

# **MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES**

**COMBINED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2014 AND 2013**

*CPAs / ADVISORS*







# Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Memorial Hospital of Union County and Affiliates, Union County, prepared by Blue & Co., LLC, for the audit period January 1, 2014 through December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

May 6, 2015

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# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## TABLE OF CONTENTS DECEMBER 31, 2014 AND 2013

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	Page
<b>Report of Independent Auditors</b> .....	1
<b>Required Supplementary Information</b>	
Management's Discussion and Analysis (unaudited) .....	i-x
<b>Combined Financial Statements</b>	
Combined Balance Sheets .....	4
Combined Statements of Operations and Changes in Net Position .....	6
Combined Statements of Cash Flows .....	7
Notes to Combined Financial Statements .....	9
<b>Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards</b> .....	36
<b>Supplementary Information</b>	
Combining Balance Sheet .....	38
Combining Statement of Operations and Changes in Net Position .....	40

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*blueandco.com*

## REPORT OF INDEPENDENT AUDITORS

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

To the Board of Trustees:

### ***Report on the Financial Statements***

We have audited the accompanying combined financial statements of the business-type activities of Memorial Hospital of Union County and Affiliates (the Hospital) as of and for the years ended December 31, 2014 and 2013, and the related notes to the combined financial statements, which collectively comprise the Hospital's basic combined financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

Board of Trustees  
Memorial Hospital of Union County and Affiliates

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

***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Hospital as of December 31, 2014 and 2013, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Relationship to Union County***

We draw attention to Note 1, which describes the financial statements of Memorial Hospital of Union County and Affiliates are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of Union County that is attributable to the transactions of Memorial Hospital of Union County and Affiliates. They do not purport to, and do not present fairly the financial position of Union County as of December 31, 2014 and 2013, the changes in its financial position or its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

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

Board of Trustees  
Memorial Hospital of Union County and Affiliates

*Report on Combining Information*

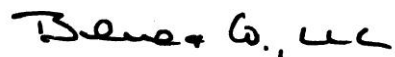
Our audit was conducted to opine on the Hospital's basic combined financial statements taken as a whole.

The combining information on pages 38 through 40 present additional analysis and is not a required part of the basic combined financial statements.

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance



Columbus, Ohio  
March 27, 2015



# Memorial Hospital of Union County and Affiliates

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

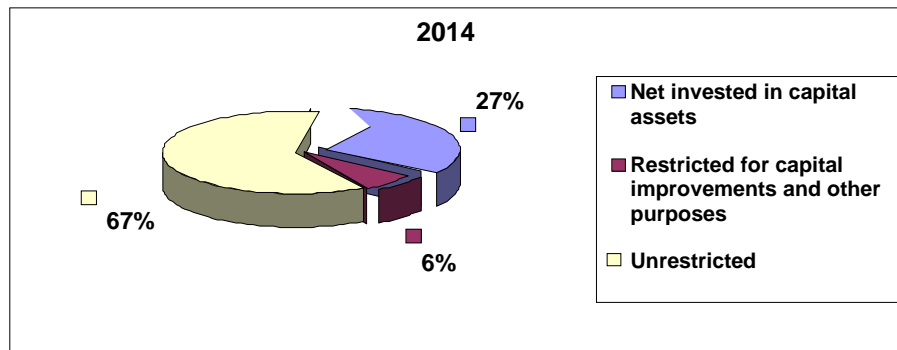
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The management's discussion and analysis of Memorial Hospital, Memorial Gables, Memorial Medical Group and Memorial Health Foundation (collectively, the "Hospital") provides an overview of the combined financial activities for the year ended December 31, 2014. Management is responsible for the completeness and fairness of the combined financial statements and the related footnote disclosures along with the management's discussion and analysis.

### Financial Highlights

The combined financial position of the Hospital improved in 2014. In total, the Hospital's net position increased approximately \$10.8 million in 2014. Operating revenues increased from approximately \$94.8 million in 2013 to approximately \$102.9 million in 2014. Income from operations increased to approximately \$10.8 million in 2014 from approximately \$9.7 million in 2013. Cash and cash equivalents, including assets limited as to use, increased by approximately \$8.6 million.

The following chart provides a breakdown of net position by category at December 31, 2014.



### Using This Annual Report

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

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

# Memorial Hospital of Union County and Affiliates

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

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

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

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

### **The Statement of Cash Flows**

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

# Memorial Hospital of Union County and Affiliates

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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### Condensed Financial Information

The following is a comparative analysis of the major components of the balance sheets of the Hospital as of December 31, 2014, 2013 and 2012:

	December 31		
	2014	2013	2012
<b>Assets</b>			
Current assets	\$ 69,100,943	\$ 61,758,384	\$ 55,956,518
Noncurrent assets	1,252,774	1,143,913	466,373
Capital assets	50,224,266	48,166,245	48,503,681
Total assets	<u>\$ 120,577,983</u>	<u>\$ 111,068,542</u>	<u>\$ 104,926,572</u>
<b>Liabilities</b>			
Current liabilities	\$ 10,538,715	\$ 9,561,255	\$ 10,748,628
Long-term liabilities	29,389,449	31,671,569	33,753,928
Total liabilities	<u>\$ 39,928,164</u>	<u>\$ 41,232,824</u>	<u>\$ 44,502,556</u>
<b>Net position</b>			
Net invested in capital assets	\$ 22,109,961	\$ 17,266,213	\$ 14,915,192
Restricted	4,911,433	3,871,672	4,725,554
Unrestricted	53,628,425	48,697,833	40,783,270
Total net position	<u>\$ 80,649,819</u>	<u>\$ 69,835,718</u>	<u>\$ 60,424,016</u>

Current assets increased approximately 12%, driven by an increase in cash. Total liabilities decreased approximately 3% during the year as a result of debt payments made in 2014. Unrestricted net position increased approximately 10% due to positive operating results.

# Memorial Hospital of Union County and Affiliates

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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### Operating Results and Changes in the Hospital's Net Position

The following is a comparative analysis of the combined statements of operations and changes in net position for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
<b>Operating revenues</b>			
Net patient service revenue	\$ 99,515,008	\$ 90,989,592	\$ 87,195,877
Other operating revenue	3,347,145	3,837,983	3,437,961
Total operating revenues	102,862,153	94,827,575	90,633,838
<b>Operating expenses</b>			
Salaries and wages	39,521,418	36,776,044	34,053,886
Employee benefits and payroll taxes	10,725,331	9,068,873	10,205,785
Supplies and other	15,145,159	14,006,623	13,727,878
Professional services and consultant fees	4,562,350	4,050,766	3,666,218
Purchased services	14,957,429	14,525,438	12,915,069
Insurance	633,325	618,190	646,987
Utilities	1,551,388	1,310,983	1,415,356
Depreciation and amortization	4,931,706	4,746,562	4,162,693
Total operating expenses	92,028,106	85,103,479	80,793,872
<b>Operating Income</b>	10,834,047	9,724,096	9,839,966
<b>Other income (expense)</b>			
Interest income	188,953	121,574	161,617
Noncapital grants and contributions	475,332	363,102	468,427
Interest expense	(1,058,542)	(1,043,148)	(968,851)
Other	374,311	246,078	153,908
Total other income (expense)	(19,946)	(312,394)	(184,899)
<b>Change in net position</b>	10,814,101	9,411,702	9,655,067
<b>Net position, beginning of year</b>	69,835,718	60,424,016	50,768,949
<b>Net position, end of year</b>	\$ 80,649,819	\$ 69,835,718	\$ 60,424,016

# Memorial Hospital of Union County and Affiliates

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

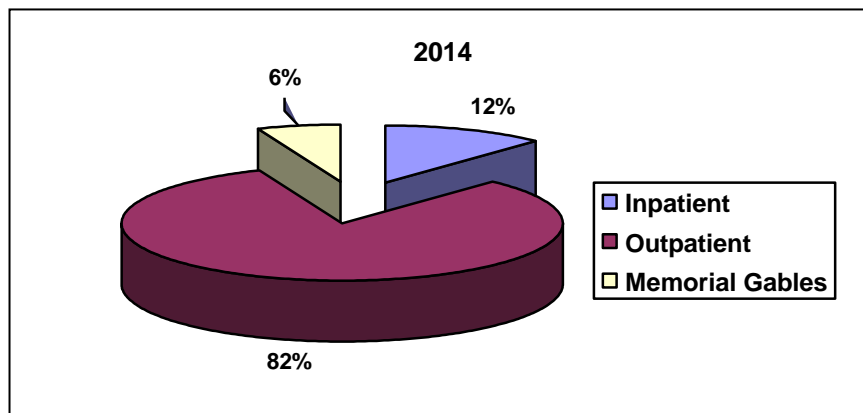
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### Operating Revenues

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

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased approximately \$8.5 million. This was attributable to increases in gross rates charged and service level changes in inpatient and outpatient services.
- The following is a graphic illustration of patient revenues by source:



# Memorial Hospital of Union County and Affiliates

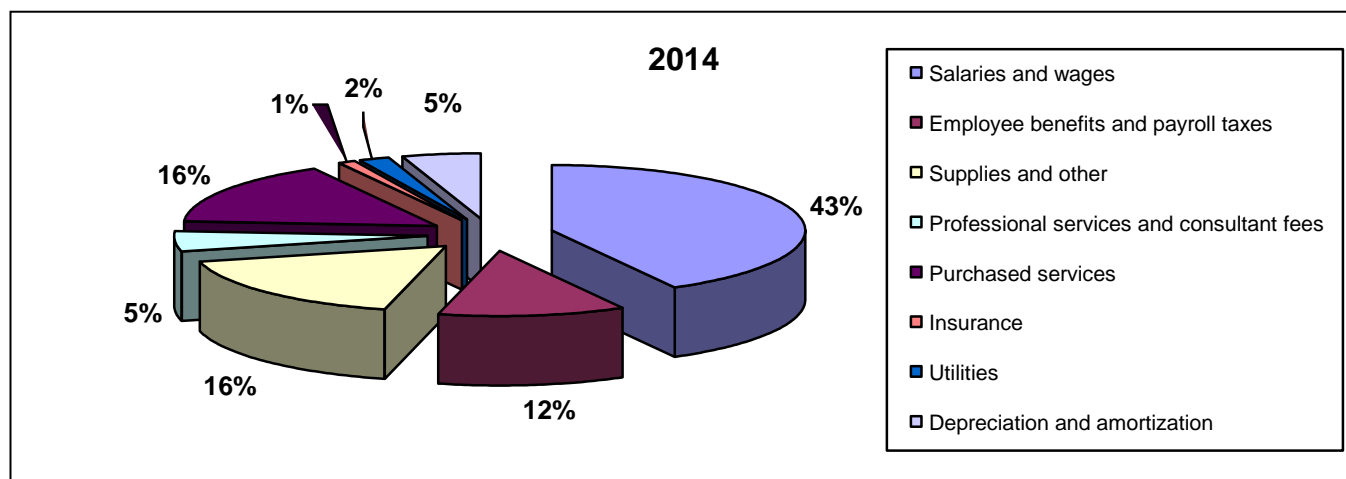
## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### Operating Expenses

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

- Salaries and wages increased 7.5% due to pay rate increases and increased full time equivalents.
- Employee benefits increased 18.3% due to an increase in salaries and an increase in employee health claims.
- Professional services and consultant fees increased 12.6% primarily due to new branding associated with the new logo.
- Supplies and other increased 8.1% due to an increase in patient service activity.

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



### Other Income (Expense)

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

Significant changes were the result of the following factors:

- Grants and contributions increased approximately \$112,000.
- Income from joint ventures increased approximately \$128,000.
- Interest income increased approximately \$67,000

# Memorial Hospital of Union County and Affiliates

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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### Statement of Cash Flows

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

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

	Year Ended December 31		
	2014	2013	2012
Cash provided by (used in):			
Operating activities	\$ 18,706,318	\$ 10,251,779	\$ 14,288,818
Capital and related financing activities	(10,467,165)	(7,741,915)	(4,182,453)
Investing activities	11,315	(60,761)	409,109
Noncapital financing activities	374,311	246,078	153,908
Total	8,624,779	2,695,181	10,669,382
Cash - beginning of year	47,183,211	44,488,030	33,818,648
Cash - end of year	<u>\$ 55,807,990</u>	<u>\$ 47,183,211</u>	<u>\$ 44,488,030</u>

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

Net cash flows provided by operating activities increased from the prior year due mainly to an increase in cash received from patients and third parties offset by cash payments to suppliers and to employees for salaries and wages.

Net cash used by capital and related financing activities increased from the prior year due to more capital asset additions in the current year.

# Memorial Hospital of Union County and Affiliates

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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### **Capital Asset and Debt Administration**

#### **Capital Assets**

At December 31, 2014, the Hospital had approximately \$107.9 million invested in capital assets. Accumulated depreciation totaled approximately \$57.6 million. Net capital assets totaled approximately \$50.2 million. Depreciation totaled approximately \$4.9 million during the year compared to approximately \$4.7 million in 2013. A summary is shown below.

	December 31		
	2014	2013	2012
<u>Capital assets not being depreciated</u>			
Land	\$ 7,064,944	\$ 6,456,994	\$ 6,456,994
Construction in progress	7,742	-	9,049,411
Subtotal	7,072,686	6,456,994	15,506,405
 <u>Capital assets being depreciated - net of accumulated depreciation</u>			
Land improvements	2,491,483	2,672,895	1,973,010
Buildings and improvements	28,158,887	28,693,764	21,348,974
Major moveable equipment	11,586,996	9,066,013	8,053,365
Property under capital leases	914,214	1,276,579	1,621,927
Subtotal	43,151,580	41,709,251	32,997,276
Total	\$ 50,224,266	\$ 48,166,245	\$ 48,503,681

#### **Debt**

At year end, the Hospital had approximately \$28.1 million in long-term debt and capital lease obligations outstanding compared to approximately \$30.9 million the previous year. The table below summarizes these amounts by year.

	December 31		
	2014	2013	2012
Total leases and bonds	\$ 28,114,305	\$ 30,900,032	\$ 33,588,489

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



# Memorial Hospital of Union County and Affiliates

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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### **Economic Factors that Will Affect the Future**

In December 2014, Memorial Hospital opened a 34,000 square foot multi story medical office building in the City Gate plaza. The new building, owned by an independent third party, now houses our relocated urgent care center, the Marysville Orthopedic and Sports Medicine practice, imaging center, lab draw station and physical therapy and sports performance department. As an addition, the new outpatient imaging center includes the county's first Open MRI. This equipment has been in high demand over the last several years and we are excited to offer it to those residents in Union and surrounding counties. The entire top floor of the building was specifically developed to offer expanded sports performance training and therapy for our athletes and patients. The new building will allow Memorial to bring new and advancing services to the community.

As we look into 2015 and future years, we expect to see certain economic factors continue to impact the future of healthcare in Union County. Health care reform is here and will be a mainstay in our future. To exactly what extent, is the question most health systems seem to be asking.

In early 2014, we began to see health insurance exchange patients present for service in Union County. Currently, there are several providers offering coverage in the area. However, due to the infancy of the program and overall lack of demand of the product, Memorial has not been impacted by the plans. For those patients that have presented for service, there seems to be confusion with insurance cards and plan types, access to coverage and participating and non-participating plans. While many Ohioans obtained coverage through the exchange program, the State of Ohio is currently in the process of re-determining benefits to a large number of recipients that have not submitted the appropriate paperwork to the state. Failure to submit the required information will result in a disenrollment in coverage. Hospitals are being asked, if their systems allow, to assist by contacting any individual that had coverage during the last year and asking them to contact their local Job and Family Services office.

The Ohio franchise fee calculation continues to be an area of concern for many hospitals. Memorial will pay in to the program over \$1,000,000 this year. Granted, we do see an offset in the way of payments through the Upper Payment Limit (UPL), but Memorial still shows a net loss from the program. There is concern with the passing of the Governor's new State Budget that there may be an increase to the overall fee calculation and potentially cuts in overall reimbursement. If these changes come to fruition, we will see our loss in the program continue to grow.

# Memorial Hospital of Union County and Affiliates

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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We are in the process of developing a master plan to study the opportunity 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. When the proposed plan is completed, Memorial Hospital's campus and facilities will 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 will allow Memorial Hospital to expand its market share and continue to be a Marysville and Union County Community asset offering first class inpatient and outpatient healthcare services.

After the completion of the master plan, we will work with a third party to establish a forecasted debt capacity analysis to define a potential project size. Depending on the approved size of the project, Memorial will seek to secure its first bond rating and potentially enter the markets in the next few years. To assist in appropriately debt sizing the project, we will lean on the philanthropic efforts of the newly designed Memorial Health Foundation.

Another risk factor pertains to the recent issuance of GASB 68 and 71 (also see notes to the financial statements). These new standards will change the recognition and reporting requirements for public pensions (OPERS). The hospital will now be required to report a portion of the unfunded liability on our financial statements. While the overall structure of the hospital remains unchanged, we will now be required to recognize any shifts in the total net unfunded liability of OPERS. One of the concerns hinges on the fact that Memorial Hospital is required by law to fund the statutory contribution rate of 14%. Unfortunately, we will be required to show a calculated portion of total net liability for all 3,700 OPERS eligible employers. The financial impact of this "paper" entry will be material to certain financial indicators and the potential violation of debt covenants.

### **Contacting the Hospital's Management**

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

Jeff Ehlers  
Chief Financial Officer

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINED BALANCE SHEETS DECEMBER 31, 2014 AND 2013

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	2014	2013
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 50,896,557	\$ 43,311,539
Patient accounts receivable, net of allowances for uncollectible accounts: \$5,693,030 in 2014 and \$5,635,913 in 2013	11,045,343	12,620,857
Assets limited as to use	4,911,433	3,871,672
Prepaid expenses	1,178,653	1,125,926
Inventories	696,279	684,407
Current portion of physician advances receivable	3,750	18,750
Estimated third-party settlements	180,472	-
Other current assets	188,456	125,233
	<hr/>	<hr/>
Total current assets	69,100,943	61,758,384
<b>Capital assets, net</b>	50,224,266	48,166,245
<b>Other assets</b>		
Physician advances receivable, net of current	7,430	11,207
Investment in joint ventures	785,344	607,706
Other assets	460,000	525,000
Total other assets	<hr/> 1,252,774 <hr/>	<hr/> 1,143,913 <hr/>
Total assets	<hr/> <b>\$ 120,577,983</b> <hr/>	<hr/> <b>\$ 111,068,542</b> <hr/>

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See accompanying notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED BALANCE SHEETS  
DECEMBER 31, 2014 AND 2013

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## LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 2,475,616	\$ 2,773,010
Accounts payable	3,699,056	2,902,455
Estimated third-party settlements	-	163,073
Salaries, wages, and related accruals	4,311,543	3,670,217
Other current liabilities	<u>52,500</u>	<u>52,500</u>
Total current liabilities	10,538,715	9,561,255
<b>Long-term debt, net of current portion</b>	25,638,689	28,127,022
<b>Other liabilities</b>		
Accrued compensated absences	3,330,760	3,072,047
Other	<u>420,000</u>	<u>472,500</u>
Total long-term liabilities	<u>29,389,449</u>	<u>31,671,569</u>
Total liabilities	39,928,164	41,232,824
<b>Net position</b>		
Net invested in capital assets	22,109,961	17,266,213
Restricted:		
Nonexpendable permanent endowments	25,000	25,000
Restricted for debt service, capital acquisitions and self-insurance	4,886,433	3,846,672
Unrestricted	<u>53,628,425</u>	<u>48,697,833</u>
Total net position	<u>80,649,819</u>	<u>69,835,718</u>
Total liabilities and net position	<u>\$ 120,577,983</u>	<u>\$ 111,068,542</u>

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See accompanying notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
<b>Operating revenues</b>		
Net patient service revenue	\$ 99,515,008	\$ 90,989,592
Other operating revenue	3,347,145	3,837,983
Total operating revenues	102,862,153	94,827,575
<b>Operating expenses</b>		
Salaries and wages	39,521,418	36,776,044
Employee benefits and payroll taxes	10,725,331	9,068,873
Supplies and other	15,145,159	14,006,623
Professional services and consultant fees	4,562,350	4,050,766
Purchased services	14,957,429	14,525,438
Insurance	633,325	618,190
Utilities	1,551,388	1,310,983
Depreciation and amortization	4,931,706	4,746,562
Total operating expenses	92,028,106	85,103,479
<b>Operating income</b>	10,834,047	9,724,096
<b>Other income (expense)</b>		
Interest income	188,953	121,574
Grants and contributions	475,332	363,102
Interest expense	(1,058,542)	(1,043,148)
Other	374,311	246,078
Total other income (expense)	(19,946)	(312,394)
<b>Change in net position</b>	10,814,101	9,411,702
<b>Net position - beginning of year</b>	69,835,718	60,424,016
<b>Net position - end of year</b>	\$ 80,649,819	\$ 69,835,718

See accompanying notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
<b>Operating activities</b>		
Cash received from patients and third-party payors	\$ 100,746,977	\$ 87,677,149
Cash payments to suppliers for services and goods	(36,041,094)	(35,375,252)
Cash payments to employees for salaries, wages and benefits	(49,346,710)	(45,888,101)
Other operating revenue	3,347,145	3,837,983
Net cash flows from operating activities	18,706,318	10,251,779
<b>Investing activities</b>		
Investment in joint ventures	(177,638)	(182,335)
Proceeds from investments	188,953	121,574
Net cash flows from investing activities	11,315	(60,761)
<b>Cash flows from noncapital financing activities</b>		
Other nonoperating activities	374,311	246,078
Net cash from noncapital financing activities	374,311	246,078
<b>Capital and related financing activities</b>		
Acquisition and construction of capital assets	(7,098,228)	(4,373,412)
Grants and contributions	475,332	363,102
Issuance of long-term debt	3,322,001	-
Interest paid on long-term debt	(1,058,542)	(1,043,148)
Principal payments on long-term debt	(6,107,728)	(2,688,457)
Net cash flows from capital and related financing activities	(10,467,165)	(7,741,915)
<b>Change in cash and cash equivalents</b>	8,624,779	2,695,181
Cash and cash equivalents - beginning of year	47,183,211	44,488,030
Cash and cash equivalents- end of year	\$ 55,807,990	\$ 47,183,211
<b>Balance sheet classification of cash</b>		
Cash and cash equivalents	\$ 50,896,557	\$ 43,311,539
Cash included in assets limited as to use	4,911,433	3,871,672
	\$ 55,807,990	\$ 47,183,211

*See accompanying notes to combined financial statements.*

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINED STATEMENTS OF CASH FLOWS (continued) YEARS ENDED DECEMBER 31, 2014 AND 2013

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

	<u>2014</u>	<u>2013</u>
Operating income	\$ 10,834,047	\$ 9,724,096
<b>Adjustments to reconcile operating income to net cash from operating activities</b>		
Depreciation and amortization	4,931,706	4,746,562
Provision for bad debt	7,094,554	8,247,895
(Gain) loss on disposal of capital assets	108,501	(35,714)
Changes in assets and liabilities		
Patient accounts receivable	(5,519,040)	(11,341,901)
Other assets	(224,517)	17,116
Accounts payable	796,601	(844,654)
Other accrued expenses	684,466	(261,621)
	<u>684,466</u>	<u>(261,621)</u>
Net cash flows from operating activities	<u>\$ 18,706,318</u>	<u>\$ 10,251,779</u>

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See accompanying notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Principles of Combination

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

The combined financial statements for the years ended December 31, 2014 and 2013 included herein consist of the financial positions, results of operations, changes in net position, and cash flows of Memorial Hospital, Memorial Health Foundation, Memorial Medical Group, and Memorial Gables (collectively, the “Hospital”). All intercompany accounts and transactions between all entities have been eliminated.

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

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



# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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The financial statements of Memorial Hospital of Union County and its Affiliates are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Union County that are attributable to the transactions of Memorial Hospital of Union County and Affiliates. They do not purport to, and do not, present fairly the financial position of Union County as of December 31, 2014 and 2013, the changes in its financial position or, where applicable, its cash flows for the years then ended.

### Basis of Presentation

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

### Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

### Cash and Cash Equivalents

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

### Inventories

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

### Investments in Joint Venture

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### Patient Accounts Receivable

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

### Assets Limited as to Use

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

### Capital Assets

Capital assets are recorded at cost or, if donated, at fair value at the date of receipt. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets, ranging from 3 to 30 years. Equipment under capital lease is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation in the financial statements. Costs of maintenance and repairs are charged to expense when incurred.

### Physician Advances Receivable

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### Other Assets

During 2013, the Hospital entered into an agreement with the City of Marysville, Ohio (the City) to obtain the naming rights to a City pavilion. The 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 and is recorded within other assets of the combined balance sheets. The current portion of the liability is recorded within other current liabilities and the long term portion is recorded as "other" within the other liabilities section of the combined balance sheets. During 2014 and 2013, amortization of the asset was \$52,500 and \$0, respectively, and as of December 31, 2014 and 2013, the remaining liability was \$472,500 and \$525,000, respectively.

### Compensated Absences

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

### Restricted Resources

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### Classification of Net Position

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

### Use of Estimates

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

### Operating Revenue and Expenses

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

### Net Patient Service Revenue

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

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

### Contributions

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

### Charity Care

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

Of the Hospital's total reported expenses (approximately \$92,028,000 and \$85,103,000 during 2014 and 2013, respectively), an estimated \$974,000 and \$1,329,000 arose from providing services to charity patients during 2014 and 2013, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses divided by gross patient service revenue. The Hospital participates in the Hospital Care Assurance Program (HCAP) which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled approximately \$914,000 and \$620,000 for 2014 and 2013, respectively, and are reported as net patient service revenue in the combined financial statements.

### Pension Plans

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### Federal Income Tax

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

### Risk Management

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

### Electronic Health Records (EHR) Incentive Payments

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

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2014 and 2013, the Hospital recognized approximately \$805,000 and \$1,184,000, respectively, in EHR incentive payments as grant income using the cliff recognition method. Under the cliff recognition method, the Hospital records income at the end of EHR reporting period in which compliance is achieved. EHR incentive income is included in other operating revenue in the combined statement of operations and changes in net position. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

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

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# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the combined balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued, which is March 27, 2015.

## 2. CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

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

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

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



# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. At year end, the Hospital had approximately \$44,000,000 of bank deposits (certificates of deposits, checking and savings accounts) that were uninsured but were collateralized with securities held by the pledging financial institution. The Hospital believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance it is impractical to insure all deposits. As a result, the Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used.

The Hospital had the following investments and maturities:

December 31, 2014 Certificates of deposit	Carrying Amount	Maturities	
		< than 1 year	1 - 5 years
	\$ 15,887,238	\$ 15,812,238	75,000

### 3. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	2014	2013
Patient accounts receivable	\$ 30,390,214	\$ 33,019,663
Allowance for uncollectible accounts	(5,693,030)	(5,635,913)
Allowance for contractual adjustments	(13,651,841)	(14,762,893)
Patient accounts receivable, net	\$ 11,045,343	\$ 12,620,857

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

	2014		2013	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	25%	37%	30%	37%
Medicaid	14%	13%	9%	11%
Commercial insurance and other	35%	45%	37%	46%
Self-pay	26%	5%	24%	6%
	100%	100%	100%	100%

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 4. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

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

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

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

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying combined financial statements. Cost Reports have been final settled through 2011 for Medicare and 2007 for Medicaid.

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 5. CAPITAL ASSETS

Capital assets for the years ended December 31, 2014 and 2013 were as follows:

	2013	Reclassifica- tions	Additions	Disposals and Adjustments	2014
Capital assets not being depreciated:					
Land and land improvements	\$ 6,456,994	\$ 11,150	\$ 596,800	\$ -	\$ 7,064,944
Construction in progress	-	(2,405,770)	2,432,487	(18,975)	7,742
Subtotal	<u>6,456,994</u>	<u>(2,394,620)</u>	<u>3,029,287</u>	<u>(18,975)</u>	<u>7,072,686</u>
Capital assets being depreciated:					
Land improvements	4,064,722	16,537	66,500	(3,000)	4,144,759
Building	52,272,902	629,803	439,778	(237,439)	53,105,044
Major movable equipment	32,959,189	1,748,280	3,562,663	(452,996)	37,817,136
Property under capital leases	5,733,876	-	-	-	5,733,876
Subtotal	<u>95,030,689</u>	<u>2,394,620</u>	<u>4,068,941</u>	<u>(693,435)</u>	<u>100,800,815</u>
Accumulated depreciation:					
Land improvements	1,391,827	-	263,899	(2,450)	1,653,276
Building	23,579,138	133	1,496,677	(129,791)	24,946,157
Major moveable equipment	23,893,176	(133)	2,808,765	(471,668)	26,230,140
Property under capital leases	4,457,297	-	362,365	-	4,819,662
Subtotal	<u>53,321,438</u>	<u>-</u>	<u>4,931,706</u>	<u>(603,909)</u>	<u>57,649,235</u>
Capital assets, net	<u>\$ 48,166,245</u>	<u>\$ -</u>	<u>\$ 2,166,522</u>	<u>\$ (108,501)</u>	<u>\$ 50,224,266</u>

	2012	Reclassifica- tions	Additions	Disposals and Adjustments	2013
Capital assets not being depreciated:					
Land and land improvements	\$ 6,456,994	\$ -	\$ -	\$ -	\$ 6,456,994
Construction in progress	9,049,411	(10,314,579)	1,300,749	(35,581)	-
Subtotal	<u>15,506,405</u>	<u>(10,314,579)</u>	<u>1,300,749</u>	<u>(35,581)</u>	<u>6,456,994</u>
Capital assets being depreciated:					
Land improvements	3,122,982	938,695	2,423	622	4,064,722
Building	43,544,937	8,374,331	353,634	-	52,272,902
Major movable equipment	29,580,751	1,001,553	2,716,606	(339,721)	32,959,189
Property under capital leases	5,733,876	-	-	-	5,733,876
Subtotal	<u>81,982,546</u>	<u>10,314,579</u>	<u>3,072,663</u>	<u>(339,099)</u>	<u>95,030,689</u>
Accumulated depreciation:					
Land improvements	1,149,972	-	241,855	-	1,391,827
Building	22,195,963	-	1,477,860	(94,685)	23,579,138
Major moveable equipment	21,527,386	-	2,681,499	(315,709)	23,893,176
Property under capital leases	4,111,949	-	345,348	-	4,457,297
Subtotal	<u>48,985,270</u>	<u>-</u>	<u>4,746,562</u>	<u>(410,394)</u>	<u>53,321,438</u>
Capital assets, net	<u>\$ 48,503,681</u>	<u>\$ -</u>	<u>\$ (373,150)</u>	<u>\$ 35,714</u>	<u>\$ 48,166,245</u>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 6. ASSETS LIMITED AS TO USE

Assets limited as to use are reported as current assets. The composition of assets limited as to use at December 31, 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</u>
By board of trustees for capital improvements	\$ 837,982	\$ 681,309
By board of trustees retirement of indebtedness	146,887	6,024
By board of trustees for self-insurance	3,348,049	2,675,462
Held by trustee under bond indenture agreement	<u>553,515</u>	<u>483,877</u>
Total board-designated and trustee held	4,886,433	3,846,672
Principal for permanent endowments	<u>25,000</u>	<u>25,000</u>
Total board-designated and trustee held	<u>\$ 4,911,433</u>	<u>\$ 3,871,672</u>

### 7. SALARIES, WAGES AND RELATED ACCRUALS

The details of accrued liabilities at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Payroll and related items	\$ 3,728,775	\$ 3,276,216
Self-insured benefits	140,651	126,000
Health insurance claims	<u>442,117</u>	<u>268,001</u>
Total salaries, wages and related accruals	<u>\$ 4,311,543</u>	<u>\$ 3,670,217</u>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 8. LONG-TERM DEBT

Long-term debt activity for the year December 31, 2014 was as follows:

	<u>2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>2014</u>	<u>Amounts Due Within One Year</u>
Union County General Obligation Bonds, dated July 1, 2005:					
Serial bonds, 3.50% to 5.00% payable through 2016, in annual installments ranging from \$75,000 to \$680,000	\$ 1,960,000	\$ -	\$ (625,000)	\$ 1,335,000	\$ 655,000
Term bonds, 4.10% due December 1, 2018, mandatory annual sinking fund redemption beginning December 1, 2017, ranging from \$515,000 to \$530,000	1,045,000	-	-	1,045,000	-
Serial bonds, 4.00% to 4.125% payable through 2024, in annual installments ranging from \$555,000 to \$675,000	3,695,000	-	-	3,695,000	-
Union County General Obligation Bonds, dated April 1, 2003:					
Serial bonds, 1.50% to 5.00% payable through 2033, in annual installments ranging from \$25,000 to \$635,000	705,000	-	(25,000)	680,000	25,000
Hospital Facilities Revenue Bonds dated December 1, 2009:					
Term bonds, 4.72% payable through 2015, in monthly installments of \$25,783, and a lump sum due January 1, 2015 of \$3,334,719	3,482,906	-	(3,482,906)	-	-
Hospital Facilities Revenue Bonds dated July 7, 2010:					
Term bonds, 2.51% payable through 2015, in monthly installments of \$73,594	1,368,290	-	(857,789)	510,501	510,501

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

	2013	Additions	Reductions	2014	Amounts Due Within One Year
Hospital Facilities Revenue Bonds dated December 31, 2014:					
Term bonds, 1.97% payable through 2016, in monthly installments of \$18,361 and lump sum payment of \$3,157,900 due on March 1, 2016	-	3,322,001	-	3,322,001	142,970
Commercial Installment Note Note payable, bearing interest at 2.5%, due in monthly installments of \$19,620 through January 1, 2017	697,613	-	(220,349)	477,264	225,955
Union County General Obligation Bonds, Series 2007, dated April 10, 2007: Series bonds, 4.00% to 5.00% payable through 2033, in annual installments ranging from \$334,000 to \$1,010,000	8,255,000	-	(210,000)	8,045,000	215,000
Hospital Facilities Revenue Bonds (Heart Pavilion Project) dated December 13, 2011: Term bonds, 2.40% payable through 2021, in monthly installments of \$47,407	8,646,764	-	(363,072)	8,283,692	371,427
Capital Lease Obligation, interest rate of 2.50%, monthly payments of \$14,552 through December 2016	504,227	-	(163,898)	340,329	168,041
Capital Lease Obligation, interest rate of 1.25%, monthly payments of \$12,778 through June 2017	500,370	-	(147,929)	352,441	149,789
Capital Lease Obligation, interest rate of 1.25%, monthly payments of \$1,038 through June 2017	39,862	-	(11,785)	28,077	11,933
<b>Total long-term debt</b>	<b><u>\$ 30,900,032</u></b>	<b><u>\$ 3,322,001</u></b>	<b><u>\$ (6,107,728)</u></b>	<b><u>\$ 28,114,305</u></b>	<b><u>\$ 2,475,616</u></b>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

Long-term debt activity for the year ended December 31, 2013 follows:

	<u>2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>2013</u>	<u>Amounts Due Within One Year</u>
Union County General Obligation Bonds, dated July 1, 2005:					
Serial bonds, 3.50% to 5.00% payable through 2016, in annual installments ranging from \$75,000 to \$680,000	\$ 2,560,000	\$ -	\$ (600,000)	\$ 1,960,000	\$ 625,000
Term bonds, 4.10% due December 1, 2018, mandatory annual sinking fund redemption beginning December 1, 2017, ranging from \$515,000 to \$530,000	1,045,000	-	-	1,045,000	-
Serial bonds, 4.00% to 4.125% payable through 2024, in annual installments ranging from \$555,000 to \$675,000	3,695,000	-	-	3,695,000	-
Union County General Obligation Bonds, dated April 1, 2003:					
Serial bonds, 1.50% to 5.00% payable through 2033, in annual installments ranging from \$25,000 to \$635,000	730,000	-	(25,000)	705,000	25,000
Hospital Facilities Revenue Bonds dated December 1, 2009:					
Term bonds, 4.72% payable through 2015, in monthly installments of \$25,783, and a lump sum due January 1, 2015 of \$3,334,719	3,624,274	-	(141,368)	3,482,906	148,187
Hospital Facilities Revenue Bonds dated July 7, 2010:					
Term bonds, 2.51% payable through 2015, in monthly installments of \$73,594	2,204,681	-	(836,391)	1,368,290	857,789

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

	2012	Additions	Reductions	2013	Amounts Due Within One Year
Commercial Installment Note					
Note payable, bearing interest at 2.5%, due in monthly installments of \$19,620 through January 1, 2017	912,488	-	(214,875)	697,613	220,349
Union County General Obligation Bonds, Series 2007:					
Series bonds, 4.00% to 5.00% payable through 2033, in annual installments ranging from \$334,000 to \$1,010,000	8,455,000	-	(200,000)	8,255,000	210,000
Hospital Facilities Revenue Bonds (Heart Pavilion Project) dated December 13, 2011:					
Term bonds, 2.40% payable through 2021, in monthly installments of \$47,407	9,000,000	-	(353,236)	8,646,764	363,073
Capital Lease Obligation, interest rate of 2.50%, monthly payments of \$14,552 through December 2016	664,084	-	(159,857)	504,227	163,898
Capital Lease Obligation, interest rate of 1.25%, monthly payments of \$12,778 through June 2017	646,462	-	(146,092)	500,370	147,929
Capital Lease Obligation, interest rate of 1.25%, monthly payments of \$1,018 through June 2017	51,500	-	(11,638)	39,862	11,785
Total long-term debt	<u>\$ 33,588,489</u>	<u>\$ -</u>	<u>\$ (2,688,457)</u>	<u>\$ 30,900,032</u>	<u>\$ 2,773,010</u>

The bonds and notes payable are summarized as follows:

**2014 Hospital Facilities Revenue Bonds** – dated December 31, 2014, were issued in the amount of \$3,322,001 with an interest rate of 1.97% to refinance the 2009 Hospital Facilities Revenue Bonds.

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



# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

**2009 Hospital Facilities Revenue Bonds** – Dated December 1, 2009, were issued in the amount of \$4,000,000 to finance the acquisition of property by the Hospital. The 2009 Bonds were repaid with the proceeds of the 2014 Bond issuance.

**The 2007 Union County General Obligation Bonds** - dated April 10, 2007, were issued in the amount of \$9,750,000 with interest rates ranging from 4.0% to 5.0% to refinance a portion of the 2003 Bonds, retire the 2006 notes and fund capital projects of the Hospital.

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

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

Under the terms of the bond agreements, the Hospital has pledged a security interest in substantially all of its assets. The Hospital is bound by terms under the bond agreements to various debt covenants. The Hospital believes it is in compliance with these covenants at December 31, 2014.

The Hospital has a \$2,950,000 commercial installment note, proceeds from which were used to purchase medical buildings in December 2006. The note is secured by related property with a net book value of \$2,674,265 at December 31, 2014.

In 2011, the Hospital leased PACS software and equipment used in its operations under a capital lease. This lease includes interest at 2.50% with monthly payments of \$14,552 through December 2016. Depreciation of the asset under the capital lease is included in depreciation expense for 2014. The lease is secured by the equipment with a net book value of \$328,000.

In 2012 the Hospital leased a CT scanner under a capital lease. This lease includes interest at 1.25% with monthly payments of \$12,778 through June 2017. Depreciation of the asset under the capital lease is included in depreciation expense for 2014. The lease is secured by the equipment with a net book value of \$346,663.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

In 2012, the Hospital leased a CT scanner under a capital lease. This lease includes interest at 1.25% with monthly payments of \$1,018 through June 2017. Depreciation of the asset under the capital lease is included in depreciation expense for 2014. The lease is secured by the equipment with a net book value of \$27,617.

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

Years Ending December 31	Long-term Debt	
	Principal	Interest
2015	\$ 2,475,616	\$ 844,302
2016	5,056,183	807,611
2017	1,245,188	727,969
2018	1,203,610	650,103
2019	1,249,820	891,653
2020-2024	11,048,888	1,688,883
2025-2029	3,460,000	904,748
2030-2033	2,375,000	256,480
Total	\$ 28,114,305	\$ 6,771,749

The Hospital has various operating lease agreements for equipment and rental space. Minimum lease payments at December 31, 2014 are as follows:

2015	\$ 1,884,929
2016	1,403,363
2017	1,209,444
2018	1,110,701
2019	1,118,353
Thereafter	10,499,304
Total	\$ 17,226,094

Rent expense for all operating leases approximated \$1,921,000 in 2014 and \$2,360,000 in 2013.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 9. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

	<u>2014</u>	<u>2013</u>
Patient Revenue:		
Inpatient services:		
Routine services	\$ 16,800,559	\$ 15,169,950
Ancillary services	10,656,521	11,695,335
Outpatient services	177,468,897	157,074,500
Resident revenue	<u>12,166,477</u>	<u>11,833,053</u>
Total patient revenue	<u>217,092,454</u>	<u>195,772,838</u>
Revenue deductions:		
Provision for contractual allowances	108,056,927	93,306,327
Provision for bad debt allowances	7,094,554	8,247,895
Charity care, net of Hospital Care Assurance	<u>2,425,965</u>	<u>3,229,024</u>
Total revenue deductions	<u>117,577,446</u>	<u>104,783,246</u>
Total net patient service revenue	<u><u>\$ 99,515,008</u></u>	<u><u>\$ 90,989,592</u></u>

### 10. PENSION PLANS

The Hospital contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost sharing multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2013 CAFR for details.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

### Funding Policy

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014 and 2013, state and local employers contributed at a rate of 14.0% of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post-employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care. The portion of employer contributions allocated to health care was 2.0% and 1.0% during calendar year 2014 and 2013, respectively. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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

<u>Year</u>	<u>Contribution</u>
2014	\$ 4,905,996
2013	\$ 4,604,016
2012	\$ 4,332,000

Hospital contributions made to fund post-employment healthcare benefits approximated \$701,000, \$329,000 and \$1,238,000 for 2014, 2013 and 2012, respectively, which are included in the table above.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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

### 11. MEDICAL MALPRACTICE CLAIMS

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

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

### 12. DEFERRED COMPENSATION

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

### 13. SELF-INSURED BENEFITS

The Hospital is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$125,000 per covered person up to an aggregate of \$1,000,000. Claims in excess of employee premiums are charged to operations. Claims paid were approximately \$4,511,000 and \$4,051,000 for the years ended December 31, 2014 and 2013, respectively. In addition, the Hospital self-insures for worker's compensation. The Hospital has a \$1,500,000 per claim stop-loss policy with a private insurance carrier for worker's compensation.

### 14. BLENDED COMPONENT UNIT

The combined financial statements include Memorial Gables, Memorial Health Foundation, and Memorial Medical Group, all separate entities organized to support the operations of Memorial Hospital as a blended component unit. The following is a summary of the financial position and activities of the entities as of and for the year ended December 31, 2014:

	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Blended Component Unit Total
<b>Assets:</b>				
Current assets	\$ 2,910,829	\$ 1,253,470	\$ 628,742	\$ 4,793,041
Capital assets, net	6,159,313	-	-	6,159,313
Other	-	875,344	-	875,344
<b>Total assets</b>	<b>\$ 9,070,142</b>	<b>\$ 2,128,814</b>	<b>\$ 628,742</b>	<b>\$ 11,827,698</b>
<b>Liabilities:</b>				
Current liabilities	\$ 793,029	\$ -	\$ 485,730	\$ 1,278,759
Long term debt	3,513,584	-	-	3,513,584
Other	268,323	-	-	268,323
<b>Total liabilities</b>	<b>\$ 4,574,936</b>	<b>\$ -</b>	<b>\$ 485,730</b>	<b>\$ 5,060,666</b>
<b>Net position:</b>				
Net invested in capital assets	\$ 2,332,396	\$ -	\$ -	\$ 2,332,396
Restricted for debt service, capital acquisitions and self-insurance	481,100	-	-	481,100
Unrestricted	1,681,710	2,128,814	143,012	3,953,536
<b>Total net position</b>	<b>\$ 4,495,206</b>	<b>\$ 2,128,814</b>	<b>\$ 143,012</b>	<b>\$ 6,767,032</b>
<b>Total liabilities and net position</b>	<b>\$ 9,070,142</b>	<b>\$ 2,128,814</b>	<b>\$ 628,742</b>	<b>\$ 11,827,698</b>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Blended Component Unit Total
<b>Operating revenues</b>				
Net patient service revenue	\$ 9,314,250	\$ -	\$ 4,217,404	\$ 13,531,654
Other operating revenues	-	-	1,886,443	1,886,443
<b>Total operating revenues</b>	9,314,250	-	6,103,847	15,418,097
<b>Operating expenses</b>				
Depreciation and amortization	410,392	-	-	410,392
Other operating expenses	8,315,652	37,266	6,370,456	14,723,374
<b>Total operating expenses</b>	8,726,044	37,266	6,370,456	15,133,766
<b>Income (Loss) from operations</b>	588,206	(37,266)	(266,609)	284,331
<b>Non-operating gains (losses)</b>				
Interest income	19	4,509	-	4,528
Grants and contributions	26,555	67,301	-	93,856
Interest expense	(168,501)	-	-	(168,501)
Other	-	374,311	-	374,311
<b>Total non-operating gains (losses)</b>	(141,927)	446,121	-	304,194
<b>Change in net position</b>				
Net invested in capital assets	179,132	-	-	179,132
Restricted for debt service, capital acquisitions and self-insurance	97,354	-	-	97,354
Unrestricted	169,793	408,855	(266,609)	312,039
<b>Total change in net position</b>	446,279	408,855	(266,609)	588,525
<b>Net position - beginning of year</b>	4,048,927	1,719,959	409,621	6,178,507
<b>Net position - end of year</b>	\$ 4,495,206	\$ 2,128,814	\$ 143,012	\$ 6,767,032
	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Blended Component Unit Total
<b>Cash provided by (used in):</b>				
Operating activities	\$ 1,184,503	\$ (77,266)	\$ (41,443)	\$ 1,065,794
Investing activities	(97,354)	(177,638)	-	(274,992)
Financing activities	(731,470)	446,121	-	(285,349)
<b>Total</b>	355,679	191,217	(41,443)	505,453
<b>Cash - beginning of year</b>	1,216,625	1,062,253	202,063	2,480,941
<b>Cash - end of year</b>	\$ 1,572,304	\$ 1,253,470	\$ 160,620	\$ 2,986,394

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

The following is a summary of the financial position and activities of the entities as of and for the year ended December 31, 2013:

	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Blended Component Unit Total
<b>Assets:</b>				
Current assets	\$ 2,688,513	\$ 1,062,253	\$ 842,517	\$ 4,593,283
Capital assets, net	6,280,181	-	-	6,280,181
Other	-	657,706	-	657,706
<b>Total assets</b>	<b>\$ 8,968,694</b>	<b>\$ 1,719,959</b>	<b>\$ 842,517</b>	<b>\$ 11,531,170</b>
<b>Liabilities:</b>				
Current liabilities	\$ 842,277	\$ -	\$ 432,896	\$ 1,275,173
Long term debt	3,826,917	-	-	3,826,917
Other	250,573	-	-	250,573
<b>Total liabilities</b>	<b>\$ 4,919,767</b>	<b>\$ -</b>	<b>\$ 432,896</b>	<b>\$ 5,352,663</b>
<b>Net position:</b>				
Net invested in capital assets	\$ 2,153,264	\$ -	\$ -	\$ 2,153,264
Restricted for debt service, capital acquisitions and self-insurance	383,746	-	-	383,746
Unrestricted	1,511,917	1,719,959	409,621	3,641,497
<b>Total net position</b>	<b>\$ 4,048,927</b>	<b>\$ 1,719,959</b>	<b>\$ 409,621</b>	<b>\$ 6,178,507</b>
<b>Total liabilities and net position</b>	<b>\$ 8,968,694</b>	<b>\$ 1,719,959</b>	<b>\$ 842,517</b>	<b>\$ 11,531,170</b>
	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Blended Component Unit Total
<b>Operating revenues</b>				
Net patient service revenue	\$ 9,522,702	\$ -	\$ 3,830,170	\$ 13,352,872
Other operating revenues	-	-	1,649,092	1,649,092
<b>Total operating revenues</b>	<b>9,522,702</b>	<b>-</b>	<b>5,479,262</b>	<b>15,001,964</b>
<b>Operating expenses</b>				
Depreciation and amortization	400,548	-	-	400,548
Other operating expenses	8,172,823	29,820	5,513,247	13,715,890
<b>Total operating expenses</b>	<b>8,573,371</b>	<b>29,820</b>	<b>5,513,247</b>	<b>14,116,438</b>
<b>Income (Loss) from operations</b>	<b>949,331</b>	<b>(29,820)</b>	<b>(33,985)</b>	<b>885,526</b>
<b>Non-operating gains (losses)</b>				
Interest income	81	2,594	-	2,675
Grants and contributions	520	(78,956)	-	(78,436)
Interest expense	(180,924)	-	-	(180,924)
Other	-	246,078	-	246,078
<b>Total non-operating gains (losses)</b>	<b>(180,323)</b>	<b>169,716</b>	<b>-</b>	<b>(10,607)</b>
<b>Change in net position</b>				
Net invested in capital assets	142,009	-	-	142,009
Restricted for debt service, capital acquisitions and self-insurance	89,985	-	-	89,985
Unrestricted	537,014	139,896	(33,985)	642,925
<b>Total change in net position</b>	<b>769,008</b>	<b>139,896</b>	<b>(33,985)</b>	<b>874,919</b>
<b>Net position - beginning of year</b>	<b>3,279,919</b>	<b>1,580,063</b>	<b>443,606</b>	<b>5,303,588</b>
<b>Net position - end of year</b>	<b>\$ 4,048,927</b>	<b>\$ 1,719,959</b>	<b>\$ 409,621</b>	<b>\$ 6,178,507</b>
	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Blended Component Unit Total
<b>Cash provided by (used in):</b>				
Operating activities	\$ 1,045,231	\$ (29,820)	\$ (61,687)	\$ 953,724
Investing activities	(89,985)	(182,335)	-	(272,320)
Financing activities	(722,961)	169,716	-	(553,245)
<b>Total</b>	<b>232,285</b>	<b>(42,439)</b>	<b>(61,687)</b>	<b>128,159</b>
<b>Cash - beginning of year</b>	<b>984,340</b>	<b>1,104,692</b>	<b>263,750</b>	<b>2,352,782</b>
<b>Cash - end of year</b>	<b>\$ 1,216,625</b>	<b>\$ 1,062,253</b>	<b>\$ 202,063</b>	<b>\$ 2,480,941</b>



# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 15. INVESTMENT IN JOINT VENTURES

During 1996, the Hospital and two other area health care entities formed Health Partners, Ltd. (Health Partners), for which the Hospital has a 33 1/3 percent ownership interest. This corporation was formed to provide management services to the clinic of a major area corporation. In 1996, the Hospital contributed \$100,000 to Health Partners through Memorial Health Foundation. During 2014 and 2013, the Hospital received distributions from Health Partners totaling \$35,500 and \$138,130, respectively, through Memorial Health Foundation.

During 2003, the Hospital and other health providers formed Marysville Ohio Surgery Center, LLC, of which the Hospital has a 37.74 percent ownership interest. The organization was formed to promote health care and provide outpatient surgical service in the area. During 2003, the Hospital contributed \$159,000 through Memorial Health Foundation. During 2014 and 2013, the Hospital received distributions of \$214,716 and \$0, respectively, through Memorial Health Foundation.

During 2003, the Hospital and other area health providers formed Marysville Ohio Medical Properties, LLC, of which the Hospital has a 46.88 percent ownership interest. The organization was formed as the property owner for the Marysville Ohio Surgery Center facility. During 2003, the Hospital contributed through Memorial Health Foundation \$130,000 and \$100,000 during 2013. During 2014 and 2013, the Hospital received \$50,625 and \$28,125, respectively, through Memorial Health Foundation.

During 2014, the Hospital and other health providers formed Mahoney Dialysis, LLC, of which the Hospital has a 6.0 percent ownership. The organization was formed to provide dialysis and renal care services and related services to the area. During 2014 the Hospital contributed \$106,020 through Memorial Health Foundation. During 2014 the Hospital received \$3,788 through Memorial Health Foundation.

### 16. HEART PAVILION COLLABORATION AGREEMENT

On January 1, 2011, the Hospital entered into cardiovascular collaboration and management service agreements with The Ohio State University (OSU) to provide cardiovascular services to the Hospital's patients on its campus. Under the terms of the agreements, each party provides certain equipment, facilities, personnel and management services. Program earnings, as defined, are determined and distributed under the terms of the agreements. As of December 31, 2014 and 2013, the Hospital has accrued \$0 and \$250,000 for amounts due to The Ohio State University relating to earnings in 2014 and 2013, respectively.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2014 AND 2013

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### 17. RECENT GASB PRONOUNCEMENTS

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

**GASB Statement No. 68**, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, issued June 2012, will be effective for periods beginning after June 15, 2014. This Statement establishes the accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to certain pensions. It will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

**GASB Statement No. 71**, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*, issued November 2013, will be required to be applied simultaneously with provisions of GASB Statement No. 68. This Statement amends previous guidance to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

### 18. PRACTICE PURCHASE AGREEMENT

During March 2015, the Hospital entered into an agreement to purchase Marysville Ohio Surgery Center (MOSC). The Hospital will acquire all assets of the practice in exchange for approximately \$848,000. The Memorial Health Foundation will receive approximately \$258,000 for its 38 percent ownership interest.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
 REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT  
 AUDITING STANDARDS**

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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the combined financial statements of the business-type activities of Memorial Hospital of Union County and Affiliates (the Hospital), as of and for the year ended December 31, 2014, and the related notes to the combined financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated March 27, 2015.

Our report included an emphasis-of-matter paragraph stating the financial statements of the Hospital and its affiliates are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business type activities of Union County that is attributable to the transactions of Memorial Hospital of Union County and Affiliates. Those financial statements do not purport to, and do not, present fairly the financial position of Union County, Ohio as of December 31, 2014, the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our opinion is not modified with respect to this matter.

***Internal Control Over Financial Reporting***

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

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS  
(continued)**

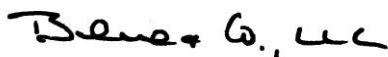
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies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

***Compliance and Other Matters***

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

***Purpose of this Report***

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



Columbus, Ohio  
March 27, 2015

## SUPPLEMENTARY FINANCIAL INFORMATION

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# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINING BALANCE SHEET DECEMBER 31, 2014

	<b>ASSETS</b>					Total
	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminating Entries	
<b>Current assets</b>						
Cash and cash equivalents	\$ 47,910,163	\$ 1,572,304	\$ 1,253,470	\$ 160,620	\$ -	\$ 50,896,557
Patient accounts receivable	9,726,782	854,767	-	463,794	-	11,045,343
Assets limited as to use	4,430,333	481,100	-	-	-	4,911,433
Prepaid expenses	1,138,495	40,158	-	-	-	1,178,653
Inventories	696,279	-	-	-	-	696,279
Current portion of physician advances receivable	3,750	-	-	-	-	3,750
Estimated third-party settlements	217,972	(37,500)	-	-	-	180,472
Other current assets	199,199	-	-	4,328	(15,071)	188,456
<b>Total current assets</b>	<b>64,322,973</b>	<b>2,910,829</b>	<b>1,253,470</b>	<b>628,742</b>	<b>(15,071)</b>	<b>69,100,943</b>
<b>Capital assets - net</b>	<b>44,064,953</b>	<b>6,159,313</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50,224,266</b>
<b>Other assets</b>						
Notes and advances to affiliates net of current portion	38,138	-	-	-	(38,138)	-
Physician advances receivable	7,430	-	-	-	-	7,430
Investment in joint ventures	-	-	835,344	-	(50,000)	785,344
Other assets	420,000	-	40,000	-	-	460,000
<b>Total assets</b>	<b>\$ 108,853,494</b>	<b>\$ 9,070,142</b>	<b>\$ 2,128,814</b>	<b>\$ 628,742</b>	<b>\$ (103,209)</b>	<b>\$ 120,577,983</b>

*See report of independent auditors.*

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINING BALANCE SHEET DECEMBER 31, 2014

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminating Entries	Total
<b>LIABILITIES AND NET POSITION</b>						
<b>Current liabilities</b>						
Current portion of long-term debt	\$ 2,162,283	\$ 313,333	\$ -	\$ -	\$ -	\$ 2,475,616
Accounts payable	3,514,777	196,300	-	3,050	(15,071)	3,699,056
Estimated third-party settlements	-	-	-	-	-	-
Salaries, wages and related accruals	3,545,467	283,396	-	482,680	-	4,311,543
Other current liabilities	52,500	-	-	-	-	52,500
Total current liabilities	9,275,027	793,029	-	485,730	(15,071)	10,538,715
<b>Long-term debt - net of current portion</b>	22,125,105	3,513,584	-	-	-	25,638,689
<b>Other liabilities</b>						
Notes and advances to affiliates	-	38,138	-	-	(38,138)	-
Accrued compensated absences	3,100,575	230,185	-	-	-	3,330,760
Other liabilities	420,000	-	-	-	-	420,000
Total liabilities	34,920,707	4,574,936	-	485,730	(53,209)	39,928,164
<b>Net position</b>						
Net invested in capital assets	19,777,565	2,332,396	-	-	-	22,109,961
Nonexpendable permanent endowments	25,000	-	-	-	-	25,000
Restricted for debt service, capital acquisitions and self-insurance	4,405,333	481,100	-	-	-	4,886,433
Unrestricted	49,724,889	1,681,710	2,128,814	143,012	(50,000)	53,628,425
Total net position	73,932,787	4,495,206	2,128,814	143,012	(50,000)	80,649,819
Total liabilities and net position	\$ 108,853,494	\$ 9,070,142	\$ 2,128,814	\$ 628,742	\$ (103,209)	\$ 120,577,983

*See report of independent auditors.*

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2014

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminating Entries	Total
<b>Operating revenues</b>						
Net patient service revenue	\$ 85,983,354	\$ 9,314,250	\$ -	\$ 4,217,404	\$ -	\$ 99,515,008
Other operating revenue	3,389,608	-	-	1,886,443	(1,928,906)	3,347,145
Total operating revenue	89,372,962	9,314,250	-	6,103,847	(1,928,906)	102,862,153
<b>Operating expenses</b>						
Salaries and wages	32,130,602	4,367,652	-	3,860,995	(837,831)	39,521,418
Employee benefits and payroll taxes	8,526,610	1,470,245	-	728,476	-	10,725,331
Supplies and other	15,267,806	887,442	-	781,817	(1,791,906)	15,145,159
Professional services and consultant fees	4,538,330	161,020	-	-	(137,000)	4,562,350
Purchased services	12,174,841	1,112,743	-	832,014	837,831	14,957,429
Insurance	478,534	52,314	-	102,477	-	633,325
Utilities	1,185,209	264,236	37,266	64,677	-	1,551,388
Depreciation and amortization	4,521,314	410,392	-	-	-	4,931,706
Total operating expenses	78,823,246	8,726,044	37,266	6,370,456	(1,928,906)	92,028,106
<b>Operating income (loss)</b>	10,549,716	588,206	(37,266)	(266,609)	-	10,834,047
<b>Other income (expenses)</b>						
Interest income	184,425	19	4,509	-	-	188,953
Grants and contributions	381,476	26,555	67,301	-	-	475,332
Interest expense	(890,041)	(168,501)	-	-	-	(1,058,542)
Other	-	-	374,311	-	-	374,311
Total other income (expense)	(324,140)	(141,927)	446,121	-	-	(19,946)
<b>Change in net position</b>	\$ 10,225,576	\$ 446,279	\$ 408,855	\$ (266,609)	\$ -	\$ 10,814,101

*See report of independent auditors.*





# 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 19, 2015**