 2006 and Medicaid cost reports have been settled through 2003.

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

5. CAPITAL ASSETS

Capital assets for the years ended December 31, 2009 and 2008 were as follows:

	2008	Reclassifica- tions	Additions	Disposals and Adjustments	2009
Capital assets not being depreciated:					
Land and land improvements	\$ 1,946,194	\$ -	\$ 4,500,000	\$ -	\$ 6,446,194
Construction in progress	882,814	(1,056,394)	1,033,391	239,473	1,099,284
Subtotal	<u>2,829,008</u>	<u>(1,056,394)</u>	<u>5,533,391</u>	<u>239,473</u>	<u>7,545,478</u>
Capital assets being depreciated:					
Land improvements	1,956,807	839,101	359,633	(5,015)	3,150,526
Building	42,312,501	208,909	228,268	9,703	42,759,381
Major movable equipment	21,931,137	8,384	1,051,689	(403,807)	22,587,403
Property under capital leases	4,196,613	-	-	(16,911)	4,179,702
Subtotal	<u>70,397,058</u>	<u>1,056,394</u>	<u>1,639,590</u>	<u>(416,030)</u>	<u>72,677,012</u>
Accumulated depreciation					
Land improvements	470,439	(41)	125,069	-	595,467
Building	16,722,902	41	1,449,765	(28,245)	18,144,463
Major moveable equipment	16,355,145	-	1,266,124	(118,083)	17,503,186
Property under capital leases	3,734,604	-	56,349	-	3,790,953
Subtotal	<u>37,283,090</u>	<u>-</u>	<u>2,897,307</u>	<u>(146,328)</u>	<u>40,034,069</u>
Capital assets, net	<u>\$ 35,942,976</u>	<u>\$ -</u>	<u>\$ 4,275,674</u>	<u>\$ (30,229)</u>	<u>\$ 40,188,421</u>

	2007	Reclassifica- tions	Additions	Disposals and Adjustments	2008
Capital assets not being depreciated:					
Land and land improvements	\$ 1,946,194	\$ -	\$ -	\$ -	\$ 1,946,194
Construction in progress	112,522	(818,778)	1,589,070	-	882,814
Subtotal	<u>2,058,716</u>	<u>(818,778)</u>	<u>1,589,070</u>	<u>-</u>	<u>2,829,008</u>
Capital assets being depreciated:					
Land improvements	2,317,886	-	10,040	(371,119)	1,956,807
Building	42,324,468	325,914	57,635	(395,516)	42,312,501
Major movable equipment	20,480,978	492,864	1,083,804	(126,509)	21,931,137
Property under capital leases	4,215,436	-	-	(18,823)	4,196,613
Subtotal	<u>69,338,768</u>	<u>818,778</u>	<u>1,151,479</u>	<u>(911,967)</u>	<u>70,397,058</u>
Accumulated depreciation					
Land improvements	772,674	-	68,884	(371,119)	470,439
Building	15,680,395	-	1,437,420	(394,913)	16,722,902
Major moveable equipment	15,248,127	-	1,233,431	(126,413)	16,355,145
Property under capital leases	3,692,684	-	60,743	(18,823)	3,734,604
Subtotal	<u>35,393,880</u>	<u>-</u>	<u>2,800,478</u>	<u>(911,268)</u>	<u>37,283,090</u>
Capital assets, net	<u>\$ 36,003,604</u>	<u>\$ -</u>	<u>\$ (59,929)</u>	<u>\$ (699)</u>	<u>\$ 35,942,976</u>

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

6. ASSETS LIMITED AS TO USE

Assets limited as to use are reported as current assets. The composition of assets limited as to use at December 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
By board of trustees for capital improvements	\$ 840,733	\$ 1,027,885
By board of trustees retirement of indebtedness	92,092	3,725
By board of trustees and self-insurance	1,557,826	1,721,512
Held by trustee under bond indenture agreement	<u>237,672</u>	<u>295,692</u>
Total board-designated and trustee held	2,728,323	3,048,814
Principal for permanent endowments	<u>25,000</u>	<u>25,000</u>
Total board-designated and trustee held	<u>\$ 2,753,323</u>	<u>\$ 3,073,814</u>

7. SALARIES, WAGES AND RELATED ACCRUALS

The details of accrued liabilities at December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Payroll and related items	\$ 2,183,360	\$ 1,777,071
Self-insured benefits	197,000	189,000
Health insurance claims	<u>410,710</u>	<u>409,510</u>
Total salaries, wages and related accruals	<u>\$ 2,791,070</u>	<u>\$ 2,375,581</u>

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

8. LONG-TERM DEBT

Long-term debt activity for the year December 31, 2009 was as follows:

	<u>2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>2009</u>	<u>Amounts Due Within One Year</u>
Union County General Obligation Bonds, dated July 1, 2005:					
Serial bonds, 3.5% to 5.00% payable through 2016, in annual installments ranging from \$75,000 to \$680,000	\$ 4,555,000	\$ -	\$ (215,000)	\$ 4,340,000	\$ 635,000
Term bonds, 4.10% due December 1, 2018, mandatory annual sinking fund redemption beginning December 1, 2017, ranging from \$515,000 to \$530,000	1,045,000	-	-	1,045,000	-
Serial bonds, 4.00% to 4.125% payable through 2024, in annual installments ranging from \$555,000 to \$675,000	3,695,000	-	-	3,695,000	-
Union County General Obligation Bonds, dated April 1, 2003:					
Serial bonds, 1.50% to 5.00% payable through 2033, in annual installements ranging from \$25,000 to \$635,000	830,000	-	(25,000)	805,000	25,000
Hospital Facilities Revenue Bonds (Build America Bonds) dated December 1, 2009:					
Term bonds, 4.72% due payable through 2015, in annual principal installments ranging from \$112,000 to \$149,000, and a lump sum due in January 1, 2015 of \$3,334,719	-	4,000,000	-	4,000,000	122,697
Union County General Obligation Bonds, dated July 15, 1999:					
Serial bonds, 3.5% to 5.10% payable through 2009, in annual installments ranging from \$55,000 to \$355,000	415,000	-	(415,000)	-	-

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

	2008	Additions	Reductions	2009	Amounts Due Within One Year
Note payable, bearing interest at 6.63%, due in monthly installments of \$20,362 through January 1, 2012	2,860,297	-	(53,700)	2,806,597	57,422
Note payable, bearing interest at 5.3%, due in monthly installments of \$6,242 through July 10, 2020	596,556	-	(38,715)	557,841	40,814
Union County General Obligation Bonds, Series 2007:					
Series bonds, 4.00% to 5.00% payable through 2033, in annual installments ranging from \$334,000 to \$1,010,000	9,190,000	-	(175,000)	9,015,000	180,000
Installment obligations	33,383	-	(22,061)	11,322	11,322
Total long-term debt	<u>\$ 23,220,236</u>	<u>\$ 4,000,000</u>	<u>\$ (944,476)</u>	<u>\$ 26,275,760</u>	<u>\$ 1,072,255</u>

Long-term debt activity for the year ended December 31, 2008 follows:

	2007	Additions	Reductions	2008	Amounts Due Within One Year
Union County General Obligation Bonds, dated July 1, 2005:					
Serial bonds, 3.5% to 5.00% payable through 2016, in annual installments ranging from \$75,000 to \$680,000	\$ 4,755,000	\$ -	\$ (200,000)	\$ 4,555,000	\$ 215,000
Term bonds, 4.10% due December 1, 2018, mandatory annual sinking fund redemption beginning December 1, 2017, ranging from \$515,000 to \$530,000	1,045,000	-	-	1,045,000	-
Serial bonds, 4.00% to 4.125% payable through 2024, in annual installments ranging from \$555,000 to \$675,000	3,695,000	-	-	3,695,000	-
Union County General Obligation Bonds, dated April 1, 2003:					
Serial bonds, 1.50% to 5.00% payable through 2033, in annual installments ranging from \$25,000 to \$635,000	855,000	-	(25,000)	830,000	25,000
Union County General Obligation Bonds, dated July 15, 1999:					
Serial bonds, 3.5% to 5.10% payable through 2009, in annual installments ranging from \$55,000 to \$355,000	810,000	-	(395,000)	415,000	415,000

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

	2007	Additions	Reductions	2008	Amounts Due Within One Year
Note payable, bearing interest at 6.63%, due in monthly installments of \$20,362 through January 1, 2012	2,911,055	-	(50,758)	2,860,297	53,700
Note payable, bearing interest at 5.3%, due in monthly installments of \$6,242 through July 10, 2020	633,184	-	(36,628)	596,556	38,714
Union County General Obligation Bonds, Series 2007: Series bonds, 4.00% to 5.00% payable through 2033, in annual installments ranging from \$334,000 to \$1,010,000	9,675,000	-	(485,000)	9,190,000	175,000
Installment obligations	54,679	-	(21,296)	33,383	22,060
Total long-term debt	<u>\$ 24,433,918</u>	<u>\$ -</u>	<u>\$ (1,213,682)</u>	<u>\$ 23,220,236</u>	<u>\$ 944,474</u>

The bonds and notes payable are summarized as follows:

2009 Hospital Facilities Revenue Bonds (Build America Bonds) - dated December 1, 2009, were issued in the amount of \$4,000,000 to finance the acquisition of property by the Hospital. The bonds have annual principal payments ranging from \$112,000 to \$149,000 and a fixed interest rate of 4.72%. The bonds have a lump sum due on January 1, 2015 of \$3,334,719.

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

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

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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

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

Under the terms of the bond agreements, the Hospital has pledged a security interest in property, equipment and present and future gross receipts, as defined.

The Hospital leases medical and office equipment, furniture and fixtures used in its operations under capital leases which generally require the Hospital to pay insurance and maintenance costs. These capital leases are due in monthly installments including interest at rates ranging from 2.96 percent to 3.51 percent annually. These leases expire at various dates through 2010, and are collateralized by the equipment leased.

The Hospital has a \$2,950,000 commercial installment note, proceeds from which were used to purchase medical buildings in December 2006. The loan bears interest at 6.63% with monthly payments of \$20,362. The balance on the loan was \$2,806,597 and \$2,860,297 at December 31, 2009 and 2008, respectively.

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

Years Ending December 31	Long-term Debt		Capital Lease Obligation	
	Principal	Interest	Principal	Interest
2010	\$ 1,050,444	\$ 1,070,237	\$ 11,322	\$ 116
2011	1,008,097	1,058,883	-	-
2012	3,667,998	885,183	-	-
2013	1,014,201	885,453	-	-
2014	1,058,617	830,086	-	-
2015-2019	7,881,051	2,681,330	-	-
2020-2024	4,749,030	1,689,409	-	-
2025-2029	3,460,000	904,748	-	-
2030-2033	2,375,000	256,480	-	-
Total	\$ 26,264,438	\$ 10,261,809	\$ 11,322	\$ 116

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

The Hospital has various operating lease agreements for equipment and rental space.

2010	\$	1,776,334
2011		1,613,183
2012		737,066
2013		290,021
2014		293,188
Thereafter		<u>2,119,747</u>
Total	\$	<u><u>6,829,539</u></u>

Rent expense for all operating leases approximated \$2,363,000 in 2009 and \$2,003,000 in 2008.

9. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	<u>2009</u>	<u>2008</u>
Patient Revenue:		
Inpatient services:		
Routine services	\$ 14,103,465	\$ 15,313,885
Ancillary services	9,909,307	10,189,320
Outpatient services	102,013,294	93,024,073
Resident revenue	10,314,641	10,017,991
Total patient revenue	<u>136,340,707</u>	<u>128,545,269</u>
Revenue deductions:		
Provision for contractual allowances	59,401,192	55,035,980
Provision for bad debt allowances	5,282,600	4,470,304
Charity care, net of Hospital Care Assurance	<u>2,565,232</u>	<u>2,342,618</u>
Total revenue deductions	<u>67,249,024</u>	<u>61,848,902</u>
Total net patient service revenue	<u><u>\$ 69,091,683</u></u>	<u><u>\$ 66,696,367</u></u>

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

10. PENSION PLANS

The Hospital contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – 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 maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

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

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2009, state and local employers contributed at a rate of 14.00% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 7.00% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected

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

<u>Year</u>	<u>Contribution</u>
2009	\$ 4,069,000
2008	\$ 3,987,000
2007	\$ 3,788,000

Hospital contributions made to fund post-employment healthcare benefits approximated \$1,702,000, \$1,994,000 and \$1,504,000 for 2009, 2008 and 2007, respectively, which are included in the table above.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

11. MEDICAL MALPRACTICE CLAIMS

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

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

12. DEFERRED COMPENSATION

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

13. SELF-INSURED BENEFITS

The Hospital is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$100,000, plus the split funded liability of \$50,000 per employee or total claims in excess of \$3,968,000. Claims in excess of employee premiums are charged to operations. Claims were approximately \$3,873,000 and \$3,787,000 for the years ended December 31, 2009 and 2008, respectively. In addition, the Hospital self-insures for worker's compensation. The Hospital has a \$500,000 per claim stop-loss policy with a private insurance carrier for worker's compensation.

14. INVESTMENT IN JOINT VENTURES

During 1996, the Hospital and two other area health care entities formed Health Partners, Ltd. (Health Partners), for which the Hospital has a 33 1/3 percent ownership interest. This corporation was formed to provide management services to the clinic of a major area corporation. In 1996, the Hospital contributed \$100,000 to Health Partners through UCHA. During 2009 and 2008, the Hospital received distributions from Health Partners totaling \$89,393 and \$58,820, respectively, through UCHA.

During 2003, the Hospital and other health providers formed Marysville Ohio Surgery Center, LLC, of which the hospital has a 27.4 percent ownership interest. The organization was formed to promote health care and provide outpatient surgical service in the area. During 2003, the Hospital contributed \$159,000 through UCHA. During 2009 and 2008, the Hospital received distributions of \$91,261 and \$52,104, respectively.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

During 2003, the Hospital and other area health providers formed Marysville Ohio Medical Properties, LLC, of which the Hospital has a 25.97 percent ownership interest. The organization was formed as the property owner for the Marysville Ohio Surgery Center facility. During 2003, the Hospital contributed \$130,000 through UCHA. During 2009 and 2008, the Hospital received \$9,091 and \$32,468 respectively, through UCHA.

OTHER FINANCIAL INFORMATION



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Report of Independent Auditors on Other Financial Information

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 as of December 31, 2009. Our audit was made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The combining information in the accompanying schedules on pages 30-32 is presented for the purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities and is not a required part of the basic combined financial statements. The combining information has been subjected to the procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material aspects in relations to the combined financial statements taken as a whole.

Blue & Co., LLC

March 25, 2010

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINING BALANCE SHEET
DECEMBER 31, 2009

ASSETS

	Memorial Hospital of Union County	The Gables	Union County Hospital Association	Union County Physician Corp.	Eliminating Entries	Total
Current assets						
Cash and cash equivalents	\$ 23,513,599	\$ 218,833	\$ 881,199	\$ 29,436	\$ -	\$ 24,643,067
Patient accounts receivable	6,605,632	869,306	-	123,505	-	7,598,443
Assets limited as to use	2,427,665	325,658	-	-	-	2,753,323
Prepaid expenses	638,374	13,063	-	-	-	651,437
Inventories	753,244	-	-	-	-	753,244
Current portion of physician advances receivable	246,350	-	-	-	-	246,350
Other current assets	65,064	-	-	72,311	(50,998)	86,377
Total current assets	34,249,928	1,426,860	881,199	225,252	(50,998.00)	36,732,241
Capital assets - net	33,211,996	6,976,425	-	-	-	40,188,421
Other assets						
Notes and advances to affiliates net of current portion	1,159,732	-	557,839	-	(1,717,571)	-
Physician advances receivable	1,183,564	-	-	-	-	1,183,564
Investment in joint ventures	-	-	605,791	-	(50,000)	555,791
Bond issue costs	800,296	487,135	-	-	-	1,287,431
Total assets	\$ 70,605,516	\$ 8,890,420	\$ 2,044,829	\$ 225,252	\$(1,818,569)	\$ 79,947,448

See report of independent auditors on other financial information on page 29.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINING BALANCE SHEET
DECEMBER 31, 2009

LIABILITIES AND NET ASSETS

	Memorial Hospital of Union County	The Gables	Union County Hospital Association	Union County Physician Corp.	Eliminating Entries	Total
Current liabilities						
Current portion of long-term debt	\$ 711,441	\$ 320,000	\$ 40,814	\$ -	\$ -	\$ 1,072,255
Accounts payable	1,935,971	175,693	-	-	(50,998)	2,060,666
Estimated third-party settlements	1,062,004	235,594	-	-	-	1,297,598
Salaries, wages and related accruals	2,442,106	232,093	-	116,871	-	2,791,070
Other current liabilities	246,350	-	-	-	-	246,350
Total current liabilities	<u>6,397,872</u>	<u>963,380</u>	<u>40,814</u>	<u>116,871</u>	<u>(50,998.00)</u>	<u>7,467,939</u>
Long-term debt - net of current portion	19,719,561	4,966,917	517,027	-	-	25,203,505
Other Liabilities						
Notes and advances to affiliates	557,839	1,159,732	-	-	(1,717,571)	-
Accrued compensated absences	2,386,773	263,265	-	-	-	2,650,038
Other long-term liabilities	61,025	-	-	-	-	61,025
Total liabilities	<u>29,123,070</u>	<u>7,353,294</u>	<u>557,841</u>	<u>116,871</u>	<u>(1,768,569)</u>	<u>35,382,507</u>
Net assets						
Invested in capital assets - net of related debt	12,780,994	1,689,508	(557,841)	-	-	13,912,661
Nonexpandable permanent endowments	25,000	-	-	-	-	25,000
Restricted for debt service and capital acquisitions	2,402,665	325,658	-	-	-	2,728,323
Unrestricted	26,273,787	(478,040)	2,044,829	108,381	(50,000)	27,898,957
Total liabilities and net assets	<u>\$ 70,605,516</u>	<u>\$ 8,890,420</u>	<u>\$ 2,044,829</u>	<u>\$ 225,252</u>	<u>\$ (1,818,569)</u>	<u>\$ 79,947,448</u>

See report of independent auditors on other financial information on page 29.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2009

	Memorial Hospital of Union County	The Gables	Union County Hospital Association	Union County Physician Corp.	Eliminating Entries	Total
Operating revenues						
Net patient service revenue	\$ 59,185,996	\$ 9,261,616	\$ -	\$ 644,071	\$ -	\$ 69,091,683
Other operating revenue	2,500,880	-	12,902	593,213	(783,947)	2,323,048
Total operating revenue	<u>61,686,876</u>	<u>9,261,616</u>	<u>12,902</u>	<u>1,237,284</u>	<u>(783,947)</u>	<u>71,414,731</u>
Operating expenses						
Salaries and wages	25,146,442	4,039,711	-	672,598	(304,321)	29,554,430
Employee benefits and payroll taxes	7,094,194	1,483,809	-	133,900	-	8,711,903
Supplies and other	12,488,797	860,916	24,491	116,434	(646,947)	12,843,691
Professional services and consultant fees	3,250,336	163,098	-	-	(137,000)	3,276,434
Purchased services	7,159,776	985,970	-	151,514	304,321	8,601,581
Insurance	408,605	85,158	-	101,013	-	594,776
Utilities	969,195	228,533	28,848	2,957	-	1,229,533
Depreciation	2,535,065	352,572	-	487	-	2,888,124
Total operating expenses	<u>59,052,410</u>	<u>8,199,767</u>	<u>53,339</u>	<u>1,178,903</u>	<u>(783,947)</u>	<u>67,700,472</u>
Operating income (loss) before effects of discontinued operations	2,634,466	1,061,849	(40,437)	58,381	-	3,714,259
Discontinued operations	<u>(456,310)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(456,310)</u>
Operating income (loss)	2,178,156	1,061,849	(40,437)	58,381	-	3,257,949
Other income (expenses)						
Interest income	141,536	1,141	15,572	-	-	158,249
Grants and contributions	1,062,938	1,865	-	-	-	1,064,803
Interest expense	(849,442)	(255,860)	(117)	-	-	(1,105,419)
Other	-	-	295,402	-	-	295,402
Total other income (expense)	<u>355,032</u>	<u>(252,854)</u>	<u>310,857</u>	<u>-</u>	<u>-</u>	<u>413,035</u>
Change in net assets	<u>\$ 2,533,188</u>	<u>\$ 808,995</u>	<u>\$ 270,420</u>	<u>\$ 58,381</u>	<u>\$ -</u>	<u>\$ 3,670,984</u>

See report of independent auditors on other financial information on page 29.



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

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

We have audited the combined financial statements of Memorial Hospital of Union County and Affiliates as of and for the year ended December 31, 2009, and have issued our report thereon dated March 25, 2010. Our report included additional language stating the financial statements of the Hospital and its affiliates are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business type activities of Union County that is attributable to the transactions of Memorial Hospital of Union County and Affiliates. Those financial statements do not purport to, and do not, present fairly the financial position of Union County, Ohio as of December 31, 2009, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management in a separate letter dated March 25, 2010.

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

Blue & Co., LLC

March 25, 2010



Mary Taylor, CPA
Auditor of State

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

UNION COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 13, 2010**