

Memorial Hospital of Union County

Independent Auditor's Reports and Financial Statements

December 31, 2017 and 2016



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Memorial Hospital of Union County, Union County, prepared by BKD, LLP, for the audit period January 1, 2017 through December 31, 2017. 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 is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

May 14, 2018

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Memorial Hospital of Union County
December 31, 2017 and 2016

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Independent Auditor's Report

Board of Trustees
Memorial Hospital of Union County
Marysville, Ohio

Report on the Financial Statements

We have audited the accompanying balance sheets of Memorial Hospital of Union County (Memorial Hospital), an enterprise fund of Union County, Ohio, as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Memorial Hospital's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Memorial Hospital as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2018 on our consideration of the Memorial 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Memorial Hospital's 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 Memorial Hospital's internal control over financial reporting and compliance.

BKD, LLP

Cincinnati, Ohio
April 26, 2018

Memorial Hospital of Union County

Management's Discussion and Analysis

Years Ended December 31, 2017 and 2016

Introduction

This management's discussion and analysis of the financial performance of Memorial Hospital of Union County and its blended component units, Memorial Gables, Memorial Medical Group, and Memorial Health Foundation, (collectively, "Memorial Health"), provides an overview of Memorial Health's financial activities for the years ended December 31, 2017 and 2016. It should be read in conjunction with the accompanying financial statements of Memorial Hospital of Union County.

Financial Highlights

- Cash and investments increased in 2017 and 2016 by \$12,590,922 and \$16,584,494, or 15.86% and 26.41%, respectively.
- Memorial Health's net position increased in each of the past two years by \$5,715,219, or 7.59% in 2017, and a \$10,880,093, or 16.89% in 2016.
- Memorial Health reported operating income in 2017 of \$3,562,064 and in 2016 of \$9,927,330. The operating income in 2017 decreased by \$6,365,266, or 64.12%, over the operating income reported in 2016. The operating income in 2016 increased by \$617,544, or 6.63%, from the operating income reported in 2015.
- Net nonoperating income of \$719,983 increased by \$1,277,233, or 229.20%, in 2017 compared to the net nonoperating expense in 2016, which increased in expense by \$333,032, or 148.53%, in 2016 compared to the net nonoperating expense in 2015.

Using This Annual Report

Memorial Health's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of Memorial Health, including resources held by Memorial Health but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. Memorial Health is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about any hospital's finances is "Is Memorial Health as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about Memorial Health's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Memorial Hospital of Union County

Management's Discussion and Analysis

Years Ended December 31, 2017 and 2016

These two statements report Memorial Health's net position and changes in it. Memorial Health's total net position—the difference between assets, liabilities, and deferred inflows and outflows of resources—is one measure of Memorial Health's financial health or financial position. Over time, increases or decreases in Memorial Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in Memorial Health's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients, and local economic factors should also be considered to assess the overall financial health of Memorial Health.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents during the reporting period.

Memorial Health's Net Position

Memorial Health's net position is the difference between its assets, liabilities, and deferred inflows and outflows of resources. Memorial Health's net position increased by \$5,715,219, or 7.59%, in 2017 over 2016, and by \$10,880,093, or 16.89% in 2016 over 2015, as shown in Table 1.

Memorial Hospital of Union County

Management's Discussion and Analysis

Years Ended December 31, 2017 and 2016

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

	2017	2016	2015
Assets			
Patient accounts receivable, net	\$ 12,801,242	\$ 12,044,730	\$ 11,160,979
Other current assets	40,692,385	46,661,635	42,782,449
Capital assets, net	42,546,119	42,012,974	48,493,780
Net pension asset	281,688	212,021	138,945
Other noncurrent assets	56,536,628	37,908,473	23,586,578
Total assets	152,858,062	138,839,833	126,162,731
Deferred Outflows of Resources - Pensions			
	22,772,848	17,690,117	6,287,006
Total assets and deferred outflows of resources	\$ 175,630,910	\$ 156,529,950	\$ 132,449,737
Liabilities			
Long-term debt	\$ 22,342,390	\$ 23,315,418	\$ 25,638,689
Net pension liability	57,692,706	44,205,070	30,129,878
Other current and noncurrent liabilities	14,105,721	12,751,769	11,702,091
Total liabilities	94,140,817	80,272,257	67,470,658
Deferred Inflows of Resources - Pensions			
	487,423	970,242	571,721
Net Position			
Net investment in capital assets	20,203,729	21,009,051	22,855,091
Restricted expendable	2,742,261	2,154,173	670,277
Unrestricted	58,056,680	52,124,227	40,881,990
Total net position	81,002,670	75,287,451	64,407,358
Total liabilities, deferred inflows of resources and net position	\$ 175,630,910	\$ 156,529,950	\$ 132,449,737

The most significant change in Memorial Hospital's net position in 2017 and 2016 was the result of operations during the years and the effects of recent pension accounting standards. During 2015, Memorial Health adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*. The effect of the adoption of the new accounting principle resulted in Memorial Health recording its share of pension amounts, primarily Memorial Health's share of the total pension liability of \$30,129,878 as of December 31, 2015 and a cumulative effect of change in accounting principle of \$25,528,029. See *Note 16* to the financial statements for more information regarding the pension amounts recorded. Other changes include a decrease in capital assets during 2016, net of accumulated depreciation, due to the sale of a significant piece of property.

Memorial Hospital of Union County

Management's Discussion and Analysis

Years Ended December 31, 2017 and 2016

Operating Results and Changes in Memorial Health's Net Position

In 2017, Memorial Health's net position increased by \$5,715,219, or 16.89%, as shown in Table 2. This increase is made up of several different components and represents a decrease of 47.47% when compared to the increase in net position for 2016 of 10,880,093. Memorial Health's change in net position decreased from the increase in net position of \$9,285,568 in 2015, an increase of 17.17%.

Table 2: Operating Results and Changes in Memorial Health's Net Position

	2017	2016	2015
Operating Revenues			
Net patient service revenue	\$ 119,628,426	\$ 116,152,447	\$ 104,249,931
Other operating revenue	5,467,221	3,344,701	3,638,171
Total operating revenues	<u>125,095,647</u>	<u>119,497,148</u>	<u>107,888,102</u>
Operating Expenses			
Salaries, wages and employee benefits	71,708,520	62,542,026	53,908,484
Purchased services and professional fees	22,158,864	19,986,499	17,982,754
Depreciation and amortization	5,002,641	5,486,601	5,576,385
Other operating expenses	22,663,558	21,554,692	21,110,693
Total operating expenses	<u>121,533,583</u>	<u>109,569,818</u>	<u>98,578,316</u>
Operating Income	<u>3,562,064</u>	<u>9,927,330</u>	<u>9,309,786</u>
Nonoperating Revenues (Expenses)			
Investment income	819,240	406,232	214,378
Interest expense	(598,437)	(1,175,097)	(887,270)
Noncapital grants and gifts	502,352	809,682	472,872
Other nonoperating losses	(3,172)	(598,067)	(24,198)
Total nonoperating revenues (expenses)	<u>719,983</u>	<u>(557,250)</u>	<u>(224,218)</u>
Excess of Revenues Over Expenses Before Capital Gifts	4,282,047	9,370,080	9,085,568
Capital Gifts	<u>1,433,172</u>	<u>1,510,013</u>	<u>200,000</u>
Increase in Net Position	<u>5,715,219</u>	<u>10,880,093</u>	<u>9,285,568</u>
Net Position, Beginning of Year	<u>75,287,451</u>	<u>64,407,358</u>	<u>55,121,790</u>
Net Position, End of Year	<u>\$ 81,002,670</u>	<u>\$ 75,287,451</u>	<u>\$ 64,407,358</u>

Memorial Hospital of Union County

Management's Discussion and Analysis

Years Ended December 31, 2017 and 2016

Operating Income

The first component of the overall change in Memorial Health's net position is its operating income, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, Memorial Health has reported operating income. This is consistent with Memorial Health's recent operating history as Memorial Health was formed and is operated primarily to serve residents of Marysville, Union County, and the surrounding areas.

The operating income for 2017 of \$3,562,064 decreased by \$6,365,266, or 64.12% compared to operating income of \$9,927,330 for 2016. The operating income for 2016 increased by \$617,544, or 6.63% compared to the operating income of \$9,309,786 for 2015. The primary components of the changes in operating income are:

- An increase in net patient service revenue of \$3,475,979, or 2.99%, for 2017, compared to an increase of \$11,902,516 in 2016 when compared to 2015.
- An increase in salaries, wages and employee benefits expense of \$9,166,494, or 14.66%, for 2017, compared to an increase of \$8,633,542 in 2016 when compared to 2015. The majority of the increase during 2017 is the result of the adoption of GASB Statements No. 68 and 71. Pension expense increased \$5,211,245 in 2017 compared to the increase of \$3,791,165 in 2016 when compared to 2015.
- An increase in purchased services and professional fees of \$2,172,365, or 10.87%, for 2017, compared to an increase of \$2,003,745 in 2016 when compared to 2015.
- An increase in other operating expenses of \$1,108,866, or 5.14%, for 2017, compared to an increase of \$443,999, or 2.10%, in 2016 when compared to 2015.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense, and gifts from donors, all of which remained relatively consistent between 2017 and 2016 with the exception of the decrease in interest expense as a result of recent refinancing activity. During 2017, Memorial Health recognized a loss on disposal of capital assets of \$3,172 compared to a loss of \$598,067 in 2016 and a loss of \$24,198 in 2015.

Capital Gifts

Memorial Health received gifts and contributions receivable totaling \$1,433,172, \$1,510,013 and \$200,000 during 2017, 2016 and 2015, respectively, from various individuals and companies to purchase capital assets as part of the new Memorial 2020 campaign.

Memorial Health's Cash Flows

Changes in Memorial Health's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2017, 2016 and 2015, as discussed earlier. Net cash provided by operating activities of \$17,477,222 in 2017 decreased by \$123,512 when compared to the net cash provided by operating activities of \$17,600,734 in 2016.

Memorial Hospital of Union County

Management's Discussion and Analysis

Years Ended December 31, 2017 and 2016

Capital Asset and Debt Administration

Capital Assets

At the end of 2017 and 2016, Memorial Health had \$42,546,119 and \$42,012,974, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 7* to the financial statements. In 2017, Memorial Health purchased new equipment totaling \$5,538,958. The cost of additions during 2016 totaled \$3,676,056.

In 2014, Memorial Hospital opened its first satellite office with a 34,000 square foot multi-story medical office building in the City Gate plaza. The new building, owned by an independent third party, has been very well received by the community and has allowed us to advance our service opportunities. With its success, Memorial Hospital purchased a lot adjacent to the property and opened a second building, the Gateway building, in the Spring of 2017. The new building, built by a third party, provides an additional 20,000 square feet of medical space and allows us to expand our footprint. Memorial occupies 12,000 square feet of the building and an independent physician practice occupying the remaining space. The two buildings are connected through adjoining parking lots and walkways and allows our patients to access either facility without leaving the grounds. In the new building, Memorial will offer primary care, general surgery and ENT space.

Memorial Hospital is also building, through a third party, a 30,000 square foot medical office building in Urbana. Memorial already has a presence in Champaign County through the employment of a large medical practice several years ago. The practice has been very successful and we plan to recruit additional physicians. The new building will offer an urgent care, x-ray, lab testing and physical and occupational therapy services. In addition, we will provide rotating physician specialists and a clinical pharmacist and nurse practitioner to evaluate and counsel patients with complex conditions on how to manage their prescribed medications. The new location will allow Memorial to increase access and the opportunity to expand services to improve the coordination of care to those we serve. The new building is set to open to the Urbana public in April of 2018.

In 2015, Memorial Hospital completed the development of a master facility plan to show the opportunities of revitalizing the existing hospital campus in order to create a new, state of the art, high tech and multi-use campus offering private patient rooms, upgraded clinical services and new on-campus ambulatory services and medical office space. The new plan will allow for Memorial Hospital's campus and facilities to be extremely competitive in the central Ohio market and will be appealing, creating ease of access, a patient friendly environment and be employee satisfying with clinical efficiencies. The revitalized campus with a new bed tower and ambulatory health center building will allow Memorial Hospital to maintain and expand its market share and continue to be a Marysville and Union County Community asset offering first class inpatient and outpatient healthcare services. The project has been named Memorial 2020.

Memorial Hospital of Union County

Management's Discussion and Analysis

Years Ended December 31, 2017 and 2016

Upon completion of the master plan and with the assistance of a third party, we finalized a debt capacity analysis and feasibility study to support the potential project. Memorial and the Union County Commissioners worked together to determine an appropriate debt sizing plan for the revitalization of the campus. The plan includes sources of general obligation debt, private placement issues and the philanthropic efforts of our Memorial Health Foundation to complete the financing. The feasibility study, for the years 2016 – 2020, includes a conservative approach to future growth, reimbursement and two major projects (Urbana and Gateway). The plan has yielded favorable operating results over the next five years.

The first phase of the financing plan for the new buildings was completed in December 2016. It included the refinancing of the Heart Pavilion plus an additional draw for the initial soft costs of the project. In addition, we refinanced the 2003 and 2005 and 2007 General Obligation bonds by taking advantage of lower interest rates and minimizing our outstanding debt service.

In December 2017, we completed the next phase of the financing and closed on a revenue bond in the amount \$17,150,000. The bond is a drawdown structure and allows for Memorial to access funding when needed. The second phase of our financing plan will be to close on a \$28,000,000 General Obligation Bond with the assistance from the Union County Commissioners. The closing of this issue is expected for April 2018.

Long-Term Debt Obligations

At December 31, 2017 and 2016, Memorial Health had \$21,129,497 and \$21,994,616, respectively, in revenue bonds, general obligation bonds and various notes and capital leases outstanding. Memorial Health's formal debt issuances, revenue bonds, are subject to limitations imposed by state law. More detailed information about Memorial Health's long-term debt obligations are further discussed in *Note 14* to the financial statements.

Other Economic Factors

Over the last three years, Memorial Hospital has been very active in growing our market share with additional service lines, physician recruiting and expanding its presence through growth in new buildings. Further described under Capital Assets is an outline of our growth, where at the end of 2017, yielded three new buildings located off our main campus and a major hospital expansion. One of those buildings set to open in 2018, is actually located in Champaign County to address the needs of that market. The expansion of the main campus will commence in the Spring and carries a price tag of over \$50 million.

One of the larger questions posed to Memorial pertains to the additional debt service attributed to the future expansion and new buildings. The question is can the hospital sustain its operations and continue to safely cover its annual debt service once the doors are open to the Memorial 2020 project. Memorial performed a feasibility study to address these questions back in late 2015. We utilized a third party and built a model with several conservative estimates on future revenue and growth, reimbursement and interest rates. In comparing today's results to the feasibility study, we are noticeable better with increases in cash of nearly 14%. Interest rates will also be lower than the assumptions provided in the study. This has provided a better outlook on debt service over the next 30 years than initially modeled.

Memorial Hospital of Union County

Management's Discussion and Analysis

Years Ended December 31, 2017 and 2016

Other non-operating matters pertain to the recognition of GASB 68 and 71 (see the notes to the financial statements) and their continued impact on the system's operating results. The recently adopted standards (implemented in 2015) changed the recognition and reporting requirements for public pensions (OPERS). While the overall structure and operation of the health system remains unchanged, we are now required to recognize our portion of the net unfunded liability (OPERS pension) on our financial statements. One of our concerns is the fact that Memorial Hospital is required by law to fund the statutory contribution rate of 14%. The OPERS website states that based on actuarial analysis if the funding levels would begin to trend downward, they would seek the council of the General Assembly and either increase the statutory obligations of employees and/or employers or decrease the current benefit levels to its enrollees. These changes would allow OPERS to meet the long-term projected pension liability and remain viable. The initial impact of this "paper" entry was approximately \$30,000,000 to our net position. The change between years in the pension liability have now pushed the balance to roughly \$58,000,000 and with the appropriate recognition and amortization of deferred inflows and outflows, the system continues to realize a reduction in its operating margin. Unfortunately, we cannot reasonably estimate what impact the change in the liability will have to operations in future years.

Contacting Memorial Health's Management

This financial report is intended to provide the reader with a general overview of Memorial Health'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
Vice President and Chief Financial Officer

Memorial Hospital of Union County

Balance Sheets

December 31, 2017 and 2016

Assets and Deferred Outflows of Resources

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 21,110,126	\$ 27,351,973
Short-term investments	16,161,736	15,417,195
Patient accounts receivable, net of allowance for uncollectible accounts; 2017 - \$6,834,403, 2016 - \$6,143,963	12,801,242	12,044,730
Contributions receivable	662,436	456,479
Estimated amounts due from third-party payers	-	1,084,809
Supplies	908,296	891,610
Prepaid expenses and other current assets	1,849,791	1,459,569
	<u>53,493,627</u>	<u>58,706,365</u>
Total current assets		
Noncurrent Cash and Investments		
Internally designated for specific purpose	417,688	552,675
Restricted by donors for capital improvements	216,086	496,049
Bond proceeds - restricted for capital improvements	1,052,645	2,311,495
	<u>1,686,419</u>	<u>3,360,219</u>
Long-Term Investments	53,005,658	33,243,630
Other Assets	262,500	315,000
Capital Assets, Net	42,546,119	42,012,974
Contributions Receivable, Net	1,582,051	989,624
Net Pension Asset	<u>281,688</u>	<u>212,021</u>
Total assets	<u>152,858,062</u>	<u>138,839,833</u>
Deferred Outflows of Resources - Pensions	<u>22,772,848</u>	<u>17,690,117</u>
Total assets and deferred outflows of resources	<u>\$ 175,630,910</u>	<u>\$ 156,529,950</u>

Memorial Hospital of Union County

Balance Sheets (Continued) December 31, 2017 and 2016

Liabilities, Deferred Inflows of Resources and Net Position

	2017	2016
Current Liabilities		
Current maturities of long-term debt	\$ 1,054,256	\$ 1,091,252
Accounts payable	4,495,987	3,934,981
Accrued salaries, wages, and related accruals	6,649,974	6,052,454
Estimated amounts due to third-party payers	705,000	852,397
Other current liabilities	945,132	599,911
	13,850,349	12,530,995
 Long-Term Debt	 21,288,134	 22,224,166
 Accrued Compensated Absences	 1,047,128	 997,026
 Other Liabilities	 262,500	 315,000
 Net Pension Liability	 57,692,706	 44,205,070
	94,140,817	80,272,257
 Deferred Inflows of Resources - Pensions	 487,423	 970,242
 Net Position		
Net investment in capital assets	20,203,729	21,009,051
Restricted - expendable for		
Capital improvements	2,460,573	1,942,152
Pensions	281,688	212,021
Unrestricted	58,056,680	52,124,227
	81,002,670	75,287,451
 Total liabilities, deferred inflows of resources and net position	\$ 175,630,910	\$ 156,529,950

Memorial Hospital of Union County
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2017 - \$7,496,926, 2016 - \$7,208,365	\$ 119,628,426	\$ 116,152,447
Other	5,467,221	3,344,701
Total operating revenues	125,095,647	119,497,148
Operating Expenses		
Salaries and wages	49,596,666	46,397,422
Employee benefits	22,111,854	16,144,604
Purchased services	17,325,853	15,417,358
Professional fees	4,833,011	4,569,141
Supplies	11,718,148	12,216,781
Utilities	1,831,703	1,851,673
Insurance	614,977	597,809
Depreciation and amortization	5,002,641	5,486,601
Other operating expenses	8,498,730	6,888,429
Total operating expenses	121,533,583	109,569,818
Operating Income	3,562,064	9,927,330
Nonoperating Revenues (Expenses)		
Investment income	819,240	406,232
Interest expense	(598,437)	(1,175,097)
Loss on sale and disposal of capital assets	(3,172)	(598,067)
Noncapital grants and gifts	502,352	809,682
Total nonoperating revenues (expenses)	719,983	(557,250)
Excess of Revenues Over Expenses Before Capital Gifts	4,282,047	9,370,080
Capital Gifts	1,433,172	1,510,013
Increase in Net Position	5,715,219	10,880,093
Net Position, Beginning of Year	75,287,451	64,407,358
Net Position, End of Year	\$ 81,002,670	\$ 75,287,451

Memorial Hospital of Union County

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Receipts from and on behalf of patients	\$ 119,809,326	\$ 115,017,626
Payments to suppliers and contractors	(35,754,394)	(34,849,982)
Payments to employees	(63,208,479)	(58,934,119)
Other operating payments, net	(3,369,231)	(3,632,791)
Net cash provided by operating activities	17,477,222	17,600,734
Noncapital Financing Activities		
Noncapital grants and gifts	502,352	809,682
Net provided by noncapital financing activities	502,352	809,682
Capital and Related Financing Activities		
Capital gifts	634,788	(5,382)
Proceeds from issuance of long-term debt	123,250	24,063,961
Principal paid on long-term debt	(988,369)	(26,339,073)
Interest paid on notes payable to banks and long-term debt	(706,346)	(1,223,256)
Purchase of capital assets	(5,271,215)	(3,081,445)
Proceeds from sale of capital assets	-	4,067,387
Net cash used in capital and related financing activities	(6,207,892)	(2,517,808)
Investing Activities		
Interest and dividends on investments	819,240	406,232
Purchase of investments	(37,527,942)	(22,315,942)
Proceeds from disposition and maturity of investments	15,905,749	14,614,535
Net cash used in investing activities	(20,802,953)	(7,295,175)
Increase (Decrease) in Cash and Cash Equivalents	(9,031,271)	8,597,433
Cash and Cash Equivalents, Beginning of Year	30,712,192	22,114,759
Cash and Cash Equivalents, End of Year	\$ 21,680,921	\$ 30,712,192
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 21,110,126	\$ 27,351,973
Cash included in noncurrent cash and investments	570,795	3,360,219
	\$ 21,680,921	\$ 30,712,192
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 3,562,064	\$ 9,927,330
Depreciation and amortization	5,002,641	5,486,601
Provision for uncollectible accounts	7,496,926	7,208,365
Changes in operating assets and liabilities:		
Patient accounts receivable	(8,253,438)	(8,092,116)
Estimated amounts due from and to third-party payers	937,412	(251,070)
Accounts payable and accrued expenses	1,233,606	459,874
Net pension asset and net pension liability	7,852,419	2,997,526
Other assets	(354,408)	(135,776)
Net cash provided by operating activities	\$ 17,477,222	\$ 17,600,734
Supplemental Cash Flows Information		
Capital asset acquisitions in accounts payable	\$ 857,547	\$ 589,804

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Memorial Hospital of Union County (Memorial Hospital) is an acute care hospital located in Marysville, Ohio. Memorial Hospital is a political subdivision of the State of Ohio and was formed under the provisions of the Ohio Revised Code. Memorial Hospital is considered an enterprise fund of Union County, Ohio and is operated by a board of trustees (the Trustees). Members of the board of trustees are appointed by the county commissioners and county judges.

The financial statements for the years ended December 31, 2017 and 2016 included herein consist of the net position, results of operations, changes in net position, and cash flows of Memorial Hospital, Memorial Gables, Memorial Health Foundation, and Memorial Medical Group (collectively, Memorial Health). All intercompany accounts and transactions between all entities have been eliminated in the preparation of the financial statements.

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

In 1994, the Board of County Commissioners of Union County (the Board) passed a resolution to transfer the management and operations of Union Manor (a nursing home) to the Trustees on January 1, 1995. Pursuant to this resolution, the Trustees accepted control over the assets of Union Manor. Under the terms of the transfer, the Board indicated their support of the Trustees in Union Manor's future efforts to secure financing for renovation and expansion. In 2001, the construction of a new facility was completed. Subsequently, the Union Manor name was changed to Memorial Gables at Green Pastures. Memorial Gables is currently doing business as Memorial Gables.

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. UCHA is currently doing business as Memorial Health Foundation.

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 Memorial Hospital. UCPC is currently doing business as Memorial Medical Group.

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Basis of Accounting and Presentation

The financial statements of Memorial Health have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. Memorial Health first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available. The financial statements include Memorial Gables, Memorial Health Foundation, and Memorial Medical Group as blended component units in Memorial Hospital's financial statements.

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, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Memorial Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017 and 2016, cash equivalents consisted primarily of money market accounts.

Risk Management

Memorial Health is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims.

Memorial Health is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Investments and Investment Income

Investments with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. The investment in equity investees is reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices. Investment income includes interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

Memorial Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. Memorial Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. 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 is based on expected payment rates from payers based on current reimbursement methodologies.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Contributions Receivable

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by Memorial Health:

Land improvements	1 - 25 years
Buildings and leasehold improvements	3 - 40 years
Equipment	3 - 30 years

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Deferred Outflows of Resources

Memorial Health reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its balance sheets. Deferred outflows of resources at December 31, 2017 and 2016 were related to pensions and consisted of pension contributions subsequent to the measurement date, the change in proportionate share, and the net difference between projected and actual earnings on pension plan investments and are discussed further in *Note 16*.

Other Assets

During 2013, Memorial Hospital entered into an agreement with the City of Marysville, Ohio (the City) to obtain the naming rights to a City pavilion. Memorial Hospital is obligated to pay the City a total of \$525,000 over a ten year term for the right to name and use the structure, which includes the promotion of Hospital programs and services to the community. The asset is being amortized over the economic life of the pavilion. The current portion of the asset is recorded as another current asset and the non-current portion is recorded within other assets of the balance sheets. The current portion of the liability is recorded within other current liabilities and the long term portion is recorded in the other liabilities section of the balance sheets. Amortization costs of the asset were \$52,500 for each of the years ending December 31, 2017 and 2016. As of December 31, 2017 and 2016, the remaining asset and liability balances were \$315,000 and \$367,500, respectively.

Compensated Absences

Organizational policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Activity in Memorial Health's accrued compensated absences liability during 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 997,026	\$ 956,122
Current year benefits earned	140,723	135,082
Benefits vested and change in estimate for forfeitures	<u>(90,621)</u>	<u>(94,178)</u>
Balance, end of year	<u>\$ 1,047,128</u>	<u>\$ 997,026</u>

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Cost-Sharing Multiple-Employer Defined Benefit Pension Plans

Memorial Hospital and Memorial Gables participate in two cost-sharing multiple-employer defined benefit pension plans administered by the Ohio Public Employees Retirement System, the Traditional Pension Plan and the Combined Plan (the Plans). For purposes of measuring the net pension liability and net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

Memorial Health reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its balance sheets. Deferred inflows of resources at December 31, 2017 and 2016 were related to pensions and consisted of the net difference between expected and actual experience and are discussed further in *Note 16*.

Net Position

Net position of Memorial Health is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to Memorial Health, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

Memorial Health has agreements with third-party payers that provide for payments to Memorial Health at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Other Operating Revenue and Expenses

Memorial Health distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing health care services within the surrounding area – Memorial Health’s principal activity. Nonexchange revenue, including grants and contributions received for purposes other than capital asset acquisitions, are reported as nonoperating revenue. Operating expenses are all expenses, other than financing costs, incurred as a result of providing health care services within the surrounding area.

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

Memorial Health provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy and by reference to state legislation. These policies essentially define charity care as those services for which no payment is anticipated. When assessing a patient’s ability to pay for necessary medical care services, Memorial Health utilizes generally recognized poverty income levels but also includes certain cases where incurred charges are significant when compared to income. Charity care provided by Memorial Hospital, measured at cost, was approximately \$836,000 and \$664,000 in 2017 and 2016, respectively. Estimated costs are derived using Memorial Hospital’s cost to charge ratio in the Medicare cost report. Because Memorial Health does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Memorial Hospital recorded revenue of approximately \$1,329,000 and \$1,085,000 for the years ended December 31, 2017 and 2016, respectively, for amounts received from a State of Ohio uncompensated care fund, net of payments into the fund, to subsidize charity services provided under its charity care policy.

Income Taxes

As essential government functions of the County, Memorial Hospital and Memorial Gables are generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, Memorial Hospital and Memorial Gables are subject to federal income tax on any unrelated business taxable income. Memorial Health Foundation and Memorial Medical Group are legally separate, tax-exempt component units of Memorial Hospital. Memorial Health Foundation and Memorial Medical Group are exempt under Section 501(c) as organizations described in Section 501(c)(3) of the Internal Revenue Code. Memorial Health Foundation and Memorial Medical Group’s primary function is to raise and hold funds to support Memorial Hospital and its programs. The boards of Memorial Health Foundation and Memorial Medical Group are appointed and approved by the Trustees.

Memorial Hospital of Union County

Notes to Financial Statements December 31, 2017 and 2016

Memorial Health Foundation

Although Memorial Hospital does not control the timing or amount of receipts from Memorial Health Foundation, the majority of Memorial Health Foundation's resources and related income are restricted by donors for the benefit of Memorial Hospital. Because these restricted resources held by Memorial Health Foundation can only be used by, or for the benefit of, Memorial Hospital, Memorial Health Foundation is considered a component unit of Memorial Hospital and is included in Memorial Hospital's financial statements.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the American Recovery and Reinvestment Act of 2009, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on Memorial Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

Memorial Health recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

Memorial Hospital has recorded revenue of approximately \$34,000 and \$377,000 for the years ended 2017 and 2016, respectively, which is included in other revenue within operating revenues in the statements of revenues, expenses and changes in net position.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. The reclassifications had no effect on the changes in financial position.

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Note 2: Net Patient Service Revenue

Memorial Health has agreements with third-party payers that provide for payments to Memorial Health at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient 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. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. Certain inpatient nonacute services and defined medical education costs are paid based on a cost reimbursement methodology. Memorial Health is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by Memorial Health and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. Memorial Health is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by Memorial Health and audits thereof by the Medicaid administrative contractor.

Approximately 21% of net patient service revenue was from participation in the Medicare and state-sponsored Medicaid programs for each of the years ended December 31, 2017 and 2016. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: Deposits, Investments and Investment Income

Deposits

Chapter 135 of the Ohio Uniform Depository 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 obligations of the State of Ohio. Investments in no-load money market funds, repurchase agreements, commercial paper, and bankers' acceptance 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.

Memorial Hospital of Union County

Notes to Financial Statements December 31, 2017 and 2016

Memorial Hospital has designated five banks for the deposit of its funds. An investment policy has been filed with the Auditor of State on behalf of Memorial 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 Memorial Hospital into three categories:

- 1) **Active Funds** - Those funds required to be kept in a "cash" or "near cash" status for immediate use by Memorial Hospital. Such funds must be maintained either in depository accounts or withdrawable on demand, including Negotiable Order of Withdrawal (NOW) accounts.
- 2) **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.
- 3) **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.

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Protection of Memorial Health'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 Memorial Hospital, and must be purchased with the expectation that it will be held to maturity.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. Memorial Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Ohio; bonds of any city, county, school district or special road district of the state of Ohio; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2017 and 2016, respectively, \$37,742,641 and \$42,454,797 of Memorial Health's bank balances of \$39,579,903 and \$43,730,982 were exposed to custodial credit risk as follows:

	<u>2017</u>	<u>2016</u>
Uninsured and uncollateralized	\$ 1,931,531	\$ 820,385
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Organization's name	<u>35,811,110</u>	<u>41,634,412</u>
	<u>\$ 37,742,641</u>	<u>\$ 42,454,797</u>

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Investments

Memorial Health may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities. At December 31, 2017 and 2016, Memorial Health had the following investments and maturities:

Type	December 31, 2017		
	Carrying Value	Maturities in Years	
		Less Than 1	More Than 1
Negotiable certificates of deposit	\$ 4,819,388	\$ 1,239,056	\$ 3,580,332
U.S. government agency notes	19,154,259	2,478,523	16,675,736
Commercial paper	29,305,826	29,305,826	-
		\$ 33,023,405	\$ 20,256,068
Private equities	642,164		
	\$ 53,921,637		
		December 31, 2016	
Type	Carrying Value	Maturities in Years	
		Less Than 1	More Than 1
Negotiable certificates of deposit	\$ 4,252,161	\$ 1,494,575	\$ 2,757,586
U.S. government agency notes	18,130,094	-	18,130,094
Commercial paper	12,456,839	12,456,839	-
		\$ 13,951,414	\$ 20,887,680
Private equities	716,030		
	\$ 35,555,124		

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. Memorial Health has a formal investment policy that meets the compliance requirements of the provisions of state law. The Investment policy guides the investments of funds in order to mitigate risk and generate investment income while preserving and maintaining sufficient liquidity to meet Memorial Health's objectives. As a means of limiting its exposure to fair value losses arising from rising interest rates, Memorial Hospital's investment policy limits at least 15% of its investment portfolio in certificates of deposits and investments with maximum maturities of five years. The money market mutual funds are presented as an investment with a maturity of less than one year because the average maturity of the funds is less than one year.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2017 and 2016, Memorial Health's investments in U. S. government agency securities not directly guaranteed by the U. S. government were rated AA+ by Standard & Poor's.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Memorial Health will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Memorial Health's investment policy meets the compliance requirements of the provisions of state law.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	<u>2017</u>	<u>2016</u>
Carrying value:		
Deposits	\$ 38,042,302	\$ 43,817,893
Investments	53,921,637	35,555,124
	<u>\$ 91,963,939</u>	<u>\$ 79,373,017</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 21,110,126	\$ 27,351,973
Short-term investments	16,161,736	15,417,195
Noncurrent cash and Investments	1,686,419	3,360,219
Long-term Investments	53,005,658	33,243,630
	<u>\$ 91,963,939</u>	<u>\$ 79,373,017</u>

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Note 4: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

	2017			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Negotiable certificates of deposits	\$ 4,819,388	\$ -	\$ 4,819,388	\$ -
U.S. government securities	19,154,259	-	19,154,259	-
Commercial paper	29,305,826	-	29,305,826	-
Private equities	642,164	-	-	642,164
	<u>\$ 53,921,637</u>	<u>\$ -</u>	<u>\$ 53,279,473</u>	<u>\$ 642,164</u>

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

	2016			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Negotiable certificates of deposits	\$ 4,252,161	\$ -	\$ 4,252,161	\$ -
U.S. government securities	18,130,094	-	18,130,094	-
Commercial paper	12,456,839	-	12,456,839	-
Private equities	716,030	-	-	716,030
	<u>\$ 35,555,124</u>	<u>\$ -</u>	<u>\$ 34,839,094</u>	<u>\$ 716,030</u>

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The private equities category includes several investments in limited partnership joint ventures. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions are received through the liquidation of underlying assets of the fund. These investments are intended to be held. The fair values of the investments in this category have been estimated using Memorial Health's ownership interests in partners' capital. The joint ventures are discussed in further detail in *Note 5*.

Note 5: Investment in Joint Ventures

During 1996, Memorial Health Foundation and two other area health care entities formed Health Partners, Ltd. (Health Partners), for which Memorial Hospital has a 33.33% ownership interest. This corporation was formed to provide management services to the clinic of a major area corporation. In 1996, Memorial Hospital contributed \$100,000 to Health Partners through Memorial Health Foundation. During 2017 and 2016, Memorial Hospital received distributions of \$98,642 and \$224,578, respectively, through Memorial Health Foundation.

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

During 2003, Memorial Health Foundation and other area health providers formed Marysville Ohio Medical Properties, LLC, of which Memorial Hospital has a 46.88% ownership interest. Memorial Health was formed as the property owner for the Marysville Ohio Surgery Center facility. During 2003, Memorial Hospital contributed through Memorial Health Foundation \$130,000. During 2017 and 2016, Memorial Hospital received distributions of \$86,250 and \$33,750, respectively, through Memorial Health Foundation.

During 2014, Memorial Health Foundation and other health providers formed Mahoney Dialysis, LLC, of which Memorial Hospital has a 6.00% ownership. Memorial Health was formed to provide dialysis and renal care services and related services to the area. During 2014, Memorial Hospital contributed \$106,020 through Memorial Health Foundation. During 2017 and 2016, Memorial Hospital received distributions of \$46,558 and \$54,986, respectively, through Memorial Health Foundation.

During 2016, Memorial Health Foundation and other health providers formed City Gate MOB, LLC, of which Memorial Health Foundation has a 15.80% ownership interest. During 2016, Memorial Hospital contributed \$150,000 through Memorial Health Foundation. During 2017, Memorial Hospital received distributions of \$28,702 through Memorial Health Foundation. There were no distributions during 2016.

During 2017, Memorial Hospital entered into an operating rental lease agreement with Urbana MOB LLC. As part of the formation of Urbana MOB LLC and lease agreement entered into with Memorial Hospital, Memorial Health Foundation was given a 10% ownership interest as a Class B member. Memorial Health Foundation was not required to contribute any initial capital upon creation of Urbana MOB LLC and did not receive any distributions in 2017.

Note 6: Patient Accounts Receivable

Memorial Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2017 and 2016 consisted of:

	<u>2017</u>	<u>2016</u>
Medicare	12%	12%
Medicaid	10%	4%
Other third-party payers	56%	66%
Patients	22%	18%
	<u>100%</u>	<u>100%</u>

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2017 and 2016

Note 7: Capital Assets

Capital assets activity for the years ended December 31 were:

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 2,610,973	\$ 789,796	\$ -	\$ -	\$ 3,400,769
Land improvements	3,853,652	26,182	-	(9,909)	3,869,925
Buildings and leasehold improvements	53,327,120	1,205,970	-	15,838	54,548,928
Equipment	46,515,438	1,971,746	19,983	(5,929)	48,461,272
Construction in progress	436,806	1,545,264	-	-	1,982,070
	<u>106,743,989</u>	<u>5,538,958</u>	<u>19,983</u>	<u>-</u>	<u>112,262,964</u>
Less accumulated depreciation:					
Land improvements	1,817,250	196,897	-	660	2,014,807
Buildings and leasehold improvements	27,466,755	1,595,481	-	(908)	29,061,328
Equipment	35,447,010	3,210,263	16,811	248	38,640,710
	<u>64,731,015</u>	<u>5,002,641</u>	<u>16,811</u>	<u>-</u>	<u>69,716,845</u>
Capital assets, net	<u>\$ 42,012,974</u>	<u>\$ 536,317</u>	<u>\$ 3,172</u>	<u>\$ -</u>	<u>\$ 42,546,119</u>
	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$7,121,773	\$ -	\$ 4,510,800	\$ -	\$ 2,610,973
Land improvements	4,119,372	39,171	304,891	-	3,853,652
Buildings and leasehold improvements	53,190,670	646,526	510,076	-	53,327,120
Equipment	44,598,174	2,553,553	636,289	-	46,515,438
Construction in progress	-	436,806	-	-	436,806
	<u>109,029,989</u>	<u>3,676,056</u>	<u>5,962,056</u>	<u>-</u>	<u>106,743,989</u>
Less accumulated depreciation:					
Land improvements	1,858,905	254,594	296,249	-	1,817,250
Buildings and leasehold improvements	26,255,272	1,562,207	350,724	-	27,466,755
Equipment	32,422,032	3,669,800	644,822	-	35,447,010
	<u>60,536,209</u>	<u>5,486,601</u>	<u>1,291,795</u>	<u>-</u>	<u>64,731,015</u>
Capital assets, net	<u>\$ 48,493,780</u>	<u>\$ (1,810,545)</u>	<u>\$ 4,670,261</u>	<u>\$ -</u>	<u>\$ 42,012,974</u>

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Note 8: Contributions Receivable

During 2015, Memorial Health Foundation began the Memorial 2020 Capital Campaign for expansion and renovation of Memorial Hospital. Pledges receivable associated with the campaign, net of the present value discount rate of 3%, as of December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Due within one year	\$ 662,436	\$ 456,479
Due in one to five years	<u>1,679,643</u>	<u>1,072,297</u>
	2,342,079	1,528,776
Less unamortized discount	<u>(97,592)</u>	<u>(82,673)</u>
	<u><u>\$ 2,244,487</u></u>	<u><u>\$ 1,446,103</u></u>

Note 9: Accounts Payable, Accrued Liabilities and Other Current Liabilities

Accounts payable and accrued expenses included in current liabilities at December 31, 2017 and 2016 consisted of:

	<u>2017</u>	<u>2016</u>
Payable to suppliers and contractors	\$ 3,935,486	\$ 3,716,206
Payroll and related amounts	5,482,060	4,907,197
Employee health insurance	791,271	474,154
Workers' compensation premiums	281,000	301,000
Payable to pension plans and employer match for payroll accruals	886,914	844,257
Other	<u>714,362</u>	<u>344,532</u>
	<u><u>\$ 12,091,093</u></u>	<u><u>\$ 10,587,346</u></u>

Note 10: Heart Pavilion Collaboration Agreement

On January 1, 2011, Memorial Hospital entered into cardiovascular collaboration and management service agreements with The Ohio State University (OSU) to provide cardiovascular services to Memorial 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, 2017 and 2016, Memorial Hospital had amounts accrued approximating \$370,000 and \$515,000, respectively, for amounts due to OSU relating to revenues during 2017 and 2016, respectively.

Memorial Hospital of Union County

Notes to Financial Statements

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Note 11: Medical Malpractice Claims

Based on the nature of its operations, Memorial Health is at times subject to pending or threatened legal actions, which arise in the normal course of activities. Memorial Hospital purchases medical malpractice insurance under a claims-made (or occurrence-basis) policy on a fixed premium basis, whereby 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, Memorial Hospital bears the risk of the ultimate costs of any individual claims exceeding \$1,000,000 or aggregate claims exceeding \$3,000,000, for the cost of claims during the policy year. In addition, Memorial Hospital has an umbrella policy with an additional \$5,000,000 of coverage.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Memorial Hospital is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits and as a result, based upon Memorial Hospital's claims experience, no such accrual has been made. The cost of this insurance policy represents Memorial Hospital's cost for such claims for the year, and has been charged to operations as a current expense. It is reasonably possible that this estimate could change materially in the near term.

Note 12: Employee Health Claims

Substantially all of Memorial Health's employees and their dependents are eligible to participate in Memorial Health's employee health insurance plan. Memorial Health is partially self-insured for health claims of participating employees and dependents. Memorial Health also purchases a stop-loss policy covering claims over \$125,000 per covered person and up to an aggregate of \$1,000,000. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that Memorial Health's estimate will change by a material amount in the near term.

Activity in Memorial Health's accrued employee health claims liability during 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 474,154	\$ 638,577
Current year claims incurred and changes in estimates for claims incurred in prior years	5,605,463	4,451,382
Claims and expenses paid	<u>(5,288,346)</u>	<u>(4,615,805)</u>
Balance, end of year	<u>\$ 791,271</u>	<u>\$ 474,154</u>

Memorial Hospital of Union County

Notes to Financial Statements

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Note 13: Deferred Compensation

Any employee of Memorial Hospital and Memorial Gables 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.

Note 14: Long-Term Debt Obligations

The following is a summary of long-term debt obligation transactions of Memorial Health for the years ended December 31:

	2017				
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt:					
Hospital Facilities					
Revenue Bonds:					
Series 2016	\$ 10,000,000	\$ -	\$ (223,753)	\$ 9,776,247	\$ 237,697
Series 2017	-	123,250	-	123,250	-
Union County General					
Obligation Bonds:					
Series 2016A	4,950,000	-	(505,000)	4,445,000	520,000
Series 2016B	6,970,000	-	(185,000)	6,785,000	225,000
Commercial Installment Note	19,575	-	(19,575)	-	-
Capital lease obligations	55,041	-	(55,041)	-	-
	<u>21,994,616</u>	<u>123,250</u>	<u>(988,369)</u>	<u>21,129,497</u>	<u>982,697</u>
Unamortized bond premiums	1,320,802	-	(107,909)	1,212,893	71,559
	<u>23,315,418</u>	<u>123,250</u>	<u>(1,096,278)</u>	<u>22,342,390</u>	<u>1,054,256</u>
Total long-term debt	\$ 23,315,418	\$ 123,250	\$ (1,096,278)	\$ 22,342,390	\$ 1,054,256

Memorial Hospital of Union County

Notes to Financial Statements December 31, 2017 and 2016

	2016				
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt:					
Hospital Facilities					
Revenue Bonds:					
Series 2011	\$ 7,912,265	\$ -	\$ (7,912,265)	\$ -	\$ -
Series 2014	3,179,031	-	(3,179,031)	-	-
Series 2016	-	10,000,000	-	10,000,000	223,753
Union County General					
Obligation Bonds:					
Series 2003	655,000	-	(655,000)	-	-
Series 2005	5,420,000	-	(5,420,000)	-	-
Series 2007	7,830,000	-	(7,830,000)	-	-
Series 2016A	-	5,725,000	(775,000)	4,950,000	505,000
Series 2016B	-	6,970,000	-	6,970,000	185,000
Commercial Installment Note	251,309	-	(231,734)	19,575	19,575
Capital lease obligations	391,084	-	(336,043)	55,041	55,041
	<u>25,638,689</u>	<u>22,695,000</u>	<u>(26,339,073)</u>	<u>21,994,616</u>	<u>988,369</u>
Unamortized bond premiums	-	1,368,961	(48,159)	1,320,802	102,883
	<u>\$ 25,638,689</u>	<u>\$ 24,063,961</u>	<u>\$ (26,387,232)</u>	<u>\$ 23,315,418</u>	<u>\$ 1,091,252</u>

Hospital Facilities Revenue Bonds, Series 2011 (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 Memorial 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. The bonds were repurchased and paid in full during 2016 as part of the issuance of the Series 2016 Hospital Facilities Revenue Bonds.

Hospital Facilities Revenue Bonds, Series 2014 - Dated December 31, 2014, were issued in the amount of \$3,222,001 with an interest rate of 1.97% to refinance the 2009 Hospital Facilities Revenue Bonds. The bonds were paid in full during 2016.

Hospital Facilities Revenue Bonds, Series 2016 - Dated December 14, 2016, were issued in the amount of \$10,000,000 with an interest rate of 2.33% issued to redeem the Series 2011 (Heart Pavilion Project) Hospital Facilities Revenue Bonds, and for capital project costs. The bonds are subject to mandatory tender on December 1, 2023 and mature on December 1, 2046.

Hospital Facilities Revenue Bonds, Series 2017 - On December 28, 2017, Memorial Hospital entered into a bond purchase agreement with PNC Bank, National Association, for the issuance of its Hospital Facilities Improvement Revenue Bonds, Series 2017 in the aggregate principal amount not to exceed \$17,150,000 for its Memorial 2020 campus revitalization project. The bonds were authorized on a 3 year drawdown basis for use on the project with any amounts remaining from the authorized amounts being disbursed to Memorial Hospital on December 28, 2020. The bonds were issued with a variable interest rate during the drawdown period through December 28, 2020 with a forward fixed interest rate of 2.92% to December 1, 2024. Principal payments commence on February 1, 2021 with interest paid monthly beginning on February 1, 2018. The bonds are subject to mandatory tender on December 1, 2024 and mature on December 1, 2047.

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Union County General Obligation Various Purpose Refunding Bonds, Series 2003 - Dated April 1, 2003, were issued in the amount of \$8,740,000 to finance the acquisition and construction of capital improvements to Memorial Hospital's facilities, including redesigning of the obstetrics unit and various other projects. The bonds were repurchased and paid in full during 2016 as part of the issuance of the Series 2016A Union County General Obligation Various Purpose Refunding Bonds.

Union County General Obligation Various Purpose Refunding Bonds, Series 2005 - 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 bonds were repurchased and paid in full during 2016 as part of the issuance of the Series 2016A Union County General Obligation Various Purpose Refunding Bonds.

Union County General Obligation Various Purpose Refunding Bonds, Series 2007 - 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 Memorial Hospital. The bonds were repurchased and paid in full during 2016 as part of the issuance of the Series 2016B Union County General Obligation Various Purpose Refunding Bonds.

Union County General Obligation Various Purpose Refunding Bonds, Series 2016A - Dated May 18, 2016, were issued in the amount of \$5,725,000 with a variable interest rate ranging from 2.00% to 4.00% to refinance the Series 2003 and Series 2005 Union County General Obligation Various Purpose Refunding Bonds. The bonds mature in full on December 1, 2025.

Union County General Obligation Various Purpose Refunding Bonds, Series 2016B - Dated May 18, 2016, were issued in the amount of \$6,970,000 with a variable interest rate ranging from 1.00% to 5.00% to refinance the Series 2007 Union County General Obligation Various Purpose Refunding Bonds. The bonds mature in full on December 1, 2033.

In April 2018, Union County, Ohio completed its offering of \$28,000,000 County of Union, Ohio General Obligation Bonds, Series 2018 for Memorial Hospital's second phase of its Memorial 2020 campus revitalization project. The Memorial 2020 campus revitalization project includes constructing an inpatient tower, ambulatory health center for medical oncology, ambulatory services, health center, diabetes center, and physician practice space, as well as completing various improvements of existing Memorial Health sites. Components of the 2018 Project are anticipated to be completed at various completion dates through fall 2019 with a project budget of approximately \$54,000,000.

Memorial Health executed a Master Trust Indenture with the County and PNC Bank whereby the County and PNC Bank executed the revenue and general obligation bonds on behalf of Memorial Health. Under the terms of the agreement, Memorial Health agreed to assume liability of the debt obligations and has pledged a security interest in substantially all of its assets to the County, PNC Bank, and any other creditor for future debt obligations. Memorial Hospital is also bound by terms under the master trust indenture to various debt covenants.

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The debt service requirements as of December 31, 2017 are as follows:

Years Ending December 31,	Total to be Paid	Principal	Interest ^(A)
2018	\$ 1,545,964	\$ 982,697	\$ 563,267
2019	1,546,364	1,013,374	532,990
2020	1,543,214	1,048,576	494,638
2021	1,672,013	1,218,372	453,641
2022	1,547,564	1,136,214	411,350
2023-2027	6,978,705	5,467,095	1,511,610
2028-2032	5,046,480	4,147,387	899,093
2033-2037	2,838,396	2,340,545	497,851
2038-2042	2,330,391	1,998,022	332,369
2043-2046	1,864,312	1,777,215	87,097
	<u>\$ 26,913,403</u>	<u>\$ 21,129,497</u>	<u>\$ 5,783,906</u>

^(A) Anticipated interest expense, net of amortization of deferred bond premiums on the Series 2016A and Series 2016B General Obligation Various Purpose Refunding Bonds

Capital Lease Obligations

Memorial Hospital has entered into various lease obligations for capital equipment which are considered capital leases. Assets under capital leases at December 31, 2017 are as follows:

Memorial Hospital has a \$2,950,000 commercial installment note, proceeds from which were used to purchase medical buildings in December 2006. The note was secured by related property with a net book value of \$2,324,660 at December 31, 2016. The remaining balance of the note was paid in full during 2017.

In 2011, Memorial Hospital leased PACS software and equipment used in its operations under a capital lease. This lease included interest at 2.50% with monthly payments of \$14,552 through December 2016. The capital lease obligation terminated during 2016, with no remaining net book value of the leased asset at December 31, 2016.

In 2012 Memorial Hospital leased a CT scanner under a capital lease. This lease included interest at 1.25% with monthly payments of \$12,778 through June 2017. Depreciation of the asset under the capital lease was included in depreciation expense for 2016. The lease was secured by the equipment with a net book value of \$50,984 at December 31, 2016. The capital lease obligation was paid in full during 2017 with no remaining net book value of the leased asset at December 31, 2017.

Memorial Hospital of Union County

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In 2012, Memorial Hospital leased a CT scanner under a capital lease. This lease included interest at 1.25% with monthly payments of \$1,018 through June 2017. Depreciation of the asset under the capital lease was included in depreciation expense for 2016. The lease was secured by the equipment with a net book value of \$4,065 at December 31, 2016. The capital lease obligation was paid in full during 2017 with no remaining net book value of the leased asset at December 31, 2017.

Note 15: Operating Leases

Noncancellable operating leases for equipment and building rentals expire in various years through 2032. These leases generally contain renewal options for periods ranging from 1 to 5 years and require Memorial Hospital to pay all executory costs (property taxes, maintenance and insurance). Future minimum lease payments at December 31, 2017, were:

2018	\$ 3,335,579
2019	3,298,486
2020	3,322,347
2021	3,278,232
2022	3,073,470
2023-2027	12,928,274
2028-2032	<u>9,408,505</u>
Future minimum lease payments	<u>\$ 38,644,893</u>

Rent expense for all operating leases approximated \$3,676,000 and \$3,615,000 during 2017 and 2016, respectively.

Note 16: Pension Plans

Plan Descriptions

Memorial Hospital and Memorial Gables are participating employers of Memorial Health contributing to the Ohio Public Employees Retirement System (OPERS) which administers two cost-sharing multiple-employer defined benefit pension plans and one defined contribution pension plan. All employees of participating employers are required to join the Ohio Public Employees Retirement System (OPERS). OPERS' three pension plans are described below and are discussed in greater detail in the following sections:

1. The Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan.

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2. The Member-Directed (MD) Plan - a defined contribution pension plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan - a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS issues a stand-alone financial report, these reports may be obtained by contacting OPERS as follows:

OPERS
277 East Town Street
Columbus, Ohio 43215-4642
Telephone (800) 222-7377
www.opers.org

Benefits Provided

Plan benefits for OPERS are established under Chapter 145 of the Ohio Revised Code (ORC). Members are categorized into three groups with varying provisions of the law applicable to each group. Members who were eligible to retire on January 7, 2013 and those eligible to retire no later than five years after that date comprise transition group A. Members who have 20 years of service credit prior to January 7, 2013 or are eligible to retire no later than 10 years after January 7, 2013 are included in transition group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013. Additionally, OPERS has three separate divisions with varying degrees of benefits: (1) state and local, (2) law enforcement and (3) public safety. Memorial Health does not have any employees included in the public safety or law enforcement divisions.

Benefits for state and local members are calculated on the basis of age, final average salary, and service credit. State and local members in transition groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. State and local members of group C are eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. Final average salary represents the average of the three highest years of earnings over a member's career for groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefit receive a percentage reduction in the benefit amount.

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OPERS offers a combined plan that has elements of both a defined benefit and defined contribution plan. In the Combined Plan, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit. Eligibility requirements under the combined plan for age and years of service are identical to the defined benefit plan described earlier. The benefit formula for the defined benefit component of the plan for state and local members in transition groups A and B applies a factor of 1.0% to the member's final average salary for the first 30 years of service. A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition group C applies a factor of 1.0% to the member's final average salary and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit.

A cost-of-living adjustment (COLA) is provided each year and is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

All employees are required to become contributing members of OPERS when they begin employment at Memorial Health unless they are exempted or excluded as defined by the ORC. For actuarial purposes, employees who have earned sufficient service credit (60 contributing months) are entitled to a future benefit from OPERS. As of December 31, 2017 and 2016, approximately 796 and 787 employees participated in the OPERS defined benefit pension plans, respectively, and 43 and 42 employees participated in the defined contribution pension plan, respectively. Memorial Health's proportionate share of inactive members is included in the net pension liability and net pension asset as discussed in the following notes.

Contributions

The ORC provides OPERS statutory authority over employee and employer contributions. The required statutorily determined contribution rates of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The statutorily required contribution rates for all three plans for the employee and Memorial Health, stated as a percent of covered payroll, are as follows for the years ended December 31, 2017 and 2016:

	<u>OPERS</u>
Employee	10%
Memorial Health	14%

Memorial Hospital of Union County

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For the years ended December 31, 2017 and 2016, contributions to the defined benefit pension plans from Memorial Health were as follows:

	OPERS	
	2017	2016
Traditional Plan	\$ 4,466,211	\$ 3,941,380
Combined Plan	261,595	234,186
Total	\$ 4,727,806	\$ 4,175,566

Pension Liabilities and Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of December 31, 2017 and 2016, Memorial Health reported a net pension liability and net pension asset for its share of the OPERS defined benefit plans as follows:

	Net Pension Liability (Asset)	
	2017	2016
Traditional Plan	\$ 57,692,706	\$ 44,205,070
Combined Plan	(281,688)	(212,021)

The net pension liability and net pension asset were measured as of December 31, 2016 and December 31, 2015 and the total pension liability and total pension asset used to calculate the net pension liability and net pension asset were determined by an actuarial valuation as of that date. Memorial Health's proportion of the net pension liability and net pension asset were based on its share of contributions to the respective defined benefit pension plans relative to the contributions of all participating employers during the measurement period. At December 31, 2017, Memorial Health's proportionate share was 0.254060% for the Traditional Plan and 0.506115% for the Combined Plan. At December 31, 2016, Memorial Health's proportionate share was 0.255207% for the Traditional Plan and 0.435700% for the Combined Plan. Memorial Health's change in proportionate share between the two years was -0.001147% and 0.070415% for the Traditional and Combined Plans, respectively.

For the years ended December 31, 2017 and 2016, Memorial Health recognized pension expense related to the defined benefit pension plans of \$12,580,092 and \$7,368,847 as follows:

	Pension Expense	
	2017	2016
Traditional Plan	\$ 12,386,605	\$ 7,231,694
Combined Plan	193,487	137,153
	\$ 12,580,092	\$ 7,368,847

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At December 31, 2017 and 2016, Memorial Health reported deferred outflows of resources and deferred inflows of resources related to defined benefit pensions from the following sources:

	2017					
	Traditional Plan		Combined Plan		Total Defined Benefit Plans	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 78,198	\$ 343,358	\$ -	\$ 144,065	\$ 78,198	\$ 487,423
Net difference between projected and actual earnings on pension plan investments	8,591,775	-	68,727	-	8,660,502	-
Change in actuarial assumptions	9,150,770	-	68,653	-	9,219,423	-
Change in Memorial Health's proportionate share of the net pension liability (asset)	86,919	-	-	-	86,919	-
Memorial Health's contributions subsequent to the measurement date	4,466,211	-	261,595	-	4,727,806	-
	<u>\$ 22,373,873</u>	<u>\$ 343,358</u>	<u>\$ 398,975</u>	<u>\$ 144,065</u>	<u>\$ 22,772,848</u>	<u>\$ 487,423</u>

	2016					
	Traditional Plan		Combined Plan		Total Defined Benefit Plans	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 854,128	\$ -	\$ 96,747	\$ -	\$ 950,875
Net difference between projected and actual earnings on pension plan investments	12,993,529	-	91,543	-	13,085,072	-
Change in Memorial Health's proportionate share of the net pension liability (asset)	429,479	-	-	19,367	429,479	19,367
Memorial Health's contributions subsequent to the measurement date	3,941,380	-	234,186	-	4,175,566	-
	<u>\$ 17,364,388</u>	<u>\$ 854,128</u>	<u>\$ 325,729</u>	<u>\$ 116,114</u>	<u>\$ 17,690,117</u>	<u>\$ 970,242</u>

At December 31, 2017, Memorial Health reported \$4,727,806 as deferred outflows of resources related to pensions resulting from Memorial Health's contributions subsequent to the measurement date and will be recognized as a decrease (increase) in the net pension liability (asset) for the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2017, related to pensions will be recognized in pension expense as follows:

	2017		
	Traditional Plan	Combined Plan	Total Defined Benefit Plans
2018	\$ 7,360,555	\$ 7,414	\$ 7,367,969
2019	7,452,386	7,414	7,459,800
2020	3,050,196	4,440	3,054,636
2021	(251,846)	(19,914)	(271,760)
2022	-	(17,344)	(17,344)
Thereafter	-	(35,682)	(35,682)
	<u>\$ 17,611,291</u>	<u>\$ (53,672)</u>	<u>\$ 17,557,619</u>

Memorial Hospital of Union County

Notes to Financial Statements December 31, 2017 and 2016

Actuarial Assumptions

The total pension liability and total pension asset for the years ended December 31, 2017 and 2016 were determined using the following actuarial valuations and actuarial assumptions for the respective plans:

OPERS Traditional Plan	2017	2016
Valuation date	December 31, 2016	December 31, 2015
Experience study	5-year period ended December 31, 2015	5-year period ended December 31, 2010
Actuarial cost method	Individual entry age	Individual entry age
Wage inflation	3.25%	3.75%
Projected salary increases	3.25% - 10.75% including wage inflation at 3.25%	4.25% - 10.05% including wage inflation at 3.75%
Investment rate of return	7.50%	8.00%
Cost-of-living adjustments	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.15% simple	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.80% simple

OPERS Combined Plan	2017	2016
Valuation date	December 31, 2016	December 31, 2015
Experience study	5-year period ended December 31, 2015	5-year period ended December 31, 2010
Actuarial cost method	Individual entry age	Individual entry age
Wage inflation	3.25%	3.75%
Projected salary increases	3.25% - 8.25% including wage inflation at 3.25%	4.25% - 8.05% including wage inflation at 3.75%
Investment rate of return	7.50%	8.00%
Cost-of-living adjustments	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.15% simple	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.80% simple

Mortality rates for OPERS are the RP-2014 Healthy For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvements back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both health and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

The long-term expected rate of return on OPERS defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage, adjusted for inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	OPERS Defined Benefit Plans	
	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	20.70%	6.34%
International equities	18.30%	7.95%
Fixed income	23.00%	2.75%
Real estate	10.00%	4.75%
Private equity	10.00%	8.97%
Other investments	18.00%	4.92%
	<u>100.00%</u>	<u>5.66%</u>

Discount Rate

The discount rate used to measure the total pension liability and total pension asset was 7.5% and 8.0% for the years ended December 31, 2017 and 2016, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total pension asset.

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Sensitivity of Memorial Health's Proportionate Share of the Net Pension Liability and Net Pension Asset to Changes in the Discount Rate

Memorial Health's proportionate share of the net pension liability and net pension asset as of December 31, 2017 has been calculated using a discount rate of 7.5%. The following presents Memorial Health's combined proportionate share of the net pension liability and net pension asset calculated using a discount rate 1% higher and 1% lower than the current rate as follows.

	2017		
	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Traditional Plan Net Pension Liability	\$ 88,138,495	\$ 57,692,706	\$ 32,321,513
Combined Plan Net Pension Asset	(20,245)	(281,688)	(516,237)

Pension Plan Fiduciary Net Position

Detailed information about the pension plans' fiduciary net position is available in the separately issued OPERS financial report.

Payable to the Pension Plans

At December 31, 2017 and 2016, Memorial Health reported a payable for its employer share of contributions to the pension plans of approximately \$387,000 and \$323,000, respectively, for an outstanding amount of statutorily required contributions to the pension plans for the years ended December 31, 2017 and 2016, respectively.

Defined Contribution Plans

OPERS also offers a defined contribution plan, the Member-Directed Plan (MD). The MD plan does not provide disability benefits, annual cost-of-living adjustments, postretirement health care benefits or death benefits to plan members and beneficiaries. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options.

Pension expense recorded for the years ended December 31, 2017 and 2016 for employer contributions to the Member-Directed Plan was approximately \$501,000 and \$481,000.

Memorial Hospital of Union County

Notes to Financial Statements December 31, 2017 and 2016

Other Postemployment Benefits

OPERS provides postemployment health care benefits to retirees with ten or more years of qualifying service credit under the Traditional Pension and Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan benefits include a medical plan, prescription drug program and Medicare Part B premium reimbursement. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code (ORC) permits, but does not require OPERS to provide Other Postemployment Benefits (OPEB) to its eligible benefit recipients. Authority to establish and amend health care coverage is provided in Chapter 145 of the ORC.

Each year the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For the calendar years ended December 31, 2017 and 2016, OPERS allocated 1.0% and 2.0%, respectively, of the employer contribution rate to fund the health care program for members in the Traditional Pension Plan and Combined Plan. The allocated percentages are the statutorily required contribution rates for OPERS, payment amounts vary depending on the number of covered dependents and the coverage selected. Hospital employer contributions to OPERS to fund OPEB for the years ended December 31, 2017 and 2016 approximated \$364,000 and \$696,000, respectively.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing on January 1, 2014. OPERS expects to be able to consistently allocate 4.0% of the employer contributions toward the health care fund after the end of the transition period.

Note 17: Contingencies

Litigation

In the normal course of business, Memorial Health is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by Memorial Health's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. Memorial Health evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Note 18: Future Changes in Accounting Principles

Other Postemployment Benefits

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* (GASB 75), as they relate to governments that provide postemployment benefits other than pensions administered as trusts or similar arrangements that meet certain criteria. GASB 75 requires governments providing postemployment benefits to recognize their long-term obligation for postemployment benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of postemployment benefits. GASB 75 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions in GASB 75 are effective for fiscal years beginning after June 15, 2017; therefore, Memorial Health's fiscal year 2018. The impact of applying this statement has not been determined.

Leases

GASB Statement No. 87, *Leases*, supersedes and amends the requirements in previous statements of the National Council on Governmental Accounting (NCGAS) and Governmental Accounting Standards Board (GASB) as they relate to standards of accounting and financial reporting for leases by lessees and lessors. GASB 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the agreement. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Note 19: Blended Component Units

The financial statements of Memorial Hospital of Union County include the financial statements of Memorial Gables, Memorial Health Foundation and Memorial Medical Group, which are blended component units of Memorial Hospital as determined by GASB Statements No. 61 and No. 80. The following is a summary of the financial statements of Memorial Hospital and its blended component units as of and for the years ended December 31, 2017 and 2016:

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Assets and Deferred Outflows of Resources

December 31, 2017

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminations	Total
Current Assets						
Cash and cash equivalents	\$ 18,063,497	\$ 1,144,204	\$ 1,563,843	\$ 338,582	\$ -	\$ 21,110,126
Short-term investments	15,405,708	-	756,028	-	-	16,161,736
Patient accounts receivable, net of allowance; \$6,834,403	10,775,339	674,096	-	1,351,807	-	12,801,242
Contributions receivable	-	-	662,436	-	-	662,436
Estimated amounts due from third-party payers	-	-	-	-	-	-
Supplies	908,296	-	-	-	-	908,296
Prepaid expenses and other current assets	1,835,763	14,028	-	-	-	1,849,791
Due from affiliate	418,779	78,394	-	-	(497,173)	-
Total current assets	<u>47,407,382</u>	<u>1,910,722</u>	<u>2,982,307</u>	<u>1,690,389</u>	<u>(497,173)</u>	<u>53,493,627</u>
Noncurrent Cash and Investments						
Internally designated for specific purpose	386,258	31,430	-	-	-	417,688
Restricted by donors for capital improvements	216,086	-	-	-	-	216,086
Bond proceeds - restricted for capital improvements	1,052,645	-	-	-	-	1,052,645
	<u>1,654,989</u>	<u>31,430</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,686,419</u>
Long-Term Investments	51,049,468	1,314,026	642,164	-	-	53,005,658
Other Assets	262,500	-	-	-	-	262,500
Capital Assets, Net	36,865,433	5,680,686	-	-	-	42,546,119
Contributions Receivable, Net	-	-	1,582,051	-	-	1,582,051
Net Pension Asset	251,235	30,453	-	-	-	281,688
Total assets	<u>137,491,007</u>	<u>8,967,317</u>	<u>5,206,522</u>	<u>1,690,389</u>	<u>(497,173)</u>	<u>152,858,062</u>
Deferred Outflows of Resources - Pensions	20,417,461	2,355,387	-	-	-	22,772,848
Total assets and deferred outflows of resources	<u>\$ 157,908,468</u>	<u>\$ 11,322,704</u>	<u>\$ 5,206,522</u>	<u>\$ 1,690,389</u>	<u>\$ (497,173)</u>	<u>\$ 175,630,910</u>

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Liabilities, Deferred Inflows of Resources and Net Position

December 31, 2017

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminations	Total
Current Liabilities						
Current maturities of long-term debt	\$ 722,606	\$ 331,650	\$ -	\$ -	\$ -	\$ 1,054,256
Accounts payable	4,198,018	216,494	-	81,475	-	4,495,987
Accrued salaries, wages, and related accruals	5,730,179	535,654	-	384,141	-	6,649,974
Estimated amounts due to third-party payers	680,000	25,000	-	-	-	705,000
Other current liabilities	871,078	9,173	-	64,881	-	945,132
Due to affiliate	78,394	-	55,144	363,635	(497,173)	-
Total current liabilities	<u>12,280,275</u>	<u>1,117,971</u>	<u>55,144</u>	<u>894,132</u>	<u>(497,173)</u>	<u>13,850,349</u>
Long-Term Debt	18,713,523	2,574,611	-	-	-	21,288,134
Accrued Compensated Absences	980,460	66,668	-	-	-	1,047,128
Other Liabilities	262,500	-	-	-	-	262,500
Net Pension Liability	<u>51,455,673</u>	<u>6,237,033</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,692,706</u>
Total liabilities	<u>83,692,431</u>	<u>9,996,283</u>	<u>55,144</u>	<u>894,132</u>	<u>(497,173)</u>	<u>94,140,817</u>
Deferred Inflows of Resources - Pensions	<u>434,729</u>	<u>52,694</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>487,423</u>
Net Position						
Net investment in capital assets	17,429,304	2,774,425	-	-	-	20,203,729
Restricted - expendable for						
Capital improvements	216,086	-	2,244,487	-	-	2,460,573
Pensions	251,235	30,453	-	-	-	281,688
Unrestricted	<u>55,884,683</u>	<u>(1,531,151)</u>	<u>2,906,891</u>	<u>796,257</u>	<u>-</u>	<u>58,056,680</u>
Total net position	<u>73,781,308</u>	<u>1,273,727</u>	<u>5,151,378</u>	<u>796,257</u>	<u>-</u>	<u>81,002,670</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 157,908,468</u>	<u>\$ 11,322,704</u>	<u>\$ 5,206,522</u>	<u>\$ 1,690,389</u>	<u>\$ (497,173)</u>	<u>\$ 175,630,910</u>

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Statement of Revenues, Expenses and Changes in Net Position

	Year Ended December 31, 2017					Total
	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminations	
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts; \$7,496,926	\$ 103,109,938	\$ 9,110,347	\$ -	\$ 7,408,141	\$ -	\$ 119,628,426
Other	5,487,332	300	-	5,104,135	(5,124,546)	5,467,221
Total operating revenues	<u>108,597,270</u>	<u>9,110,647</u>	<u>-</u>	<u>12,512,276</u>	<u>(5,124,546)</u>	<u>125,095,647</u>
Operating Expenses						
Salaries and wages	37,665,335	4,513,284	-	7,763,588	(345,541)	49,596,666
Employee benefits	18,506,751	2,353,163	-	1,251,940	-	22,111,854
Purchased services	14,288,945	1,022,820	-	1,668,547	345,541	17,325,853
Professional fees	4,805,335	27,676	-	-	-	4,833,011
Supplies	10,603,802	854,820	-	259,526	-	11,718,148
Utilities	1,445,865	282,744	37,465	65,629	-	1,831,703
Insurance	410,229	35,121	-	169,627	-	614,977
Depreciation and amortization	4,593,203	409,438	-	-	-	5,002,641
Other operating expenses	12,222,048	176,436	466,776	758,016	(5,124,546)	8,498,730
Total expenses and losses	<u>104,541,513</u>	<u>9,675,502</u>	<u>504,241</u>	<u>11,936,873</u>	<u>(5,124,546)</u>	<u>121,533,583</u>
Operating Income (Loss)	<u>4,055,757</u>	<u>(564,855)</u>	<u>(504,241)</u>	<u>575,403</u>	<u>-</u>	<u>3,562,064</u>
Nonoperating Revenues (Expenses)						
Investment income	616,828	10,298	192,114	-	-	819,240
Interest expense	(516,283)	(82,154)	-	-	-	(598,437)
Loss on sale and disposal of capital assets	(3,093)	(79)	-	-	-	(3,172)
Noncapital grants and gifts	426,517	-	75,835	-	-	502,352
Total nonoperating revenues (expenses)	<u>523,969</u>	<u>(71,935)</u>	<u>267,949</u>	<u>-</u>	<u>-</u>	<u>719,983</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Gifts	4,579,726	(636,790)	(236,292)	575,403	-	4,282,047
Capital Gifts	-	-	1,433,172	-	-	1,433,172
Increase (Decrease) in Net Position	4,579,726	(636,790)	1,196,880	575,403	-	5,715,219
Net Position, Beginning of Year	69,201,582	1,910,517	3,954,498	220,854	-	75,287,451
Net Position, End of Year	<u>\$ 73,781,308</u>	<u>\$ 1,273,727</u>	<u>\$ 5,151,378</u>	<u>\$ 796,257</u>	<u>\$ -</u>	<u>\$ 81,002,670</u>

Statement of Cash Flows

	Year Ended December 31, 2017					Total
	Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminations	
Cash provided by (used in):						
Operating activities	\$ 17,217,622	\$ 557,915	\$ (480,925)	\$ 182,610	\$ -	\$ 17,477,222
Noncapital financing activities	426,517	-	75,835	-	-	502,352
Capital and related financing activities	(6,087,300)	(755,380)	634,788	-	-	(6,207,892)
Investing activities	(20,481,060)	(299,999)	(21,894)	-	-	(20,802,953)
Increase (Decrease) in Cash and Cash Equivalents	<u>(8,924,221)</u>	<u>(497,464)</u>	<u>207,804</u>	<u>182,610</u>	<u>-</u>	<u>(9,031,271)</u>
Cash and cash equivalents - beginning of year	27,527,083	1,673,098	1,356,039	155,972	-	30,712,192
Cash and cash equivalents - end of year	<u>\$ 18,602,862</u>	<u>\$ 1,175,634</u>	<u>\$ 1,563,843</u>	<u>\$ 338,582</u>	<u>\$ -</u>	<u>\$ 21,680,921</u>

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2017 and 2016

Assets and Deferred Outflows of Resources

December 31, 2016

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminations	Total
Current Assets						
Cash and cash equivalents	\$ 24,515,646	\$ 1,609,970	\$ 1,070,385	\$ 155,972	\$ -	\$ 27,351,973
Short-term investments	14,949,041	-	468,154	-	-	15,417,195
Patient accounts receivable, net of allowance; \$6,143,963	10,500,283	902,935	-	641,512	-	12,044,730
Contributions receivable	-	-	456,479	-	-	456,479
Estimated amounts due from third-party payers	1,084,809	-	-	-	-	1,084,809
Supplies	891,610	-	-	-	-	891,610
Prepaid expenses and other current assets	1,445,921	10,364	-	3,284	-	1,459,569
Due from affiliate	320,225	-	-	-	(320,225)	-
	<u>53,707,535</u>	<u>2,523,269</u>	<u>1,995,018</u>	<u>800,768</u>	<u>(320,225)</u>	<u>58,706,365</u>
Noncurrent Cash and Investments						
Internally designated for specific purpose	489,547	63,128	-	-	-	552,675
Restricted by donors for capital improvements	210,395	-	285,654	-	-	496,049
Bond proceeds - restricted for capital improvements	2,311,495	-	-	-	-	2,311,495
	<u>3,011,437</u>	<u>63,128</u>	<u>285,654</u>	<u>-</u>	<u>-</u>	<u>3,360,219</u>
Long-Term Investments	31,523,871	1,003,729	716,030	-	-	33,243,630
Other Assets	315,000	-	-	-	-	315,000
Capital Assets, Net	36,222,960	5,790,014	-	-	-	42,012,974
Contributions Receivable, Net	-	-	989,624	-	-	989,624
Net Pension Asset	187,875	24,146	-	-	-	212,021
Total assets	<u>124,968,678</u>	<u>9,404,286</u>	<u>3,986,326</u>	<u>800,768</u>	<u>(320,225)</u>	<u>138,839,833</u>
Deferred Outflows of Resources - Pensions	15,768,298	1,921,819	-	-	-	17,690,117
Total assets and deferred outflows of resources	<u>\$ 140,736,976</u>	<u>\$ 11,326,105</u>	<u>\$ 3,986,326</u>	<u>\$ 800,768</u>	<u>\$ (320,225)</u>	<u>\$ 156,529,950</u>

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2017 and 2016

Liabilities, Deferred Inflows of Resources and Net Position

December 31, 2016

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminations	Total
Current Liabilities						
Current maturities of long-term debt	\$ 730,518	\$ 360,734	\$ -	\$ -	\$ -	\$ 1,091,252
Accounts payable	3,710,660	187,288	-	37,033	-	3,934,981
Accrued salaries, wages, and related accruals	5,232,297	450,530	-	369,627	-	6,052,454
Estimated amounts due to third-party payers	705,000	147,397	-	-	-	852,397
Other current liabilities	557,987	9,964	-	31,960	-	599,911
Due to affiliate	-	147,103	31,828	141,294	(320,225)	-
Total current liabilities	10,936,462	1,303,016	31,828	579,914	(320,225)	12,530,995
Long-Term Debt	19,320,419	2,903,747	-	-	-	22,224,166
Accrued Compensated Absences	933,084	63,942	-	-	-	997,026
Other Liabilities	315,000	-	-	-	-	315,000
Net Pension Liability	39,170,685	5,034,385	-	-	-	44,205,070
Total liabilities	70,675,650	9,305,090	31,828	579,914	(320,225)	80,272,257
Deferred Inflows of Resources - Pensions	859,744	110,498	-	-	-	970,242
Net Position						
Net investment in capital assets	18,483,518	2,525,533	-	-	-	21,009,051
Restricted - expendable for						
Capital improvements	210,395	-	1,731,757	-	-	1,942,152
Pensions	187,875	24,146	-	-	-	212,021
Unrestricted	50,319,794	(639,162)	2,222,741	220,854	-	52,124,227
Total net position	69,201,582	1,910,517	3,954,498	220,854	-	75,287,451
Total liabilities, deferred inflows of resources and net position	\$ 140,736,976	\$ 11,326,105	\$ 3,986,326	\$ 800,768	\$ (320,225)	\$ 156,529,950

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2017 and 2016

Statement of Revenues, Expenses and Changes in Net Position

	Year Ended December 31, 2016					Total
	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminations	
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts; \$7,208,365	\$ 101,856,805	\$ 9,126,817	\$ -	\$ 5,168,825	\$ -	\$ 116,152,447
Other	3,968,948	-	-	2,752,508	(3,376,755)	3,344,701
Total operating revenues	<u>105,825,753</u>	<u>9,126,817</u>	<u>-</u>	<u>7,921,333</u>	<u>(3,376,755)</u>	<u>119,497,148</u>
Operating Expenses						
Salaries and wages	35,758,479	4,559,606	-	5,170,008	909,329	46,397,422
Employee benefits	13,609,079	1,821,964	-	713,561	-	16,144,604
Purchased services	14,482,573	928,969	-	915,145	(909,329)	15,417,358
Professional fees	4,538,922	30,219	-	-	-	4,569,141
Supplies	11,201,476	774,780	-	240,525	-	12,216,781
Utilities	1,466,858	285,083	37,199	62,533	-	1,851,673
Insurance	430,692	40,096	-	127,021	-	597,809
Depreciation and amortization	5,084,570	402,031	-	-	-	5,486,601
Other operating expenses	9,331,524	173,024	473,055	467,233	(3,556,407)	6,888,429
Total expenses and losses	<u>95,904,173</u>	<u>9,015,772</u>	<u>510,254</u>	<u>7,696,026</u>	<u>(3,556,407)</u>	<u>109,569,818</u>
Operating Income (Loss)	<u>9,921,580</u>	<u>111,045</u>	<u>(510,254)</u>	<u>225,307</u>	<u>179,652</u>	<u>9,927,330</u>
Nonoperating Revenues (Expenses)						
Investment income	414,131	3,729	(11,628)	-	-	406,232
Interest expense	(1,064,800)	(110,297)	-	-	-	(1,175,097)
Gain (loss) on sale and disposal of capital assets	(696,041)	97,974	-	-	-	(598,067)
Noncapital grants and gifts	463,529	26,490	499,315	-	(179,652)	809,682
Total nonoperating revenues (expenses)	<u>(883,181)</u>	<u>17,896</u>	<u>487,687</u>	<u>-</u>	<u>(179,652)</u>	<u>(557,250)</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Gifts	<u>9,038,399</u>	<u>128,941</u>	<u>(22,567)</u>	<u>225,307</u>	<u>-</u>	<u>9,370,080</u>
Capital Gifts	<u>-</u>	<u>-</u>	<u>1,510,013</u>	<u>-</u>	<u>-</u>	<u>1,510,013</u>
Increase in Net Position	<u>9,038,399</u>	<u>128,941</u>	<u>1,487,446</u>	<u>225,307</u>	<u>-</u>	<u>10,880,093</u>
Net Position, Beginning of Year	<u>60,163,183</u>	<u>1,781,576</u>	<u>2,467,052</u>	<u>(4,453)</u>	<u>-</u>	<u>64,407,358</u>
Net Position, End of Year	<u>\$ 69,201,582</u>	<u>\$ 1,910,517</u>	<u>\$ 3,954,498</u>	<u>\$ 220,854</u>	<u>\$ -</u>	<u>\$ 75,287,451</u>

Statement of Cash Flows

	Year Ended December 31, 2016					Total
	Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminations	
Cash provided by (used in):						
Operating activities	\$ 17,047,908	\$ 792,520	\$ (482,076)	\$ 62,730	\$ 179,652	\$ 17,600,734
Noncapital financing activities	463,529	26,490	499,315	-	(179,652)	809,682
Capital and related financing activities	(1,977,672)	(534,754)	(5,382)	-	-	(2,517,808)
Investing activities	(6,692,391)	(1,000,000)	397,216	-	-	(7,295,175)
Increase (Decrease) in Cash and Cash Equivalents	<u>8,841,374</u>	<u>(715,744)</u>	<u>409,073</u>	<u>62,730</u>	<u>-</u>	<u>8,597,433</u>
Cash and cash equivalents - beginning of year	<u>18,685,709</u>	<u>2,388,842</u>	<u>946,966</u>	<u>93,242</u>	<u>-</u>	<u>22,114,759</u>
Cash and cash equivalents - end of year	<u>\$ 27,527,083</u>	<u>\$ 1,673,098</u>	<u>\$ 1,356,039</u>	<u>\$ 155,972</u>	<u>\$ -</u>	<u>\$ 30,712,192</u>

Required Supplementary Information

Memorial Hospital of Union County

Schedules of Memorial Health's Proportionate Share of the Net Pension Liability (Asset) Ohio Public Employees Retirement System (OPERS)

Traditional Defined Benefit Pension Plan	<u>2017</u>	<u>2016</u>	<u>2015</u>
Memorial Health's proportion of the net pension liability	25.00%	0.26%	0.25%
Memorial Health's proportionate share of the net pension liability	\$ 57,692,706	\$ 44,205,070	\$ 30,129,878
Memorial Health's covered-employee payroll	\$ 32,844,837	\$ 31,763,039	\$ 26,251,089
Memorial Health's proportionate share of the net pension liability as a percentage of its covered-employee payroll	175.65%	139.17%	114.78%
Plan fiduciary net position as a percentage of the total pension liability	77.25%	81.08%	86.45%

Combined Defined Benefit Pension Plan	<u>2017</u>	<u>2016</u>	<u>2015</u>
Memorial Health's proportion of the net pension asset	51.00%	0.44%	0.36%
Memorial Health's proportionate share of the net pension asset	\$ 281,688	\$ 212,021	\$ 138,945
Memorial Health's covered-employee payroll	\$ 1,951,549	\$ 1,585,600	\$ 1,130,680
Memorial Health's proportionate share of the net pension asset as a percentage of its covered-employee payroll	14.43%	13.37%	12.29%
Plan fiduciary net position as a percentage of the total pension asset	116.55%	116.90%	114.83%

For the years ended December 31, 2017 and 2016, the above amounts are presented as of the date of the actuarial valuation of December 31, 2016 and December 31, 2015, respectively.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, Memorial Health will present information for those years for which information has been determined under the provisions of GASB Statements No. 68 and No. 71. Information in these schedules has been determined as of the measurement date (December 31 of the prior fiscal year) of the collective net pension liability (asset).

Memorial Hospital of Union County
Schedule of Memorial Health's Contributions
Ohio Public Employees Retirement System (OPERS)

Traditional Defined Benefit Pension Plan	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 4,466,211	\$ 3,941,380	\$ 4,448,902
Contributions in relation to the statutorily required contributions	<u>(4,466,211)</u>	<u>(3,941,380)</u>	<u>(4,448,902)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Memorial Health's covered-employee payroll	34,355,465	32,844,837	37,074,183
Contributions as a percentage of covered-employee payroll	13.00%	12.00%	12.00%
Combined Defined Benefit Pension Plan	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 261,595	\$ 234,186	\$ 221,984
Contributions in relation to the statutorily required contributions	<u>(261,595)</u>	<u>(234,186)</u>	<u>(221,984)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Memorial Health's covered-employee payroll	2,012,271	1,951,549	1,849,867
Contributions as a percentage of covered-employee payroll	13.00%	12.00%	12.00%

The above amounts are presented as of December 31, 2017 and December 31, 2016, respectively.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, Memorial Health will present information for those years for which information has been determined under the provisions of GASB Statements No. 68 and No. 71. Information in these schedules has been determined as of the measurement date (December 31 of the prior fiscal year) of the collective net pension liability (asset).

Memorial Hospital of Union County

Notes to Required Supplementary Information

Changes of Benefit Terms

Amounts reported in 2015 for OPERS reflect the following plan changes:

- The minimum age and number of years of service required to receive an unreduced benefit were each increased by two years for members in the state and local divisions. The minimum retirement age required for law enforcement members did not change, however, the minimum retirement age was increased by two years.
- Final average salary (FAS) increased to the highest five years (up from three years).
- The benefit multiplier used for the first 30 years (2.2% of FAS) was increased to the first 35 years of service.
- Age and service reduction factors changed to represent actuarially determined rates for each year a member retires before attaining full retirement.
- The Cost of Living Adjustment (COLA) was changed for new retirees from a simple 3% applied to the benefit value at date of retirement, to a rate based on the change in the Consumer Price Index, not to exceed 3%.

Amounts reported in 2015 for OPERS reflect the following plan changes:

- No COLAs were granted for the fiscal year ended June 30, 2014 and reduced to 2% for future periods. COLA deferred until the fifth anniversary of retirement for members retiring after July 1, 2013.
- New members require five years of qualifying service credit to be eligible for survivor benefits and 10 years of service of qualifying service to be eligible for disability benefits.

Changes of Assumptions

In 2016, the OPERS' Board of Trustees' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions for the actuarial valuation as of December 31, 2016 used for the Hospital's 2017 fiscal year. Amounts reported in the Hospital's 2017 fiscal year for the OPERS pension plans reflect the following change of assumptions from the amounts reported for the 2016 fiscal year based on the experience study:

- Actuarially assumed expected rate of investment return decreased from 8.0% to 7.5%.
- Actuarially assumed wage inflation decreased from 3.75% to 3.25%.
- Projected salary increases range changed from 4.25% – 10.05% to 3.25% – 10.75% for the Traditional Pension Plan and changed from 4.25% – 8.05% to 3.25% – 8.25%.
- Mortality assumptions increased to reflect longer life expectancies.

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*

Independent Auditor's Report

Board of Trustees
Memorial Hospital of Union County
Marysville, Ohio

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Memorial Hospital of Union County (Memorial Hospital), an enterprise fund of Union County, Ohio, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated April 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Memorial Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Memorial Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of Memorial Hospital's internal control.

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

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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Cincinnati, Ohio
April 26, 2018

Memorial Hospital of Union County
Schedule of Findings and Responses
Year Ended December 31, 2017

**Reference
Number**

Finding

No matters are reportable.

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Dave Yost • Auditor of State

MEMORIAL HOSPITAL OF UNION COUNTY

UNION COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 24, 2018**