

**MEMORIAL HOSPITAL OF UNION COUNTY
AND AFFILIATES**

COMBINED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012 AND 2011

CPAs / ADVISORS





Dave Yost • 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, 2012 through December 31, 2012. 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 "Dave Yost".

Dave Yost
Auditor of State

May 3, 2013

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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
500 London Ave.
Marysville, Ohio 43040

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying combined financial statements of the business-type activities of Memorial Hospital of Union County and Affiliates (the Hospital) as of and for the years ended December 31, 2012 and 2011, and the related notes to the combined financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audits. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General in the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Hospital's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

Board of Trustees
MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Hospital as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

We draw attention to Note 1, which describes 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 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, 2012 and 2011, the changes in its financial position or its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic combined financial statements. Although this information is not part of the basic combined financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Report on Combining Information

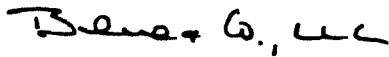
Our audit was conducted to opine on the Hospital's basic combined financial statements taken as a whole. The combining information on pages 35 through 37 present additional analysis and is not a required part of the basic combined financial statements.

Board of Trustees
MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

The combining balance sheets and combining statements of operations and changes in net position are management's responsibility and were derived from and relate directly to the underlying accounting and other records used to prepare the basic combined financial statements. We subjected these combining statements to the auditing procedures we applied to the basic combined financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects to the basic combined financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2013 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 grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance



Columbus, Ohio
March 20, 2013

Memorial Hospital of Union County and Affiliates

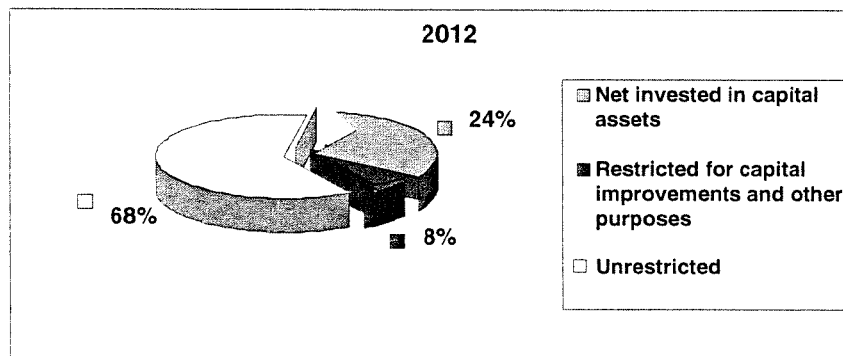
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2012. 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.

Financial Highlights

The combined financial position of the Hospital improved in 2012. In total, the Hospital's net position increased \$9.6 million in 2012. Operating revenues of \$90.6 million exceeded operating expenses of \$80.8 million, producing income from operations of approximately \$9.8 million. Cash and cash equivalents, including assets limited as to use, increased by \$10.7 million.

The following chart provides a breakdown of net position by category at December 31, 2012.



Using This Annual Report

The Hospital's combined financial statements consist of three statements- a balance sheet, a statement of operations and changes in net position, 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 supplementary information.

Memorial Hospital of Union County and Affiliates

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Balance Sheet and the Statement of Operations and Changes in Net Position

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 operations and changes in net position 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 position. When the reverse occurs, the result is a decrease in net position. The relationship between revenues and expenses may be thought of as the Hospital's operating results.

These two statements report the Hospital's net position and the changes in them. You can think of Hospital's net position - 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 position 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, 2012, 2011 and 2010:

	December 31		
	2012	2011	2010
Assets			
Current assets	\$ 55,956,518	\$ 43,582,663	\$ 39,615,486
Noncurrent assets	1,545,238	2,135,830	2,051,335
Capital assets	48,503,681	40,979,639	40,183,152
Total assets	\$ 106,005,437	\$ 86,698,132	\$ 81,849,973
Liabilities			
Current liabilities	\$ 10,748,628	\$ 8,365,279	\$ 6,752,464
Long-term liabilities	33,753,928	26,453,810	27,731,587
Total liabilities	\$ 44,502,556	\$ 34,819,089	\$ 34,484,051
Net position			
Net invested in capital assets	\$ 14,915,192	\$ 15,398,893	\$ 13,967,047
Restricted	4,725,554	2,177,792	2,739,709
Unrestricted	41,862,135	34,302,358	30,659,166
Total net assets	\$ 61,502,881	\$ 51,879,043	\$ 47,365,922

Current assets increased 28%, driven by an increase in cash. Capital assets increased 18% caused mainly by the Heart Pavilion Construction in the current year. Total liabilities increased 28% during the year caused by new debt issuance in 2012. Unrestricted net position increased 22% 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 position

	2012	2011	2010
Operating revenues			
Net patient service revenue	\$ 87,195,877	\$ 78,417,777	\$ 71,729,744
Other operating revenue	3,437,961	2,025,103	2,016,935
Total operating revenues	90,633,838	80,442,880	73,746,679
Operating expenses			
Salaries and wages	34,053,886	31,279,404	30,101,720
Employee benefits and payroll taxes	10,205,785	9,965,133	9,062,846
Supplies and other	13,727,878	13,783,117	13,431,401
Professional services and consultant fees	3,666,218	3,393,722	2,936,959
Purchased services	12,915,069	11,593,461	10,165,740
Insurance	646,987	543,451	555,916
Utilities	1,415,356	1,292,535	1,257,658
Depreciation	4,162,693	3,549,428	3,075,279
Total operating expenses	80,793,872	75,400,251	70,587,519
Operating Income	9,839,966	5,042,629	3,159,160
Other income (expense)			
Interest income	161,617	146,993	113,581
Noncapital grants and contributions	468,427	326,233	359,032
Interest expense	(1,000,080)	(1,211,374)	(1,192,875)
Other	153,908	208,640	362,083
Total other income (expense)	(216,128)	(529,508)	(358,179)
Change in net position	9,623,838	4,513,121	2,800,981
Net position, beginning of year	51,879,043	47,365,922	44,564,941
Net position, end of year	\$ 61,502,881	\$ 51,879,043	\$ 47,365,922

Memorial Hospital of Union County and Affiliates

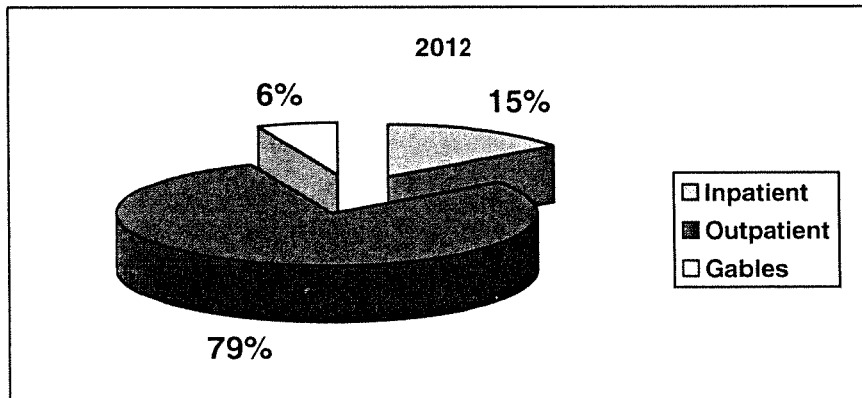
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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 \$8,778,000. This was attributable to increases in gross rates charged for 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 slightly from 50% to 52% of gross revenue.
- The following is a graphic illustration of patient revenues by source:



Memorial Hospital of Union County and Affiliates

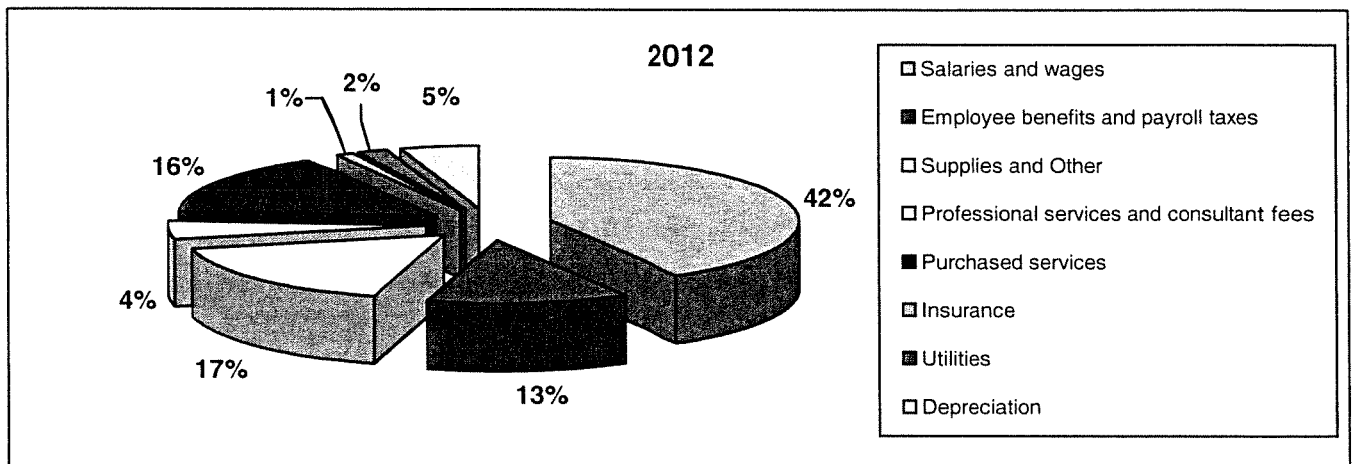
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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 primarily the result of:

- Salaries and wages increased 9% due to pay rate increases and increased full time equivalents.
- Purchased services increased 11% due to marketing and development for the new Heart Pavilion, recruitment for upper management level positions, service agreements on the new CT scanners and increased services provided due to increased volumes.
- Depreciation increased 17% caused by property additions.

The following is a graphic illustration of operating expenses by type:



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 expenses decreased \$211,000.
- Grants and contributions increased \$142,000.

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		
	2012	2011	2010
Cash provided by (used in):			
Operating activities	\$ 14,232,142	\$ 10,270,341	\$ 5,523,414
Capital and related financing activities	(4,125,777)	(6,168,956)	(3,916,766)
Investing activities	409,109	104,537	38,965
Noncapital financing activities	153,908	208,640	362,083
Total	10,669,382	4,414,562	2,007,696
Cash - beginning of year	33,818,648	29,404,086	27,396,390
Cash - end of year	<u>\$ 44,488,030</u>	<u>\$ 33,818,648</u>	<u>\$ 29,404,086</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 operating income.

Net cash used by capital and related financing activities decreased from the prior year due to 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, 2012, the Hospital had \$97.5 million invested in capital assets. Accumulated depreciation totaled \$49.0 million. Net capital assets totaled \$48.5 million. Depreciation totaled \$4.2 million during the year compared to \$3.5 million in 2011. A summary is shown below.

	2012	December 31 2011	2010
<u>Capital assets not being depreciated</u>			
Land	\$ 6,456,994	\$ 6,456,994	\$ 6,456,994
Construction in progress	9,049,411	1,946,614	990,766
Subtotal	15,506,405	8,403,608	7,447,760
 <u>Capital assets being depreciated - net of accumulated depreciation</u>			
Land improvements	1,973,010	2,029,730	2,205,377
Buildings and improvements	21,348,974	22,453,377	23,466,822
Major moveable equipment	8,053,365	6,962,931	6,713,822
Property under capital leases	1,621,927	1,129,993	349,371
Subtotal	32,997,276	32,576,031	32,735,392
Total	\$ 48,503,681	\$ 40,979,639	\$ 40,183,152

Debt

At year end, the Hospital had \$33.6 million in long-term debt and capital lease obligations outstanding compared to \$25.6 million the previous year. The table below summarizes these amounts by year.

	2012	2011	2010
Total leases and bonds	\$ 33,588,489	\$ 25,580,746	\$ 26,216,105

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

In the late fall of 2011, the Hospital broke ground on a 23,000 square foot addition to its campus. The new space will house the current OSU Wexner Medical Center cardiologists and allow our Heart Partnership team to provide services to the people within Union County and the other communities we serve. The addition will provide a multi-use catheterization lab for cardiac and peripheral vascular services and the ability to implant pacemakers and other rhythm devices. The new state-of-the-art facility opened in January 2013 and will provide peace of mind to thousands of patients per year.

Furthermore, with the collaboration of The Ohio State University Wexner Medical Center, the Hospital continues to make progress on the development of new service lines in the area of cardiology. We have witnessed continued growth in this area and believe it will continue to flourish for the next several years.

There are several economic factors on the horizon that will impact the future of healthcare. Recently, Medicare announced a series of spending cuts to begin in 2013. The automatic cuts, known as "sequestration" will mean a straight 2% cut in reimbursement to hospitals. The reductions are harmful and coupled with pending Medicaid cuts become financially material to an organization's ability to survive. However, during the economic struggles endured back in 2009 and 2010, the Hospital implemented strict controls over expense management and our team of directors rose to the challenge. While these solutions were difficult to communicate and implement, we strongly believe they were necessary to maintain our primary goals of providing quality patient care, securing jobs, health insurance and retirement for our team members. By taking these initial steps, we believe they have helped position our organization to sustain our current financial position and strengthened its core for future Federal and State reductions.

Health Care Reform appears to be a mainstay in our future. While the overall financial impact is still being fully determined, there have been policy changes due to the passing of the Patient Protection Affordable Care Act (PPACA) signed by President Obama in 2010. During 2012, the Supreme Court upheld the previous decision that Medicaid Expansion was constitutional.

Memorial Hospital of Union County and Affiliates

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

One of the larger items currently on our radar pertains to health insurance and the introduction of the Medicaid health insurance exchange. While the concept is built for providing coverage to the uninsured, the risk is that the new legal requirements of an employer offering insured coverage to its employees is too costly. This, unfortunately, may force smaller employers to drop their current plans and opt out for the exchange programs.

On the surface, the exchange would provide some coverage and reimbursement to the uninsured population where we currently receive little or no reimbursement. However, the potentially larger risk for us is that those employers pulling out of the insured markets will now outnumber the uninsured patients entering the exchanges in return for a lower reimbursement.

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, 2012 AND 2011

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 39,762,476	\$ 31,640,856
Patient accounts receivable, net of allowances for uncollectible accounts: \$4,813,835 in 2012 and \$4,581,057 in 2011	9,526,851	8,051,210
Assets limited as to use	4,725,554	2,177,792
Prepaid expenses	987,410	663,098
Inventories	646,335	639,693
Current portion of physician advances receivable	219,583	94,930
Other current assets	88,309	315,084
	<hr/>	<hr/>
Total current assets	55,956,518	43,582,663
Capital assets, net	48,503,681	40,979,639
Other assets		
Physician advances receivable, net of current	41,002	296,197
Investment in joint ventures	425,371	672,863
Bond issue costs	1,078,865	1,166,770
Total other assets	1,545,238	2,135,830
	<hr/>	<hr/>
Total assets	<u>\$ 106,005,437</u>	<u>\$ 86,698,132</u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

LIABILITIES AND NET POSITION

	<u>2012</u>	<u>2011</u>
Current liabilities		
Current portion of long-term debt	\$ 2,686,793	\$ 1,776,639
Accounts payable	3,747,109	2,470,085
Estimated third-party settlements	381,510	749,584
Salaries, wages, and related accruals	<u>3,933,216</u>	<u>3,368,971</u>
Total current liabilities	10,748,628	8,365,279
Long-term debt, net of current portion	30,901,696	23,804,107
Other liabilities		
Accrued compensated absences	<u>2,852,232</u>	<u>2,649,703</u>
Total long-term liabilities	<u>33,753,928</u>	<u>26,453,810</u>
Total liabilities	44,502,556	34,819,089
Net position		
Net invested in capital assets	14,915,192	15,398,893
Restricted:		
Nonexpendable permanent endowments	25,000	25,000
Restricted for debt service, capital acquisitions and self-insurance	4,700,554	2,152,792
Unrestricted	<u>41,862,135</u>	<u>34,302,358</u>
Total net position	<u>61,502,881</u>	<u>51,879,043</u>
Total liabilities and net position	<u>\$ 106,005,437</u>	<u>\$ 86,698,132</u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating revenues		
Net patient service revenue	\$ 87,195,877	\$ 78,417,777
Other operating revenue	<u>3,437,961</u>	<u>2,025,103</u>
Total operating revenues	90,633,838	80,442,880
Operating expenses		
Salaries and wages	34,053,886	31,279,404
Employee benefits and payroll taxes	10,205,785	9,965,133
Supplies and other	13,727,878	13,783,117
Professional services and consultant fees	3,666,218	3,393,722
Purchased services	12,915,069	11,593,461
Insurance	646,987	543,451
Utilities	1,415,356	1,292,535
Depreciation	<u>4,162,693</u>	<u>3,549,428</u>
Total operating expenses	<u>80,793,872</u>	<u>75,400,251</u>
Operating income	9,839,966	5,042,629
Other income (expense)		
Interest income	161,617	146,993
Grants and contributions	468,427	326,233
Interest expense	(1,000,080)	(1,211,374)
Other	<u>153,908</u>	<u>208,640</u>
Total other expense	<u>(216,128)</u>	<u>(529,508)</u>
Change in net position	9,623,838	4,513,121
Net position - beginning of year	<u>51,879,043</u>	<u>47,365,922</u>
Net position - end of year	<u><u>\$ 61,502,881</u></u>	<u><u>\$ 51,879,043</u></u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating activities		
Cash received from patients and third-party payors	\$ 85,352,162	\$ 78,468,711
Cash payments to suppliers for services and goods	(31,065,084)	(29,875,347)
Cash payments to employees for salaries, wages and benefits	(43,492,897)	(40,348,126)
Other operating revenue	3,437,961	2,025,103
Net cash flows from operating activities	14,232,142	10,270,341
Investing activities		
Investment in joint ventures	247,492	(42,456)
Proceeds from investments	161,617	146,993
Net cash flows from investing activities	409,109	104,537
Cash flows from noncapital financing activities		
Other nonoperating activities	153,908	208,640
Net cash from noncapital financing activities	153,908	208,640
Capital and related financing activities		
Acquisition and construction of capital assets	(10,888,033)	(4,705,132)
Grants and contributions	468,427	326,233
Issuance of long-term debt	9,094,789	2,473,102
Interest paid on long-term debt	(912,175)	(1,154,698)
Principal payments on long-term debt	(1,888,785)	(3,108,461)
Net cash flows from capital and related financing activities	(4,125,777)	(6,168,956)
Change in cash and cash equivalents	10,669,382	4,414,562
Cash and cash equivalents - beginning of year	33,818,648	29,404,086
Cash and cash equivalents- end of year	\$ 44,488,030	\$ 33,818,648
Balance sheet classification of cash		
Cash and cash equivalents	\$ 39,762,476	\$ 31,640,856
Cash included in assets limited as to use	4,725,554	2,177,792
	\$ 44,488,030	\$ 33,818,648
Supplemental disclosure of non cash activities		
Equipment acquired under capital leases	\$ 801,739	\$ -

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS (continued) YEARS ENDED DECEMBER 31, 2012 AND 2011

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

	<u>2012</u>	<u>2011</u>
Operating income	\$ 9,839,966	\$ 5,042,629
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	4,162,693	3,549,428
Provision for bad debt	6,241,165	5,124,831
Loss on disposal of capital assets	3,037	359,217
Changes in assets and liabilities		
Patient accounts receivable	(7,716,806)	(5,238,373)
Other assets	26,363	462,212
Accounts payable	1,277,024	(90,490)
Other accrued expenses	398,700	1,060,887
	<u>398,700</u>	<u>1,060,887</u>
Net cash flows from operating activities	<u>\$ 14,232,142</u>	<u>\$ 10,270,341</u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 are 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, 2012 and 2011, 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 Union Manor 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, 2012 AND 2011

The combined financial statements for the years ended December 31, 2012 and 2011 included herein consist of the financial positions, results of operations, changes in net position, 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 accounting principles generally accepted in the United States of America 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.

New Pronouncement

During 2012, the Hospital adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which primarily resulted in renaming net assets to net position within the combined balance sheets.

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.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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.

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 \$87,905 and \$56,676 in 2012 and 2011, respectively, and is included in interest expense. Future amortization approximates \$88,000 annually.

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.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 in the financial statements. Costs of maintenance and repairs are charged to expense when incurred.

Physician Advances Receivable

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

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.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Classification of Net Position

Net position of the Hospital is classified in four components. (1) Net invested in capital assets 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 position are 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 position equals the principal portion of permanent endowments. (4) Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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 operations and changes in net position 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.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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.

The Hospital estimates an allowance for doubtful accounts based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital.

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.

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.

Of the Hospital's total reported expenses (approximately \$80,794,000 and \$75,400,000 during 2012 and 2011, respectively), an estimated \$1,734,000 and \$1,897,000 arose from providing services to charity patients during 2012 and 2011, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue. The Hospital participates in the Hospital Care Assurance Program (HCAP) which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled approximately \$437,000 and \$552,000 for 2012 and 2011, respectively.

Pension Plans

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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.

Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under the Medicare program. To qualify for these payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (ending on September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon data that is captured in the Hospital's cost reports. The payment calculation is based upon an initial amount as adjusted for discharges, Medicare utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2012 and 2011, the Hospital recognized approximately \$1,232,054 and \$0, respectively, in EHR incentive payments as grant income using the cliff recognition method. Under the cliff recognition method, the Hospital records income at the end of EHR reporting period in which compliance is achieved. EHR incentive income is included in other operating revenue in the statement of operations and changes in net position. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 20, 2013.

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.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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:

- 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, Section 135.142.
- Under limited circumstances, corporate debt obligations 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.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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

Custodial Credit Risk of Bank Deposits- Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. At year end, the Hospital had \$33,420,201 of bank deposits (certificates of deposits, checking and savings accounts) that were uninsured but were 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	<u>Maturities</u>	
December 31, 2012		<u>< than 1 year</u>	<u>1 - 5 years</u>
Certificates of deposit	<u>\$ 14,279,948</u>	<u>\$ 13,271,420</u>	<u>1,008,528</u>

3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	<u>2012</u>	<u>2011</u>
Patient accounts receivable	\$ 22,756,866	\$ 20,069,587
Allowance for uncollectible accounts	(4,813,835)	(4,581,057)
Allowance for contractual adjustments	(8,416,180)	(7,437,320)
Patient accounts receivable, net	<u>\$ 9,526,851</u>	<u>\$ 8,051,210</u>

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

	<u>2012</u>		<u>2011</u>	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	24%	35%	21%	34%
Medicaid	8%	12%	9%	12%
Commercial insurance and other	37%	47%	36%	47%
Self-pay	31%	6%	34%	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, 2012 AND 2011

4. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

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. Cost Reports have been final settled through 2008 for Medicare and 2006 for Medicaid.

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, 2012 AND 2011

5. CAPITAL ASSETS

Capital assets for the years ended December 31, 2012 and 2011 were as follows:

	2011	Reclassifica- tions	Additions	Disposals and Adjustments	2012
Capital assets not being depreciated:					
Land and land improvements	\$ 6,456,994	\$ -	\$ -	\$ -	\$ 6,456,994
Construction in progress	1,946,614	(1,392,086)	8,494,883	-	9,049,411
Subtotal	8,403,608	(1,392,086)	8,494,883	-	15,506,405
Capital assets being depreciated:					
Land improvements	2,988,445	3,725	130,812	-	3,122,982
Building	43,284,357	(21,726)	282,306	-	43,544,937
Major movable equipment	26,318,825	1,410,087	1,979,744	(127,905)	29,580,751
Property under capital leases	4,931,849	-	802,027	-	5,733,876
Subtotal	77,523,476	1,392,086	3,194,889	(127,905)	81,982,546
Accumulated depreciation:					
Land improvements	958,715	-	191,257	-	1,149,972
Building	20,830,980	158	1,364,825	-	22,195,963
Major moveable equipment	19,355,894	(158)	2,296,518	(124,868)	21,527,386
Property under capital leases	3,801,856	-	310,093	-	4,111,949
Subtotal	44,947,445	-	4,162,693	(124,868)	48,985,270
Capital assets, net	\$ 40,979,639	\$ -	\$ 7,527,079	\$ (3,037)	\$ 48,503,681
	2010	Reclassifica- tions	Additions	Disposals and Adjustments	2011
Capital assets not being depreciated:					
Land and land improvements	\$ 6,456,994	\$ -	\$ -	\$ -	\$ 6,456,994
Construction in progress	990,766	(1,040,192)	1,996,040	-	1,946,614
Subtotal	7,447,760	(1,040,192)	1,996,040	-	8,403,608
Capital assets being depreciated:					
Land improvements	2,988,445	-	-	-	2,988,445
Building	42,963,224	(13,522)	342,384	(7,729)	43,284,357
Major movable equipment	24,939,247	1,053,714	1,546,708	(1,220,844)	26,318,825
Property under capital leases	4,179,702	-	820,000	(67,853)	4,931,849
Subtotal	75,070,618	1,040,192	2,709,092	(1,296,426)	77,523,476
Accumulated depreciation:					
Land improvements	783,068	-	175,647	-	958,715
Building	19,496,402	-	1,342,807	(8,229)	20,830,980
Major moveable equipment	18,225,425	-	1,991,596	(861,127)	19,355,894
Property under capital leases	3,830,331	-	39,378	(67,853)	3,801,856
Subtotal	42,335,226	-	3,549,428	(937,209)	44,947,445
Capital assets, net	\$ 40,183,152	\$ -	\$ 1,155,704	\$ (359,217)	\$ 40,979,639

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
By board of trustees for capital improvements	\$ 2,929,549	\$ 875,925
By board of trustees retirement of indebtedness	4,328	3,591
By board of trustees and self-insurance	1,346,223	1,011,469
Held by trustee under bond indenture agreement	<u>420,454</u>	<u>261,807</u>
Total board-designated and trustee held	4,700,554	2,152,792
Principal for permanent endowments	<u>25,000</u>	<u>25,000</u>
Total board-designated and trustee held	<u><u>\$ 4,725,554</u></u>	<u><u>\$ 2,177,792</u></u>

7. SALARIES, WAGES AND RELATED ACCRUALS

The details of accrued liabilities at December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Payroll and related items	\$ 3,377,424	\$ 2,828,352
Self-insured benefits	205,000	160,000
Health insurance claims	<u>350,792</u>	<u>380,619</u>
Total salaries, wages and related accruals	<u><u>\$ 3,933,216</u></u>	<u><u>\$ 3,368,971</u></u>

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

8. LONG-TERM DEBT

Long-term debt activity for the year December 31, 2012 was as follows:

	<u>2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>2012</u>	<u>Amounts Due Within One Year</u>
Union County General Obligation Bonds, dated July 1, 2005:					
Serial bonds, 3.50% to 5.00% payable through 2016, in annual installments ranging from \$75,000 to \$680,000	\$ 3,140,000	\$ -	\$ (580,000)	\$ 2,560,000	\$ 600,000
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	755,000	-	(25,000)	730,000	25,000
Hospital Facilities Revenue Bonds (Build America Bonds) dated December 1, 2009:					
Term bonds, 4.72% payable through 2015, in monthly installments of \$25,783, and a lump sum due January 1, 2015 of \$3,334,719	3,759,144	-	(134,870)	3,624,274	141,397
Hospital Facilities Revenue Bonds (Build America Bonds) dated July 7, 2010:					
Term bonds, 2.51% payable through 2015, in monthly installments of \$73,594	2,508,472	241,528	(545,319)	2,204,681	836,389

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

	<u>2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>2012</u>	<u>Amounts Due Within One Year</u>
Commercial Installment Note					
Note payable, bearing interest at 2.5%, due in monthly installments of \$19,620 through January 1, 2017	1,061,391	-	(148,903)	912,488	214,875
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	8,650,000	-	(195,000)	8,455,000	200,000
Hospital Facilities Revenue					
Bonds (Heart Pavilion Project) dated December 13, 2011:					
Term bonds, 2.40% payable through 2021, in monthly installments of \$47,407	146,739	8,853,261	-	9,000,000	353,226
Capital Lease Obligation, interest rate of 2.50%, monthly payments of \$14,552 through December 2016	820,000	-	(155,916)	664,084	158,176
Capital Lease Obligation, interest rate of 1.25%, monthly payments of \$12,778 through June 2017	-	742,558	(96,096)	646,462	146,092
Capital Lease Obligation, interest rate of 1.25%, monthly payments of \$1,018 through June 2017	-	59,181	(7,681)	51,500	11,638
Total long-term debt	<u>\$ 25,580,746</u>	<u>\$ 9,896,528</u>	<u>\$ (1,888,785)</u>	<u>\$ 33,588,489</u>	<u>\$ 2,686,793</u>

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Long-term debt activity for the year ended December 31, 2011 follows:

	<u>2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>2011</u>	<u>Amounts Due Within One Year</u>
Union County General Obligation Bonds, dated July 1, 2005:					
Serial bonds, 3.50% to 5.00% payable through 2016, in annual installments ranging from \$75,000 to \$680,000	\$ 3,705,000	\$ -	\$ (565,000)	\$ 3,140,000	\$ 580,000
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	780,000	-	(25,000)	755,000	25,000
Hospital Facilities Revenue Bonds (Build America Bonds) dated December 1, 2009:					
Term bonds, 4.72% payable through 2015, in annual principal installments ranging from \$112,000 to \$149,000, and a lump sum due January 1, 2015 of \$3,334,719	3,887,795	-	(128,651)	3,759,144	134,885
Hospital Facilities Revenue Bonds (Build America Bonds) dated July 7, 2010:					
Term bonds, 2.51% payable through 2015, in monthly installments of \$73,594	1,002,109	1,506,363	-	2,508,472	485,247

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

	2010	Additions	Reductions	2011	Amounts Due Within One Year
Commercial Installment Note					
Note payable, bearing interest at 6.63%, due in monthly installments of \$20,362 through January 1, 2012	2,749,173	-	(1,687,782)	1,061,391	200,591
2005 Union County General Obligation Notes:					
Note payable, bearing interest at 5.3%, due in monthly installments of \$6,242 through July 10, 2020	517,028	-	(517,028)	-	-
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	8,835,000	-	(185,000)	8,650,000	195,000
Hospital Facilities Revenue Bonds (Heart Pavilion Project) dated December 13, 2011:					
Term bonds, 2.40% payable through 2021, in monthly installments of \$47,407	-	146,739	-	146,739	-
Capital Lease Obligation, interest rate of 2.50%, monthly payments of \$14,552 through January 2016	-	820,000	-	820,000	155,916
 Total long-term debt	<u>\$ 26,216,105</u>	<u>\$ 2,473,102</u>	<u>\$ (3,108,461)</u>	<u>\$ 25,580,746</u>	<u>\$ 1,776,639</u>

The bonds and notes payable are summarized as follows:

2011 Hospital Facilities Revenue Bonds (Heart Pavilion Project) - dated December 13, 2011, were issued in the amount of \$9,000,000 to finance the acquisition, construction, equipping and installation of a new heart pavilion located on the Hospital's main campus. The bonds mature on December 1, 2021, and are subject to redemption at the option of the issuer on any interest payment date.

2010 Hospital Facilities Revenue Bonds (Build America Bonds) - dated July 7, 2010, were issued in the amount of \$2,750,000 to finance the acquisition of an electronic medical records system for the Hospital. The bonds mature on July 1, 2015, and are subject to redemption at the option of the issuer on any interest payment date.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 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.

The 2003 Union County General Obligation Bonds - 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.

Under the terms of the bond agreements, the Hospital has pledged a security interest in substantially all of its assets. The Hospital is bound by terms under the bond agreements to various debt covenants. The Hospital believes it is in compliance with these covenants at December 31, 2012.

The Hospital has a \$2,950,000 commercial installment note, proceeds from which were used to purchase medical buildings in December 2006. The note is secured by the property with a net book value of \$2,921,869 at December 31, 2012.

In 2011, the Hospital leased PACS software and equipment used in its operations under a capital lease. This lease includes interest at 2.50% with monthly payments of \$14,552 through January 2016. Depreciation of the asset under the capital lease is included in depreciation expense for 2012. The lease is secured by the equipment.

The Hospital leased a CT scanner under a capital lease. This lease includes interest at 1.25% with monthly payments of \$12,778 through June 2017. Depreciation of the asset under the capital lease is included in depreciation expense for 2012. The lease is secured by the equipment.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

The Hospital leased a CT scanner under a capital lease. This lease includes interest at 1.25% with monthly payments of \$1,018 through June 2017. Depreciation of the asset under the capital lease is included in depreciation expense for 2012. The lease is secured by the equipment.

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	
	Principal	Interest
2013	\$ 2,686,793	\$ 1,169,236
2014	2,772,678	1,073,721
2015	5,667,023	798,416
2016	1,877,464	792,019
2017	1,247,208	727,969
2018-2022	11,517,323	2,667,298
2023-2027	4,390,000	1,200,573
2028-2032	2,800,000	497,220
2033	630,000	26,776
Total	\$ 33,588,489	\$ 8,953,228

The Hospital has various operating lease agreements for equipment and rental space. Minimum lease payments at December 31, 2012 are as follows:

2013	\$ 1,561,883
2014	940,536
2015	723,590
2016	474,071
2017	321,751
Thereafter	1,444,734
Total	\$ 5,466,565

Rent expense for all operating leases approximated \$2,404,000 in 2012 and \$2,609,000 in 2011.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

9. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	<u>2012</u>	<u>2011</u>
Patient Revenue:		
Inpatient services:		
Routine services	\$ 14,989,756	\$ 14,628,991
Ancillary services	12,480,568	12,269,056
Outpatient services	140,266,877	117,687,428
Resident revenue	<u>12,111,845</u>	<u>11,571,688</u>
Total patient revenue	179,849,046	156,157,163
Revenue deductions:		
Provision for contractual allowances	82,394,928	68,491,425
Provision for bad debt allowances	6,241,165	5,124,831
Charity care, net of Hospital Care Assurance	<u>4,017,076</u>	<u>4,123,130</u>
Total revenue deductions	<u>92,653,169</u>	<u>77,739,386</u>
Total net patient service revenue	<u>\$ 87,195,877</u>	<u>\$ 78,417,777</u>

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– a defined contribution plan; and the Combined Plan– 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.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 the OPEB Plan is provided in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and employer contribution rates were consistent across all three plans. The 2012 member contribution rates were 10.0% of covered payroll for members in state and local classifications.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, 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 coverage.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012 and 2011, state and local employers contributed at a rate of 14.0% 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.

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 4.0% during calendar year 2012 and 2011. Effective January 1, 2013, the portion of employer contributions allocated to health care was lowered by 1%, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. 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>
2012	\$ 4,332,000
2011	\$ 4,203,000
2010	\$ 4,037,000

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

Hospital contributions made to fund post-employment healthcare benefits approximated \$1,238,000, \$1,201,000 and \$1,351,000 for 2012, 2011 and 2010, respectively, which are included in the table above.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With recent passage of pension legislation under Senate Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

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.

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.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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 \$125,000 per covered person up to an aggregate of \$1,000,000. Claims in excess of employee premiums are charged to operations. Claims paid were approximately \$5,130,000 and \$5,531,000 for the years ended December 31, 2012 and 2011, respectively. In addition, the Hospital self-insures for worker's compensation. The Hospital has a \$1,500,000 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 2012 and 2011, the Hospital received distributions from Health Partners totaling \$336,982 and \$111,295, respectively, through UCHA.

During 2003, the Hospital and other health providers formed Marysville Ohio Surgery Center, LLC, of which the Hospital has a 37.74 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 2012 and 2011, the Hospital received distributions of \$20,000 and \$13,699, respectively.

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 2012 and 2011, the Hospital received \$44,418 and \$41,560, respectively, through UCHA.

15. HEART PAVILION COLLABORATION AGREEMENT

On January 1, 2011, the Hospital entered into cardiovascular collaboration and management service agreements with The Ohio State University (OSU) to provide cardiovascular services to the Hospital's patients on its campus. Under the terms of the agreements, each party provides certain equipment, facilities, personnel and management services. Program earnings, as defined, are determined and distributed under the terms of the agreements. As of December 31, 2012, the Hospital has accrued \$191,393 for amounts due to The Ohio State University relating to earnings in 2012. At December 31, 2011, the program was still under development and no earnings were due or payable.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

16. RECENT GASB PRONOUNCEMENTS

Management has not currently determined what, if any, effects of implementation of the following statement may have on the financial statements:

GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*," issued June 2012, is effective for periods beginning after June 15, 2014. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. A cost-sharing employer that does not have a special funding situation, is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability.

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.



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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**

Board of Trustees
 MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES
 500 London Ave.
 Marysville, Ohio 43040

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the combined financial statements of the business-type activities of Memorial Hospital of Union County and Affiliates (the Hospital), as of and for the year ended December 31, 2012, and the related notes to the combined financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated March 20, 2013.

Our report included an emphasis-of-matter paragraph stating the financial statements of the Hospital and its affiliates are intended to present the financial position and the changes in financial position and 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, 2012, the changes in its financial position or 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. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the combined financial statements, but not to the extent necessary to opine on the effectiveness of the Hospital's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent, or detect and timely correct a material misstatement of the Hospital's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**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)**


Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider to material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Hospital's combined financial statements are free of material misstatement, we tested it compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

The report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Columbus, Ohio
March 20, 2013

SUPPLEMENTARY FINANCIAL INFORMATION

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINING BALANCE SHEET
DECEMBER 31, 2012

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	\$ 37,409,694	\$ 984,340	\$ 1,104,692	\$ 263,750	\$ -	\$ 39,762,476
Patient accounts receivable	7,985,732	1,106,137	-	434,982	-	9,526,851
Assets limited as to use	4,431,793	293,761	-	-	-	4,725,554
Prepaid expenses	949,552	37,858	-	-	-	987,410
Inventories	646,335	-	-	-	-	646,335
Current portion of physician advances receivable	219,583	-	-	-	-	219,583
Other current assets	84,715	-	-	44,298	(40,704)	88,309
Total current assets	51,727,404	2,422,096	1,104,692	743,030	(40,704)	55,956,518
Capital assets - net	42,075,509	6,428,172	-	-	-	48,503,681
Other assets						
Notes and advances to affiliates net of current portion	189,873	-	-	-	(189,873)	-
Physician advances receivable	41,002	-	-	-	-	41,002
Investment in joint ventures	-	-	475,371	-	(50,000)	425,371
Bond issue costs	686,269	392,596	-	-	-	1,078,865
Total assets	\$ 94,720,057	\$ 9,242,864	\$ 1,580,063	\$ 743,030	\$ (280,577)	\$ 106,005,437

See report of independent auditors on page 1.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINING BALANCE SHEET
DECEMBER 31, 2012

LIABILITIES AND NET POSITION

	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	\$ 2,396,793	\$ 290,000	\$ -	\$ -	\$ -	\$ 2,686,793
Accounts payable	3,378,775	406,125	-	2,913	(40,704)	3,747,109
Estimated third-party settlements	344,010	37,500	-	-	-	381,510
Salaries, wages and related accruals	3,320,124	316,581	-	296,511	-	3,933,216
Total current liabilities	9,439,702	1,050,206	-	299,424	(40,704)	10,748,628
Long-term debt - net of current portion	26,774,779	4,126,917	-	-	-	30,901,696
Other liabilities						
Notes and advances to affiliates	-	189,873	-	-	(189,873)	-
Accrued compensated absences	2,648,879	203,353	-	-	-	2,852,232
Total liabilities	38,863,360	5,570,349	-	299,424	(230,577)	44,502,556
Net position						
Net invested in capital assets	12,903,937	2,011,255	-	-	-	14,915,192
Nonexpendable permanent endowments	25,000	-	-	-	-	25,000
Restricted for debt service, capital acquisitions and self-insurance	4,406,793	293,761	-	-	-	4,700,554
Unrestricted	38,520,967	1,367,499	1,580,063	443,606	(50,000)	41,862,135
Total liabilities and net position	\$ 94,720,057	\$ 9,242,864	\$ 1,580,063	\$ 743,030	\$ (280,577)	\$ 106,005,437

See report of independent auditors on page 1.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2012

	Memorial Hospital of Union County	The Gables	Union County Hospital Association	Union County Physician Corp.	Eliminating Entries	Total
Operating revenues						
Net patient service revenue	\$ 74,571,654	\$ 9,501,375	\$ -	\$ 3,122,848	\$ -	\$ 87,195,877
Other operating revenue	3,715,956	-	-	1,646,307	(1,924,302)	3,437,961
Total operating revenue	<u>78,287,610</u>	<u>9,501,375</u>	<u>-</u>	<u>4,769,155</u>	<u>(1,924,302)</u>	<u>90,633,838</u>
Operating expenses						
Salaries and wages	27,859,523	4,280,037	-	2,671,824	(757,498)	34,053,886
Employee benefits and payroll taxes	8,239,492	1,431,474	-	534,819	-	10,205,785
Supplies and other	13,917,300	942,120	8,871	646,889	(1,787,302)	13,727,878
Professional services and consultant fees	3,652,443	150,775	-	-	(137,000)	3,666,218
Purchased services	10,555,811	1,193,314	-	408,446	757,498	12,915,069
Insurance	487,835	56,624	-	102,528	-	646,987
Utilities	1,109,103	242,350	32,322	31,581	-	1,415,356
Depreciation	3,754,345	408,348	-	-	-	4,162,693
Total operating expenses	<u>69,575,852</u>	<u>8,705,042</u>	<u>41,193</u>	<u>4,396,087</u>	<u>(1,924,302)</u>	<u>80,793,872</u>
Operating income (loss)	8,711,758	796,333	(41,193)	373,068	-	9,839,966
Other income (expenses)						
Interest income	158,273	7	3,337	-	-	161,617
Grants and contributions	672,436	3,491	(207,500)	-	-	468,427
Interest expense	(779,431)	(220,649)	-	-	-	(1,000,080)
Other	-	-	153,908	-	-	153,908
Total other income (expense)	<u>51,278</u>	<u>(217,151)</u>	<u>(50,255)</u>	<u>-</u>	<u>-</u>	<u>(216,128)</u>
Change in net position	<u>\$ 8,763,036</u>	<u>\$ 579,182</u>	<u>\$ (91,448)</u>	<u>\$ 373,068</u>	<u>\$ -</u>	<u>\$ 9,623,838</u>

See report of independent auditors on page 1.



Dave Yost • 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 16, 2013