

**MEMORIAL HOSPITAL OF UNION COUNTY
AND AFFILIATES**

COMBINED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2015

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, 2015 through December 31, 2015. 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

July 14, 2016

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MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

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REPORT OF INDEPENDENT AUDITORS

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

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 year ended December 31, 2015, 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 audit. 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.

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, 2015, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2015, the Hospital adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of Governmental Accounting Standards Board Statement No. 68*. Our opinion is not modified with respect to this matter.

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, 2015, 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. 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 and the Supplementary Information on GASB 68 Pension Liabilities, 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

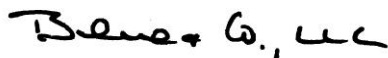
Our audit was conducted to opine on the Hospital's basic combined financial statements taken as a whole.

The combining information on pages 40 through 42 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 22, 2016 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 22, 2016

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

Management's Discussion And Analysis (unaudited)

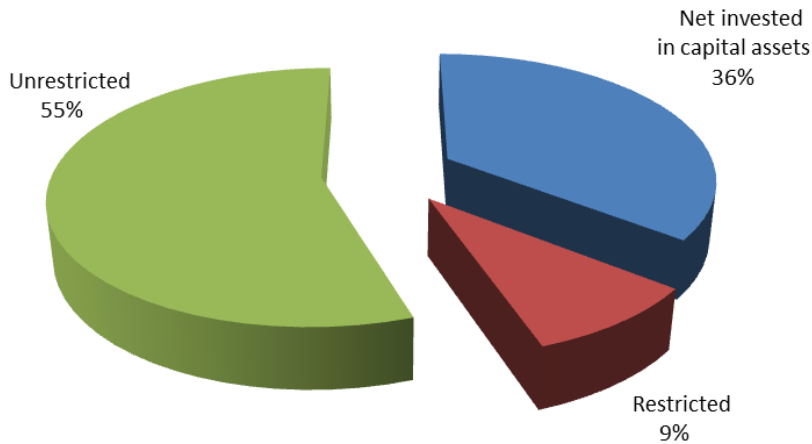
The management's discussion and analysis of Memorial Hospital, Memorial Gables, Memorial Medical Group and Memorial Health Foundation (collectively, the "Hospital") provides an overview of the combined financial activities for the year ended December 31, 2015. Management is responsible for the completeness and fairness of the combined financial statements and the related footnote disclosures along with the management's discussion and analysis.

The Hospital implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The adoption of the new standard – which requires employers participating in cost-sharing multi-employer retirement plans to recognize a share of the retirement plans' unfunded pension liabilities – resulted in approximately \$30.0 million net pension liability and a \$25.6 million cumulative effect on net position.

Financial Highlights

The combined financial position of the Hospital decreased in 2015 as a result of the implementation of GASB 68. In total, the Hospital's net position decreased approximately \$16.2 million in 2015. Operating revenues increased from approximately \$102.9 million in 2014 to approximately \$107.9 million in 2015. Income from operations decreased to approximately \$9.3 million in 2015 from approximately \$10.8 million in 2014. Cash and cash equivalents, including assets limited as to use, decreased by approximately \$17.9 million.

The following chart provides a breakdown of net position by category at December 31, 2015.



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.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

Management's Discussion And Analysis (unaudited)

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.

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

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

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

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

The Statement of Cash Flows

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

Management's Discussion And Analysis (unaudited)

Condensed Financial Information

The following is a comparative analysis of the major components of the balance sheets of the Hospital as of December 31, 2015 and 2014:

	December 31	
	2015	2014 (*)
Assets		
Current assets	\$ 54,054,446	\$ 69,100,943
Noncurrent assets	22,591,718	1,252,774
Capital assets	48,493,780	50,224,266
Deferred outflows-pension	6,287,006	-
Total assets	<u>\$ 131,426,950</u>	<u>\$ 120,577,983</u>
Liabilities		
Current liabilities	\$ 12,032,440	\$ 10,538,715
Long-term liabilities	54,465,431	29,389,449
Deferred inflows-pension	571,721	-
Total liabilities	<u>\$ 67,069,592</u>	<u>\$ 39,928,164</u>
Net position		
Net invested in capital assets	\$ 22,855,091	\$ 22,109,961
Restricted	5,908,409	4,911,433
Unrestricted	35,593,858	53,628,425
Total net position	<u>\$ 64,357,358</u>	<u>\$ 80,649,819</u>

(*) 2014 amounts do not reflect the adoption of GASB No. 68

Current assets decreased approximately 22%, driven by an increase in long-term investments. Total liabilities increased approximately 68% during the year as a result of the pension liability from the GASB 68 implementation. Unrestricted net position decreased approximately 34% due to the implementation of GASB 68.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

Management's Discussion And Analysis (unaudited)

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, 2015 and 2014:

	Year Ended December 31	
	2015	2014 (*)
Operating revenues		
Net patient service revenue	\$ 104,248,736	\$ 99,515,008
Other operating revenue	3,615,416	3,347,145
Total operating revenues	107,864,152	102,862,153
Operating expenses		
Salaries and wages	43,632,559	39,521,418
Employee benefits and payroll taxes	10,208,435	10,725,331
Supplies and other	18,918,554	15,145,159
Professional services and consultant fees	3,682,691	4,562,350
Purchased services	14,224,125	14,957,429
Insurance	631,347	633,325
Utilities	1,704,467	1,551,388
Depreciation and amortization	5,576,385	4,931,706
Total operating expenses	98,578,563	92,028,106
Operating income	9,285,589	10,834,047
Other income (expense)		
Interest income	186,705	188,953
Grants and contributions	672,872	475,332
Interest expense	(887,270)	(1,058,542)
Other	27,673	374,311
Total other income (expense)	(20)	(19,946)
Change in net position	9,285,569	10,814,101
Net position - beginning of year	80,649,819	69,835,718
Cumulative effect of accounting change	(25,578,030)	-
Net position - end of year	\$ 64,357,358	\$ 80,649,819

(*) 2014 amounts do not reflect the adoption of GASB No. 68

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

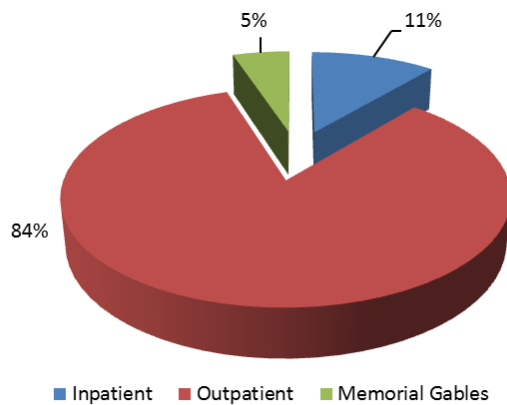
Management's Discussion And Analysis (unaudited)

Operating Revenues

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

Operating revenue changes were a result of the following factors:

- Net patient service revenue increased approximately \$4.8 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:



Operating Expenses

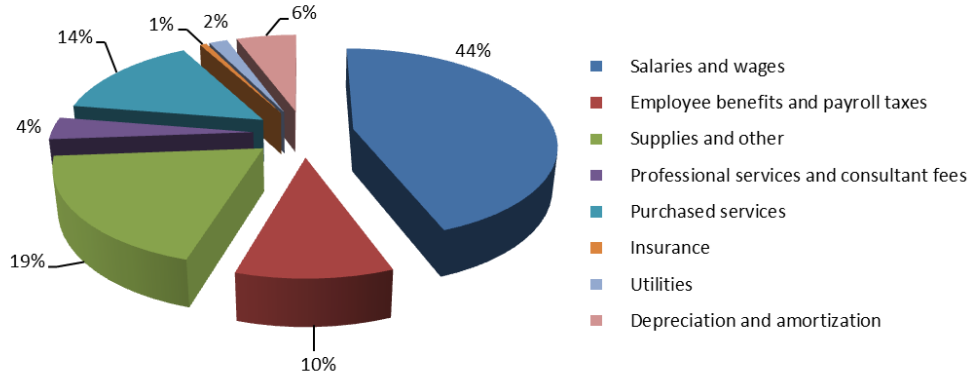
Operating expenses are all the costs necessary to perform and conduct the services and primary purposes of the Hospital. The operating expense changes were primarily the result of:

- Salaries and wages increased 10.4% due to pay rate increases and increased full time equivalents.
- Supplies and other increased 24.9% due to an increase in patient service activity.
- Professional services and consultant fees decreased 19.3% primarily due to the branding associated with the new logo that occurred in 2014 and not 2015.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

Management's Discussion And Analysis (unaudited)

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:

- Interest expense decreased approximately \$171,000 due to the decrease in outstanding debt.
- Other income decreased approximately \$347,000 due to a decrease in joint venture income.

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

Management's Discussion And Analysis (unaudited)

	Year Ended December 31	
	2015	2014
Cash provided by (used in):		
Operating activities	\$ 12,482,551	\$ 18,706,318
Capital and related financing activities	(6,559,997)	(10,467,165)
Investing activities	(23,897,362)	(1,726,090)
Noncapital financing activities	27,673	374,311
Total	(17,947,135)	6,887,374
Cash - beginning of year	40,053,637	33,166,263
Cash - end of year	\$ 22,106,502	\$ 40,053,637

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

Net cash flows provided by operating activities decreased from the prior year due mainly to the increase in cash paid to employees for salaries and benefits.

Net cash used by investing activities increased from the prior year due to the Hospital purchasing investments in the current year.

Net cash used by capital and related financing activities decreased from the prior year due to less capital purchases in the current year.

Capital Asset and Debt Administration

Capital Assets

At December 31, 2015, the Hospital had approximately \$109.0 million invested in capital assets. Accumulated depreciation totaled approximately \$60.5 million. Net capital assets totaled approximately \$48.5 million. Depreciation totaled approximately \$5.6 million during the year compared to approximately \$4.9 million in 2014. A summary is shown below.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

Management's Discussion And Analysis (unaudited)

	December 31	
	2015	2014
<u>Capital assets not being depreciated</u>		
Land	\$ 7,121,773	\$ 7,064,945
Construction in progress	-	7,742
Subtotal	7,121,773	7,072,687
<u>Capital assets being depreciated - net of accumulated depreciation</u>		
Land improvements	2,260,467	2,490,739
Buildings and improvements	26,935,398	28,158,926
Major moveable equipment	11,624,292	11,587,700
Property under capital leases	551,850	914,214
Subtotal	41,372,007	43,151,579
Total	<u>\$ 48,493,780</u>	<u>\$ 50,224,266</u>

Debt

At year end, the Hospital had approximately \$25.6 million in long-term debt and capital lease obligations outstanding compared to approximately \$28.1 million the previous year.

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

Economic Factors that Will Affect the Future

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

Management's Discussion And Analysis (unaudited)

With the completion of the master plan, we have worked with a third party to establish a forecasted debt capacity analysis to define a potential project size. Memorial and Union County have worked together to determine a price effective and appropriate debt sizing plan for the revitalization of the campus. The plan includes sources of general obligation debt, private placement issues and we will lean on the philanthropic efforts of our Memorial Health Foundation to complete the financing. With this information in hand, we have recently completed a feasibility study for the years 2016 - 2020. The study includes a conservative approach to future growth and reimbursement and includes two major projects (Urbana and City Gate) further outlined below. It has yielded favorable operating results over the next five years. The financing plan for the new buildings will begin during the spring of 2016 with hopes of completion during late 2016 or early 2017.

In 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, houses an urgent care center, imaging center, lab draw station, physical therapy and sports performance department and the Marysville Orthopedic and Sports Medicine practice. The facility has been very well received by the community and has allowed us to advance service opportunities to those we serve.

With the success of the facility, Memorial Hospital purchased a lot adjacent to the property and plans to expand its footprint. A new building, built by a third party, will provide an additional 20,000 square feet of medical space and is planned to break ground in 2016 and open in 2017. The two City Gate buildings will be connected through adjoining parking lots and walkways and will allow our patients to access either facility without leaving the grounds.

Memorial Hospital also has plans to develop a 23,000 square foot medical office building in Urbana. Memorial already has a presence in Champaign County through the employment of a large medical practice several years ago. The practice has been very successful and we hope to recruit additional physicians. The new building will offer an opportunity to further grow the practice and expand services to improve coordination of care. The current site has not been finalized at this time, but will be completed in the next several months.

As we look into 2016 and future years, we expect to see certain economic factors continue to impact the future of healthcare in our nation and Union County. The continual changes in health care reform will remain a hot topic and item of uncertainty.

In early 2014, we first began to see health insurance exchange patients present for service in Union County. Currently, there are only a few providers offering coverage in the area. Due to the infancy of the program and overall lack of demand of the product, Memorial has not been impacted by the plans. We have been approached by several payers to offer the exchange products, however with no demand at Memorial, it does not make sense for us to add additional plans at this time. 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.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

Management's Discussion And Analysis (unaudited)

The Ohio franchise fee calculation continues to be an area of concern for many hospitals. Memorial will pay in to the program approximately \$1,200,000 in 2016. 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.

Another risk factor pertains to the recognition of GASB 68 and 71 (also see notes to the financial statements). These new standards have changed the recognition and reporting requirements for public pensions (OPERS). The Hospital is now 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 are now required to show a calculated portion of the total net liability for all 3,700 OPERS eligible employers. The initial financial impact of this "paper" entry was recorded with an impact of approximately \$30,000,000 to our net position. However, due to the infancy of the program, we cannot reasonably estimate what impact the annual change in the liability will have to operations in future years.

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 SHEET
DECEMBER 31, 2015

ASSETS

Current assets

Cash and cash equivalents	\$ 16,414,455
Patient accounts receivable, net of allowances for uncollectible accounts of \$5,903,572 in 2015	11,296,513
Short-term investments	18,573,328
Assets limited as to use	5,692,047
Prepaid expenses	929,826
Inventories	844,897
Current portion of pledges receivable	50,000
Other current assets	253,380

Total current assets 54,054,446

Capital assets, net

48,493,780

Long-term investments

21,516,798

Other assets

Investment in joint ventures	533,638
Long-term pledges receivable, net	166,362
Other assets	374,920
Total other assets	1,074,920

Deferred outflow of resources

Pension contributions subsequent to the measurement date	4,670,886
Net difference between projected and actual earnings on pension plan investments	1,616,120

Total assets and deferrals \$ 131,426,950

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED BALANCE SHEET DECEMBER 31, 2015

LIABILITIES AND NET POSITION

Current liabilities

Current portion of long-term debt	\$ 5,056,837
Accounts payable	3,325,546
Salaries, wages, and related accruals	3,578,899
Estimated third-party settlements	18,658
Other current liabilities	52,500

Total current liabilities 12,032,440

Long-term debt, net of current portion 20,581,852

Other liabilities

Accrued compensated absences	3,525,146
Net pension liability	29,990,933
Other	367,500

Total long-term liabilities 54,465,431

Deferred inflow of resources

Difference between expected and actual experience	571,721
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Total liabilities and deferrals 67,069,592

Net position

Net invested in capital assets	22,855,091
Restricted:	
Nonexpendable permanent endowments	25,000
Restricted for debt service, capital acquisitions and self-insurance	5,883,409
Unrestricted	35,593,858

Total net position 64,357,358

Total liabilities and net position \$ 131,426,950

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2015

Operating revenues	
Net patient service revenue	\$ 104,248,736
Other operating revenue	<u>3,615,416</u>
Total operating revenues	107,864,152
Operating expenses	
Salaries and wages	43,632,559
Employee benefits and payroll taxes	10,208,435
Supplies and other	18,918,554
Professional services and consultant fees	3,682,691
Purchased services	14,224,125
Insurance	631,347
Utilities	1,704,467
Depreciation and amortization	<u>5,576,385</u>
Total operating expenses	<u>98,578,563</u>
Operating income	9,285,589
Other income (expense)	
Interest income	186,705
Grants and contributions	672,872
Interest expense	(887,270)
Other	<u>27,673</u>
Total other income	<u>(20)</u>
Change in net position	9,285,569
Net position - beginning of year	80,649,819
Cumulative effect of accounting change	<u>(25,578,030)</u>
Net position - end of year	<u><u>\$ 64,357,358</u></u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2015

Operating activities

Cash received from patients and third-party payors	\$ 104,196,696
Cash payments to employees for salaries, wages and benefits	(55,681,634)
Cash payments to suppliers for services and goods	(39,431,565)
Other operating revenue	<u>3,399,054</u>
Net cash flows from operating activities	12,482,551

Investing activities

Investment in joint ventures	251,706
Cash paid for investments	(24,335,773)
Proceeds from investments	<u>186,705</u>
Net cash flows from investing activities	(23,897,362)

Cash flows from noncapital financing activities

Other nonoperating activities	<u>27,673</u>
Net cash from noncapital financing activities	27,673

Capital and related financing activities

Acquisition and construction of capital assets	(3,869,983)
Grants and contributions	672,872
Interest paid on long-term debt	(887,270)
Principal payments on long-term debt	<u>(2,475,616)</u>
Net cash flows from capital and related financing activities	<u>(6,559,997)</u>

Change in cash and cash equivalents

	(17,947,135)
Cash and cash equivalents - beginning of year	<u>40,053,637</u>
Cash and cash equivalents- end of year	<u><u>\$ 22,106,502</u></u>

Balance sheet classification of cash

Cash and cash equivalents	\$ 16,414,455
Cash included in assets limited as to use	<u>5,692,047</u>
	<u><u>\$ 22,106,502</u></u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015

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

Operating income	\$ 9,285,589
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation and amortization	5,576,385
Provision for bad debt	7,508,988
Loss on disposal of capital assets	24,084
Pension (benefit)	(1,302,382)
Changes in assets and liabilities	
Patient accounts receivable	(7,760,158)
Pledges receivable	(216,362)
Other assets	312,017
Accounts payable	(373,510)
Other accrued expenses	<u>(572,100)</u>
Net cash flows from operating activities	<u><u>\$ 12,482,551</u></u>

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Principles of Combination

Memorial Hospital of Union County, doing business as Memorial Health ("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 year ended December 31, 2015 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.

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, 2015, the changes in its financial position or, where applicable, its cash flows for the year then ended.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

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.

Investments

Investments include certificates of deposit, money market accounts, corporate notes, and government securities and are recorded at fair value on the combined balance sheet. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in other income when earned.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

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.

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 2015, amortization of the asset was \$52,500, and as of December 31, 2015 the remaining liability was \$420,000.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

Compensated Absences

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

Restricted Resources

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

Classification of Net 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.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

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.

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.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

Of the Hospital's total reported expenses (approximately \$98,579,000 during 2015), an estimated \$423,000 arose from providing services to charity patients during 2015. 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 \$834,000 for 2015, and is 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.

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.

Implementation of GASB Statement No. 68

In fiscal year 2015, the Hospital implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71. GASB Statement No. 68 requires employers participating in cost-sharing multiple-employer pension plans to recognize a proportionate share of the net pension liabilities of the plans. The Hospital participates in the Public Employees Retirement System of Ohio. A proportionate share of the net pension liabilities of the retirement system has been allocated to the Hospital, based on retirement plan contributions for Hospital employees. The cumulative effect of adopting GASB Statement No. 68 was a \$25,578,030 reduction in the Hospital's net position as of December 31, 2014. Balances reported for the year ended December 31, 2014 have not been restated due to limitations on the information available from the retirement system. Additional information regarding net pension liabilities, related deferrals and pension expense is provided in Note 2.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

Electronic Health Records (EHR) Incentive Payments

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

The Hospital recognizes EHR incentive payments as grant income when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measurable. During 2015, the Hospital recognized approximately \$350,000 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.

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 22, 2016.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015

2. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2015, the Hospital implemented the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following cumulative effect on net position as a result of the accounting change:

Net pension liability	\$ (29,990,933)
Pension Expense	(1,302,382)
Deferred inflows	(571,721)
Deferred outflows	<u>6,287,006</u>
Cumulative effect of accounting change	<u>\$ (25,578,030)</u>

3. DEPOSITS AND INVESTMENTS

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 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.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

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:

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

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

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. At year end, the Hospital had approximately \$37,000,000 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, 2015	Carrying Amount	Maturities	
		< than 1 year	1 - 5 years
Certificates of deposit	\$ 19,497,559	\$ 14,492,204	\$ 5,005,355
U.S. government agency notes	16,543,319	-	16,543,319
Commercial paper	4,027,289	4,027,289	-
Total	\$ 40,068,167	\$ 18,519,493	\$ 21,548,674

Cash deposits and investments of the Hospital are composed of the following:

	Fair Value	Amortized
		Historical Cost
Demand deposits (including restricted)	\$ 22,106,502	\$ 22,106,502
Money market mutual funds	21,959	21,959
Certificates of deposit	19,497,559	19,428,158
U.S. government agency notes	16,543,319	16,573,605
Commercial paper	4,027,289	4,023,186
Total	\$ 62,196,628	\$ 62,153,410

Amounts summarized by fund type-	Fair Value	Amortized
		Historical Cost
General funds:		
Cash	\$ 16,414,455	\$ 16,414,455
Assets whose use is limited	5,692,047	5,692,047
Investments	40,090,126	40,046,908
Total	\$ 62,196,628	\$ 62,153,410

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2015.

Money market mutual funds: Valued based at the subscription and redemption activity at a \$1 stable net asset value (NAV). However, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

U.S. government agency notes: Valued using pricing models maximizing the use of observable inputs for similar securities.

Commercial paper: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

The Hospital's policy is to recognize transfers, if any, between levels as of the actual date of the event or change in circumstances. No transfers between levels occurred in 2015.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Money market mutual funds	\$ -	\$ 21,959	\$ -	\$ 21,959
U.S. government agency notes	-	16,543,319	-	16,543,319
Commercial paper	-	4,027,289	-	4,027,289
	<u>-</u>	<u>20,592,567</u>	<u>-</u>	<u>20,592,567</u>
Cash	-	-	-	22,106,502
Certificates of deposits	-	-	-	19,497,559
Total	<u>\$ -</u>	<u>\$ 20,592,567</u>	<u>\$ -</u>	<u>\$ 62,196,628</u>

5. 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, 2015 consists of the following:

	<u>2015</u>
By board of trustees for capital improvements	\$ 847,096
By board of trustees retirement of indebtedness	80,184
By board of trustees for self-insurance	4,127,295
Held by trustee under bond indenture agreement	<u>612,472</u>
Total board-designated and trustee held	5,667,047
Principal for permanent endowments	<u>25,000</u>
Total board-designated and trustee held	<u>\$ 5,692,047</u>

6. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	<u>2015</u>
Patient accounts receivable	\$ 31,813,854
Allowance for uncollectible accounts	(5,903,572)
Allowance for contractual adjustments	<u>(14,613,769)</u>
Patient accounts receivable, net	<u>\$ 11,296,513</u>

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015

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:

	Accounts Receivable	Gross Revenue
Medicare	27%	39%
Medicaid	13%	14%
Commercial insurance and other	36%	44%
Self-pay	24%	3%
	<u>100%</u>	<u>100%</u>

7. PLEDGES RECEIVABLE

In 2015, the Foundation began a capital campaign to raise funds for capital improvements to be made to the Hospital. Pledges receivable associated with the campaign as of December 31, 2015 follows:

Receivable in less than one year	\$ 50,000
Receivable in one to five years	<u>180,000</u>
Total unconditional promises to give	230,000
Less discounts to net present value	<u>(13,638)</u>
Net unconditional promises to give	<u>\$ 216,362</u>

The rate used to discount unconditional promises to net present value was 3% for 2015.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

8. 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 2012 for Medicare and 2008 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, 2015

9. CAPITAL ASSETS

Capital assets for the year ended December 31, 2015 is as follows:

	2014	Reclassifications	Additions	Disposals and Adjustments	2015
Capital assets not being depreciated:					
Land and land improvements	\$ 7,064,945	\$ -	\$ 56,828	\$ -	\$ 7,121,773
Construction in progress	7,742	(462,415)	454,673	-	-
Subtotal	<u>7,072,687</u>	<u>(462,415)</u>	<u>511,501</u>	<u>-</u>	<u>7,121,773</u>
Capital assets being depreciated:					
Land improvements	4,144,014	-	28,616	(53,258)	4,119,372
Building	53,105,081	39,654	310,184	(264,249)	53,190,670
Major movable equipment	37,863,463	422,761	3,019,682	(803,443)	40,502,463
Property under capital leases	5,750,895	-	-	(1,655,184)	4,095,711
Subtotal	<u>100,863,453</u>	<u>462,415</u>	<u>3,358,482</u>	<u>(2,776,134)</u>	<u>101,908,216</u>
Accumulated depreciation:					
Land improvements	1,653,275	-	254,678	(49,048)	1,858,905
Building	24,946,155	-	1,564,390	(255,273)	26,255,272
Major moveable equipment	26,275,763	-	3,394,953	(792,545)	28,878,171
Property under capital leases	4,836,681	-	362,364	(1,655,184)	3,543,861
Subtotal	<u>57,711,874</u>	<u>-</u>	<u>5,576,385</u>	<u>(2,752,050)</u>	<u>60,536,209</u>
Capital assets, net	<u>\$ 50,224,266</u>	<u>\$ -</u>	<u>\$ (1,706,402)</u>	<u>\$ (24,084)</u>	<u>\$ 48,493,780</u>

10. SALARIES, WAGES AND RELATED ACCRUALS

The details of accrued liabilities at December 31, 2015 are as follows:

Payroll and related items	\$ 2,762,322
Self-insured benefits	178,000
Health insurance claims	<u>638,577</u>
Total salaries, wages and related accruals	<u>\$ 3,578,899</u>

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015

11. LONG-TERM DEBT

Long-term debt activity for the year December 31, 2015 was as follows:

	<u>2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>2015</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	1,335,000	\$ -	\$ (655,000)	\$ 680,000	\$ 680,000
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	680,000	-	(25,000)	655,000	25,000
Hospital Facilities Revenue Bonds					
dated July 7, 2010:					
Term bonds, 2.51% payable through 2015, in monthly installments of \$73,594	510,501	-	(510,501)	-	-

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

	2014	Additions	Reductions	2015	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	-	(142,970)	3,179,031	3,179,031
Commercial Installment Note Note payable, bearing interest at 2.5%, due in monthly installments of \$19,620 through January 1, 2017	477,264	-	(225,955)	251,309	231,734
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	8,045,000	-	(215,000)	7,830,000	225,000
Hospital Facilities Revenue Bonds (Heart Pavilion Project) dated December 13, 2011:					
Term bonds, 2.40% payable through 2021, in monthly installments of \$47,407	8,283,692	-	(371,427)	7,912,265	380,033
Capital Lease Obligation, interest rate of 2.50%, monthly payments of \$14,552 through December 2016	340,329	-	(168,041)	172,288	172,288
Capital Lease Obligation, interest rate of 1.25%, monthly payments of \$12,778 through June 2017	352,441	-	(149,789)	202,652	151,668
Capital Lease Obligation, interest rate of 1.25%, monthly payments of \$1,018 through June 2017	28,077	-	(11,933)	16,144	12,083
Total long-term debt	<u>\$ 28,114,305</u>	<u>\$ -</u>	<u>\$ (2,475,616)</u>	<u>\$ 25,638,689</u>	<u>\$ 5,056,837</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.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

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.

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. During February 2016, the Board of Trustees resolved to refinance these bonds. As of the date these financials are issued, actual refinancing has not occurred.

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. During February 2016, the Board of Trustees resolved to refinance these bonds. As of the date these financials are issued, actual refinancing has not occurred.

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, 2015.

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 \$2,550,462 at December 31, 2015.

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 2015. The lease is secured by the equipment with a net book value of \$164,000.

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 2015. The lease is secured by the equipment with a net book value of \$198,093.

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 2015. The lease is secured by the equipment with a net book value of \$15,781.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015

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
2016	\$ 5,056,837	\$ 837,611
2017	1,244,535	757,969
2018	1,203,610	674,703
2019	1,249,820	627,018
2020	1,294,408	583,755
2021-2025	10,524,479	1,649,872
2026-2030	3,250,000	758,922
2031-2033	1,815,000	256,480
Total	<u>\$ 25,638,689</u>	<u>\$ 6,146,330</u>

The Hospital has various operating lease agreements for equipment and rental space. Minimum lease payments at December 31, 2015 are as follows:

2016	\$ 1,425,959
2017	1,209,444
2018	1,110,701
2019	1,118,352
2020	1,138,357
Thereafter	9,360,947
Total	<u>\$ 15,363,760</u>

Rent expense for all operating leases approximated \$3,783,000 in 2015.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

12. NET PATIENT SERVICE REVENUE

Net patient service revenue consists of the following:

Patient Revenue:	
Inpatient services:	
Routine services	\$ 16,112,439
Ancillary services	10,136,505
Outpatient services	198,404,894
Resident revenue	11,961,015
Total patient revenue	<u>236,614,853</u>
Revenue deductions:	
Provision for contractual allowances	123,805,942
Provision for bad debt allowances	7,508,988
Charity care, net of Hospital Care Assurance	1,051,187
Total revenue deductions	<u>132,366,117</u>
Total net patient service revenue	<u>\$ 104,248,736</u>

13. 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, 2016. 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, 2015

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

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

In accordance with GASB Statement No. 68, employers participating in cost-sharing multiple-employer plans are required to recognize a proportionate share of the collective net pension liabilities of the plans. Although changes in the net pension liability generally are recognized as pension expense in the current period, GASB 68 requires certain items to be deferred and recognized as expense in future periods. Deferrals for differences between projected and actual investment returns are amortized to pension expense over five years. Deferrals for employer contributions subsequent to the measurement date are amortized in the following period (one year). Other deferrals are amortized over the estimated remaining service lives of both active and inactive employees (amortization periods range from 3 to 9 years).

The collective net pension liabilities of the retirement systems and the Hospital's proportionate share of these net pension liabilities as of December 31, 2015 are as follows:

Net pension liability - all employers	\$ 12,022,615,276
Proportion of the net pension liability - System	0.24945%
Proportionate share of net pension liability	<u>\$ 29,990,933</u>

At December 31, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred outflows of resources

Net difference between projected and actual earnings on pension plan investments	\$ 1,616,120
Employer contributions subsequent to the measurement date	4,670,886
Total	<u><u>\$ 6,287,006</u></u>

Deferred inflows of resources

Difference between expected and actual experience	\$ 571,721
Total	<u><u>\$ 571,721</u></u>

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015

Net deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the years ending December 31 as follows:

2016	\$	154,756
2017		154,756
2018		358,128
2019		399,987
2020		(5,043)
2021 and Thereafter		(18,185)
Total	\$	1,044,399

Statutory Authority

Ohio Revised Code Chapter 145

Benefit Formula

Benefits are calculated on the basis of age, final average salary (FAS), and service credit. State and Local members in transition Groups A and B are eligible for retirement benefits at age 60 with 60 contributing months of service credit or at age 55 with 25 or more years of service credit. Group C for State and Local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of three highest years of earnings over a member’s career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member’s career. The base amount of a member’s pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment.

Cost-of-Living Adjustments

Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided on the member’s base benefit.

Contribution Rates

Employee and member contribution rates are established by the OPERS Board and limited by Chapter 145 of the Ohio Revised Code. For 2014, employer rates for the State and Local Divisions were 14% of covered payroll (and 18.1% for the Law Enforcement and Public Safety Divisions). Member rates for the State and Local Divisions were 10% of covered payroll (13% for Law Enforcement and 12% for Public Safety).

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

Measurement Date

December 31, 2014

Actuarial Assumptions

Valuation Date: December 31, 2014
Actuarial Cost Method: Individual entry age
Investment Rate of Return: 8.00%
Inflation: 3.75%
Projected Salary Increases: 4.25% - 10.00%
Cost-of-Living Adjustments: 3.00% Simple

Mortality Rates

RP-2000 mortality table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males, 120% of the disabled female mortality rates were used set forward two years. For females, 100% of the disabled female mortality rates were used.

Date of Last Experience Study

December 31, 2010

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

Investment Return Assumptions

The long term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. The following table displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long Term Expected Return *
Fixed Income	23%	2.31%
Domestic Equity	20%	5.84%
Real Estate	10%	4.25%
Private Equity	10%	9.25%
International Equity	19%	7.40%
Other Investments	18%	4.59%
Total	100%	

* Returns presented as arithmetic means

Discount Rate

The discount rate used to measure the total pension liability was 8.0% for both the Traditional Pension Plan and the Combined Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Net Pension Liability to Changes in Discount Rate

1% Decrease (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
\$ 55,364,000	\$ 29,991,000	\$ 8,626,000

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

14. 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.

15. 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.

16. SELF-INSURED BENEFITS

The Hospital is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$125,000 per covered person up to an aggregate of \$1,000,000. Claims in excess of employee premiums are charged to operations. Claims paid were approximately \$5,082,000 for the year ended December 31, 2015, 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.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015

17. 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, 2015:

	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Blended Component Unit Total
Assets:				
Current assets	\$ 3,292,958	\$ 1,720,702	\$ 574,394	\$ 5,588,054
Capital assets, net	5,885,450	-	-	5,885,450
Other	-	750,000	-	750,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 9,178,408</u>	<u>\$ 2,470,702</u>	<u>\$ 574,394</u>	<u>\$ 12,223,504</u>
Liabilities:				
Current liabilities	\$ 905,719	\$ -	\$ 578,847	\$ 1,484,566
Long term debt	3,186,917	-	-	3,186,917
Other	403,814	3,650	-	407,464
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>4,496,450</u>	<u>3,650</u>	<u>578,847</u>	<u>5,078,947</u>
Net position:				
Net invested in capital assets	2,371,866	-	-	2,371,866
Restricted for debt service, capital acquisitions and self-insurance	546,366	216,362	-	762,728
Unrestricted	1,763,726	2,250,690	(4,453)	4,009,963
	<hr/>	<hr/>	<hr/>	<hr/>
Total net position	<u>4,681,958</u>	<u>2,467,052</u>	<u>(4,453)</u>	<u>7,144,557</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 9,178,408</u>	<u>\$ 2,470,702</u>	<u>\$ 574,394</u>	<u>\$ 12,223,504</u>

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2015

	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Blended Component Unit Total
Operating revenues				
Net patient service revenue	\$ 9,140,300	\$ -	\$ 4,423,922	\$ 13,564,222
Other operating revenues	-	-	2,125,363	2,125,363
Total operating revenues	<u>9,140,300</u>	<u>-</u>	<u>6,549,285</u>	<u>15,689,585</u>
Operating expenses				
Depreciation and amortization	414,861	-	-	414,861
Other operating expenses	8,384,041	250,553	6,696,750	15,331,344
Total operating expenses	<u>8,798,902</u>	<u>250,553</u>	<u>6,696,750</u>	<u>15,746,205</u>
Income (Loss) from operations	341,398	(250,553)	(147,465)	(56,620)
Non-operating gains (losses)				
Interest income	1	5,146	-	5,147
Grants and contributions	695	555,972	-	556,667
Interest expense	(155,342)	-	-	(155,342)
Other	-	27,673	-	27,673
Total non-operating gains (losses)	<u>(154,646)</u>	<u>588,791</u>	<u>-</u>	<u>434,145</u>
Change in net position				
Net invested in capital assets	39,470	-	-	39,470
Restricted for debt service, capital acquisitions and self-insurance	65,266	-	-	65,266
Unrestricted	82,016	338,238	(147,465)	272,789
Total change in net position	<u>186,752</u>	<u>338,238</u>	<u>(147,465)</u>	<u>377,525</u>
Net position - beginning of year	4,495,206	2,128,814	143,012	6,767,032
Net position - end of year	<u>\$ 4,681,958</u>	<u>\$ 2,467,052</u>	<u>\$ (4,453)</u>	<u>\$ 7,144,557</u>
	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Blended Component Unit Total
Cash provided by (used in):				
Operating activities	\$ 944,415	\$ (423,265)	\$ (67,378)	\$ 453,772
Investing activities	(65,266)	33,318	-	(31,948)
Financing activities	(608,977)	588,791	-	(20,186)
Total	<u>270,172</u>	<u>198,844</u>	<u>(67,378)</u>	<u>401,638</u>
Cash - beginning of year	1,572,304	748,122	160,620	2,481,046
Cash - end of year	<u>\$ 1,842,476</u>	<u>\$ 946,966</u>	<u>\$ 93,242</u>	<u>\$ 2,882,684</u>

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

18. 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 2015, the Hospital received distributions of \$244,993 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 2015, the Hospital received distributions of \$9,493 through Memorial Health Foundation. During 2015, the Hospital purchased the operating assets for \$450,000 to be used within an outpatient surgery department of the Hospital.

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. During 2015, the Hospital received distributions of \$95,625 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 2015, the Hospital received distributions of \$34,630 through Memorial Health Foundation.

19. 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, 2015, the Hospital has accrued \$100,000 for amounts due to The Ohio State University relating to earnings in 2015.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2015

20. 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. 72, *Fair Value Measurement and Application*, issued February 2015, will be effective for periods beginning after June 15, 2015. This Statement will enhance the comparability of financial statements among governments requiring the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statements users about the impact of fair value measurements on a government's financial position.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015, will be effective for periods beginning after June 15, 2017. The Statement addresses accounting and financial reporting for Postemployment Benefits Other than pensions (OPEB) that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosures and required supplementary information requirements about defined benefit OPEB will be enhanced.



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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, 2015, 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 22, 2016.

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, 2015, 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.

As discussed in Note 2 to the financial statements, in 2015, the Hospital adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of Governmental Accounting Standards Board Statement No. 68*. 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.

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

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.

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 22, 2016

SUPPLEMENTARY FINANCIAL INFORMATION

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINING BALANCE SHEET
DECEMBER 31, 2015

	ASSETS					
	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminating Entries	Total
Current assets						
Cash and cash equivalents	\$ 13,531,771	\$ 1,842,476	\$ 946,966	\$ 93,242	\$ -	\$ 16,414,455
Patient accounts receivable	10,014,012	886,421	-	396,080	-	11,296,513
Short-term investments	17,849,592	-	723,736	-	-	18,573,328
Assets limited as to use	5,145,681	546,366	-	-	-	5,692,047
Prepaid expenses	912,131	17,695	-	-	-	929,826
Inventories	844,897	-	-	-	-	844,897
Current portion of pledges receivable	-	-	50,000	-	-	50,000
Other current assets	206,160	-	-	85,072	(37,852)	253,380
Total current assets	48,504,244	3,292,958	1,720,702	574,394	(37,852)	54,054,446
Capital assets - net	42,608,330	5,885,450	-	-	-	48,493,780
Long-term investments	21,516,798	-	-	-	-	21,516,798
Other assets						
Notes and advances to affiliates net of current portion	189,498	-	-	-	(189,498)	-
Investment in joint ventures	-	-	583,638	-	(50,000)	533,638
Long-term pledges receivable, net	-	-	166,362	-	-	166,362
Other assets	374,920	-	-	-	-	374,920
Total other assets	564,418	-	750,000	-	(239,498)	1,074,920
Deferred outflow of resources						
Pension contributions subsequent to the measurement date	4,670,886	-	-	-	-	4,670,886
Net difference between projected and actual earnings on pension plan investments	1,616,120	-	-	-	-	1,616,120
Total assets and deferrals	\$ 119,480,796	\$ 9,178,408	\$ 2,470,702	\$ 574,394	\$ (277,350)	\$ 131,426,950

See report of independent auditors.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINING BALANCE SHEET
DECEMBER 31, 2015

	LIABILITIES AND NET POSITION					
	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminating Entries	Total
Current liabilities						
Current portion of long-term debt	\$ 4,730,170	\$ 326,667	\$ -	\$ -	\$ -	\$ 5,056,837
Accounts payable	3,090,860	179,109	-	93,429	(37,852)	3,325,546
Salaries, wages and related accruals	2,840,935	252,546	-	485,418	-	3,578,899
Estimated third-party settlements	(128,739)	147,397	-	-	-	18,658
Other current liabilities	52,500	-	-	-	-	52,500
Total current liabilities	<u>10,585,726</u>	<u>905,719</u>	<u>-</u>	<u>578,847</u>	<u>(37,852)</u>	<u>12,032,440</u>
Long-term debt - net of current portion	17,394,935	3,186,917	-	-	-	20,581,852
Other liabilities						
Notes and advances to affiliates	-	185,848	3,650	-	(189,498)	-
Accrued compensated absences	3,307,180	217,966	-	-	-	3,525,146
Net pension liability	29,990,933	-	-	-	-	29,990,933
Other liabilities	367,500	-	-	-	-	367,500
Total other liabilities	<u>33,665,613</u>	<u>403,814</u>	<u>3,650</u>	<u>-</u>	<u>(189,498)</u>	<u>33,883,579</u>
Deferred inflow of resources						
Difference between expected and actual experience	571,721	-	-	-	-	571,721
Total liabilities and deferrals	<u>62,217,995</u>	<u>4,496,450</u>	<u>3,650</u>	<u>578,847</u>	<u>(227,350)</u>	<u>67,069,592</u>
Net position						
Net invested in capital assets	20,483,225	2,371,866	-	-	-	22,855,091
Nonexpendable permanent endowments	25,000	-	-	-	-	25,000
Restricted for debt service, capital acquisitions and self-insurance	5,120,681	546,366	216,362	-	-	5,883,409
Unrestricted	31,633,895	1,763,726	2,250,690	(4,453)	(50,000)	35,593,858
Total net position	<u>57,262,801</u>	<u>4,681,958</u>	<u>2,467,052</u>	<u>(4,453)</u>	<u>(50,000)</u>	<u>64,357,358</u>
Total liabilities and net position	<u>\$ 119,480,796</u>	<u>\$ 9,178,408</u>	<u>\$ 2,470,702</u>	<u>\$ 574,394</u>	<u>\$ (277,350)</u>	<u>\$ 131,426,950</u>

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, 2015

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminating Entries	Total
Operating revenues						
Net patient service revenue	\$ 90,684,514	\$ 9,140,300	\$ -	\$ 4,423,922	\$ -	\$ 104,248,736
Other operating revenue	3,824,105	-	-	2,125,363	(2,334,052)	3,615,416
Total operating revenue	94,508,619	9,140,300	-	6,549,285	(2,334,052)	107,864,152
Operating expenses						
Salaries and wages	33,998,897	4,501,863	-	4,210,084	921,715	43,632,559
Employee benefits and payroll taxes	8,016,439	1,477,178	-	714,818	-	10,208,435
Supplies and other	19,187,238	917,588	214,505	796,275	(2,197,052)	18,918,554
Professional services and consultant fees	3,672,290	147,401	-	-	(137,000)	3,682,691
Purchased services	13,317,750	1,013,941	-	814,149	(921,715)	14,224,125
Insurance	494,883	41,513	-	94,951	-	631,347
Utilities	1,317,389	284,557	36,048	66,473	-	1,704,467
Depreciation and amortization	5,161,524	414,861	-	-	-	5,576,385
Total operating expenses	85,166,410	8,798,902	250,553	6,696,750	(2,334,052)	98,578,563
Operating income (loss)	9,342,209	341,398	(250,553)	(147,465)	-	9,285,589
Other income (expenses)						
Interest income	181,558	1	5,146	-	-	186,705
Grants and contributions	116,205	695	555,972	-	-	672,872
Interest expense	(731,928)	(155,342)	-	-	-	(887,270)
Other	-	-	27,673	-	-	27,673
Total other income (expense)	(434,165)	(154,646)	588,791	-	-	(20)
Change in net position	8,908,044	186,752	338,238	(147,465)	-	9,285,569
Cumulative effect of accounting change	(25,578,030)	-	-	-	-	(25,578,030)
Total change in net position	\$ (16,669,986)	\$ 186,752	\$ 338,238	\$ (147,465)	\$ -	\$ (16,292,461)

See report of independent auditors.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

SUPPLEMENTARY INFORMATION ON GASB 68 PENSION LIABILITIES (UNAUDITED)
DECEMBER 31, 2015

Schedule of Proportionate Share of the Net Pension Liability

System proportion of the collective net pension liability	0.24945%
System proportionate share of the net pension liability	\$ 29,991,000
System covered-employee payroll	\$ 36,747,000
System proportionate share of the net pension liability as a percentage of its covered-employee payroll	81.6%
Plan fiduciary net position as a percentage of the total pension liability	86.5%

Schedule of System Contributions

Contractually required contribution	\$ 4,671,000
Contributions in relation to the contractually required contribution	<u>\$ 4,671,000</u>
Contribution deficiency (excess)	-
System covered employee payroll	\$ 34,504,000
Contributions as a percentage of covered-employee payroll	14%

Note: This schedule is intended to present ten years of the proportionate share of the net pension liability. Currently, only those years with information available are presented.

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Dave Yost • Auditor of State

MEMORIAL HOSPITAL OF UNION TOWNSHIP

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
JULY 26, 2016**