

**MEMORIAL HOSPITAL OF UNION COUNTY
AND AFFILIATES**

COMBINED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2020 AND 2019

CPAs / ADVISORS



OHIO AUDITOR OF STATE
KEITH FABER



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

We have reviewed the *Independent Auditor's Report* of the Memorial Hospital of Union County and Affiliates, Union County, prepared by Blue & Co., LLC, for the audit period January 1, 2020 through December 30, 2020. 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 "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

August 03, 2021

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MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Memorial Hospital of Union County and Affiliates
Marysville, Ohio

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the business-type activities of Memorial Hospital of Union County and Affiliates (Memorial Health), a discretely presented component unit of Union County, Ohio, as of and for the years ended December 31, 2020 and 2019, and the related notes to the combined financial statements, which collectively comprise Memorial Health's basic combined financial statements as listed in the table of contents.

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining audit evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material combined financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the entity's preparation and fair presentation of the combined 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 entity's internal control. Accordingly, we express no such 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.

To the Board of Trustees
Memorial Hospital of Union County and Affiliates
Marysville, Ohio

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for 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 Memorial Health as of December 31, 2020 and 2019, and its changes in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Relationship to Union County, Ohio

We draw attention to Note 1, which describes that the financial statements of Memorial Health 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, Ohio that is attributable to the transactions of Memorial Health. They do not purport to, and do not present fairly the financial position of Union County, Ohio as of December 31, 2020 and 2019, the changes in its financial position or its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* on pages i through xii and the Required Supplemental Information on GASB 68 Pension Liabilities and GASB 75 Other Postemployment Benefit Liabilities on pages 54 through 57, to supplement the basic combined financial statements. Such information, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic combined 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, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Report on Combining Information

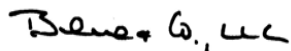
Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole.

To the Board of Trustees
Memorial Hospital of Union County and Affiliates
Marysville, Ohio

The combining information on pages 48 through 53 present additional analysis and is not a required part of the basic combined financial statements. The combining statement of net position and combining statements of revenues, expenses, 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 May 19, 2021 on our consideration of Memorial Health'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 Memorial Health's internal control over financial reporting and compliance.



Westerville, Ohio
May 19, 2021

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Management's Discussion and Analysis

The discussion and analysis of the financial performance of Memorial Hospital of Union County and its blended component units, Memorial Gables, Memorial Medical Group, and Memorial Health Foundation (collectively, "Memorial Health"), provides an overview of Memorial Health's financial activities for the years ended December 31, 2020, 2019 and 2018. Please read in conjunction with the accompanying basic financial statements of Memorial Hospital of Union County.

Financial Highlights

- Memorial Health's net position decreased \$3,484,438 in 2020 and \$2,564,251 in 2019.
- Memorial Health reported an operating loss of \$7,852,299 in 2020 and \$5,950,013 in 2019.
- Total operating revenues increased from 2019 to 2020 by \$212,592 or 0.2%. Total operating revenues increased from 2018 to 2019 by \$6,375,715 or 5%.
- Memorial Health had an increase in operating expenses of \$2,114,878 or 1% in 2020 and \$19,912,528 or 16% in 2019. Included in the operating expenses for 2020 was \$11,726,462 and \$5,777,257 of expense relating to continued impact of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pension*, and GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions*, respectively. Operating expenses for 2019 included expense of \$17,984,823 and \$4,423,769 relating to GASB 68 and GASB 75, respectively.

Using This Annual Report

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

Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

These two statements report Memorial Health's net position and related changes. You can think of Memorial Health's net position - the difference between assets, liabilities, and deferred outflows and inflows of resources - as one way to measure Memorial Health's financial health, or financial position. Over time, increases or decreases in Memorial Health'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 changes in Memorial Health's patient base, changes in legislation and regulations, measures of the quality of services provided to its patients, as well as local economic factors to assess the overall financial health.

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, noncapital related financing and capital related 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?"

Net Position

Memorial Health's net position is the difference between its assets, liabilities, and deferred outflows and inflows of resources. In 2020, Memorial Health's net position decreased by \$3,484,438. In 2019, Memorial Health's net position decreased by \$2,564,251.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Condensed Financial Information

The following is a comparative analysis of major components of the statements of net position of Memorial Health as of December 31, 2020, 2019, and 2018:

	2020	2019	2018
Assets and deferred outflows of resources			
Current assets	\$ 77,651,315	\$ 70,525,461	\$ 68,336,523
Noncurrent assets	74,205,358	69,278,341	76,693,833
Capital assets, net	95,569,276	85,569,879	55,875,115
Deferred outflows - excess consideration provided for acquisition	288,250	288,250	-
Deferred outflows-pension	10,387,257	24,612,562	11,003,119
Deferred outflows-OPEB	8,069,463	4,979,871	2,280,186
Total assets and deferred outflows of resources	<u>\$ 266,170,919</u>	<u>\$ 255,254,364</u>	<u>\$ 214,188,776</u>
Liabilities and deferred inflows of resources			
Current liabilities	\$ 22,824,500	\$ 21,884,357	\$ 16,725,613
Long-term liabilities	167,321,453	170,176,911	121,262,684
Deferred inflows-pension	12,063,274	1,515,979	9,906,721
Deferred inflows-OPEB	5,877,147	108,134	2,160,524
Total liabilities and deferred outflows of resources	<u>\$ 208,086,374</u>	<u>\$ 193,685,381</u>	<u>\$ 150,055,542</u>
Net position			
Net investment in capital assets	\$ 27,799,421	\$ 27,246,468	\$ 23,373,220
Restricted	1,837,919	2,204,235	3,001,305
Unrestricted	28,447,205	32,118,280	37,758,709
Total net position	<u>\$ 58,084,545</u>	<u>\$ 61,568,983</u>	<u>\$ 64,133,234</u>

The most significant changes in Memorial Health's net position in 2020, 2019 and 2018 were the result of operations during the years and the effects of recent changes in accounting principles. During 2018, Memorial Health adopted GASB Statement No. 75. The effect of the adoption of the new accounting principles in 2018 resulted in Memorial Health recording its share of postemployment benefits other than pensions (OPEB). As of December 31, 2018, Memorial Health recognized a cumulative effect of change in accounting principle of \$26,555,556, in accordance with the adoption of GASB No.75. See Note 14 to the combined financial statements for more information regarding the OPEB amounts. Other changes in Memorial Health's net position include adjustments of its share of pension and OPEB amounts during the years, along with increases in capital assets during 2020, net of accumulated depreciation, due to the Memorial 2020 expansion projects.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Operating Results and Changes in Net Position

The following is a comparative analysis of the statements of revenues and expenses and changes in net position for the years ended December 31, 2020, 2019, and 2018:

	2020	2019	2018
Operating revenues			
Net patient service revenue	\$ 135,047,579	\$ 133,927,032	\$ 128,473,380
Other operating revenue	6,537,535	7,445,490	6,523,427
Total operating revenue	<u>141,585,114</u>	<u>141,372,522</u>	<u>134,996,807</u>
Operating expenses			
Salaries and wages	60,236,308	55,730,394	51,754,629
Employee benefits	11,674,543	10,011,663	8,421,430
Pension	11,726,462	17,984,823	9,323,190
Other post-employment retirement benefits	5,777,257	4,423,769	2,473,576
Supplies	13,433,063	14,626,741	13,889,561
Professional fees and services	6,736,298	5,809,107	5,514,878
Purchased services	22,864,353	21,910,951	21,392,513
Insurance	767,263	742,081	669,668
Utilities	1,660,564	1,722,356	1,647,305
Depreciation and amortization	6,220,373	5,349,633	5,006,450
Other operating expenses	8,340,929	9,011,017	7,316,807
Total operating expenses	<u>149,437,413</u>	<u>147,322,535</u>	<u>127,410,007</u>
Operating income (loss)	(7,852,299)	(5,950,013)	7,586,800
Nonoperating revenues (expenses)			
Investment income	2,146,897	3,263,978	1,956,553
Interest expense	(1,877,226)	(426,390)	(420,020)
Noncapital grants and contributions	4,122,032	177,440	252,073
Other nonoperating income (expense)	(23,842)	44,860	(174,099)
Total nonoperating revenues (expenses)	<u>4,367,861</u>	<u>3,059,888</u>	<u>1,614,507</u>
Excess (deficiency) of revenues over expenses	(3,484,438)	(2,890,125)	9,201,307
Capital contributions	-	325,874	484,813
Increase (decrease) in net position	(3,484,438)	(2,564,251)	9,686,120
Net position - beginning of year, as previously reported	61,568,983	64,133,234	81,002,670
Cumulative effect of change in accounting principle	-	-	(26,555,556)
Net position - beginning of year	<u>61,568,983</u>	<u>64,133,234</u>	<u>54,447,114</u>
Net position - end of year	<u>\$ 58,084,545</u>	<u>\$ 61,568,983</u>	<u>\$ 64,133,234</u>

Operating Revenues

Operating revenues include all transactions in the sales and/or receipts from goods and services such as inpatient services, outpatient services, and physician offices.

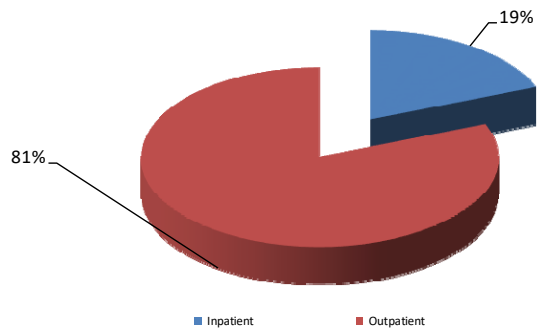
MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Operating revenue changes were a result of the following factors:

- Net patient revenue increased \$1,120,547 or 0.8% from 2019 to 2020.
- Net patient revenue increased \$5,453,652 or 4% from 2018 to 2019.

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



Operating Expenses

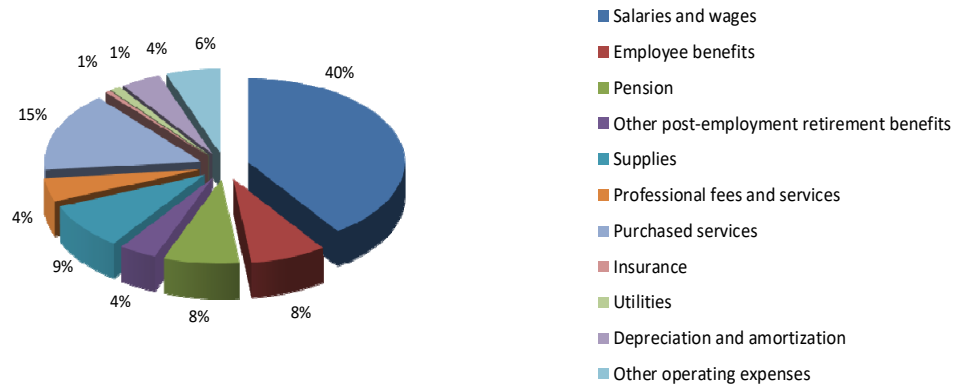
Operating expenses are all the costs necessary to perform and conduct the services and primary purpose of Memorial Health. The significant operating expense changes were the result of the following factors:

- Salaries and wages increased by \$4,505,914 or 8.1% from 2019 to 2020. Salaries and wages increased by \$3,975,765 or 7.7% from 2018 to 2019.
- Employee benefits increased \$1,662,880 or 16.6% from 2019 to 2020. Employee benefits increased \$1,590,233 or 18.9% from 2018 to 2019.
- Supplies expense decreased \$1,193,678 or 8.2% from 2019 to 2020. Supplies expense increased \$737,180 or 5.3% from 2018 to 2019.
- Purchased services increased \$953,402 or 4.4% from 2019 to 2020. Purchased services increased \$518,438 or 2.4% from 2018 to 2019.
- Other operating expense decreased \$670,088 or 7.4% from 2019 to 2020. Other operating expense increased \$1,694,210 or 23.2% from 2018 to 2019.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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



Sources of Revenue

Memorial Health derives substantially all of its revenue from patient services and other related activities. Revenues include, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

Memorial Health provides care to patients under payment arrangements with Medicare, Medicaid, and various managed care programs. Services provided under those arrangements are paid at predetermined rates and/or reimbursable costs as defined by the related Federal and State regulations. Provisions have been made in the combined financial statements for contractual adjustments which represent the difference between the standard charges for services and the actual or estimated reimbursement.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense, provider relief funds and gifts from donors. Changes between 2020 and 2019 are primarily due to the provider relief funds received during 2020 and the change in interest expense. During 2020, Memorial Health experienced a loss from disposal of capital assets of \$24,089, compared to a gain of \$44,860 in 2019 and a loss of \$174,099 in 2018. During 2020, Memorial Health received \$3,879,134 in provider relief and coronavirus relief funding, which is included in other noncapital grants and contributions on the combined statements of revenues, expenses, and changes in net position.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Capital Contributions

Memorial Health recognized gifts and contributions receivable totaling \$0, \$325,874, and \$484,813 during 2020, 2019 and 2018, respectively, from various individuals and companies to purchase capital assets.

Statement of Cash Flows

The primary purpose of the statement 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
- Its ability to meet obligations as they come due
- Its need for financing

	Year Ended December 31		
	2020	2019	2018
Cash provided by (used in):			
Operating activities	\$ 15,768,870	\$ 13,130,326	\$ 16,341,382
Capital and related financing activities	(12,208,588)	(24,477,271)	12,757,480
Investing activities	286,867	(5,549,620)	(1,513,380)
Noncapital financing activities	4,122,032	177,440	252,073
Total	7,969,181	(16,719,125)	27,837,555
Cash - beginning of year	32,799,351	49,518,476	21,680,921
Cash - end of year	\$ 40,768,532	\$ 32,799,351	\$ 49,518,476

Participation in the Ohio Public Employees Retirement System

As discussed in Note 14 to the combined financial statements, Memorial Hospital and Memorial Gables participate in the Ohio Public Employees Retirement System (OPERS) which includes multiple-employer cost-sharing defined benefit and defined contribution pension retirement plans, as well as a multiple-employer cost-sharing defined benefit plan offering postemployment benefits other than pensions. In 2018, Memorial Health adopted changes in accounting principles for accounting and reporting for postemployment benefits other than pensions. This change in accounting principle resulted in Memorial Health recording its proportionate share of the net OPEB amount of the plan administrator by OPERS.

The Ohio Revised Code establishes statutory authority for determining employer contributions to the state's cost-sharing retirement plans. Memorial Health remits the statutorily required contributions to the retirement system in the month subsequent to the related pay periods. These statutorily required contributions constitute the full legal funding requirements of Memorial Health for the participation of

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

its employees in the pension and OPEB retirement plans. Although accounting standards require the recognition of the net pension and OPEB liability, net pension asset, and the related deferred outflows of resources, deferred inflows of resources, and additional actuarially determined defined benefit pension and defined benefit OPEB expense, they do not represent legal claims on Memorial Health's resources and there are no additional cash flows or funding requirements outside of the statutorily required contributions.

Capital Asset and Debt Administration

At December 31, 2020 and 2019, Memorial Health had \$95,569,276 and \$85,569,879, respectively, invested in capital assets, net of accumulated depreciation. Memorial Health acquired or constructed capital assets in the amount of \$16,243,859 and \$35,996,810 during 2020 and 2019, respectively.

	December 31		
	2020	2019	2018
Capital assets not being depreciated			
Land	\$ 2,993,940	\$ 2,993,940	\$ 3,434,800
Construction in progress	108,146	43,779,658	15,927,940
Subtotal	3,102,086	46,773,598	19,362,740
Capital assets being depreciated - net of accumulated depreciation			
Land improvements	2,642,210	2,534,360	1,898,301
Buildings and leasehold improvements	72,682,078	24,102,507	24,527,664
Equipment	17,142,902	12,159,414	10,086,410
Subtotal	92,467,190	38,796,281	36,512,375
Total	\$ 95,569,276	\$ 85,569,879	\$ 55,875,115

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

In April 2018, Memorial Hospital opened a third party owned 30,000 square foot medical office building in Urbana. Memorial Health already has a presence in Champaign County through the employment of a large medical practice several years ago. The new building offers an urgent care, x-ray, lab testing and physical and occupational therapy services. In addition, Memorial Health provides rotating physician specialists and a clinical pharmacist and nurse practitioner to evaluate and counsel patients with complex conditions on how to manage their prescribed medications. The new location allows Memorial Health to increase access and the opportunity to expand services to improve the coordination of care to those it serves. The building has been well received by the community. Based on demand, Memorial Health added 3-D digital mammography services in early 2019.

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

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

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

In December 2017, we completed the next phase of the financing and closed on a revenue bond in the amount \$17,150,000. The bond is a drawdown structure and allows for Memorial to access funding when needed. In April 2018, with the assistance from the Union County Commissioners, Memorial Health concluded the final phase of our financing plan with the issuance of \$28,000,000 in General Obligation Bonds. At this time, Memorial has exhausted all its external funding from both the General Obligation and revenue bonds for the Memorial 2020 Project.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Long-Term Debt Obligations

At December 31, 2020 and 2019, Memorial Health had \$67,769,855 and \$58,323,411, respectively, in revenue bonds, general obligation bonds and capital leases outstanding, net of unamortized bond premiums. Memorial Health's formal debt issuances, revenue bonds, are subject to limitations imposed by state law. More detailed information about Memorial Health's long-term debt obligations are further discussed in Note 10 to the combined financial statements.

Economic Factors that Will Affect the Future

Memorial 2020 Project

Over the last several years, Memorial Hospital has been very active in growing our market share with additional service lines, physician recruiting and expanding its presence through growth in new buildings and markets. Further described under Capital Assets is an outline of our growth, where at the end of 2018, yielded three new buildings located off our main campus with the latest opening in Urbana.

The expansion of the main campus commenced in the Spring of 2018 and encompassed both the inpatient and outpatient pavilions. The inpatient building opened its doors in October 2020 while the outpatient building opened shortly afterwards in November 2020. In the inpatient pavilion, our patients enjoy a comfortable, 2 floors of modern hospital rooms with full, private bathrooms. Memorial 2020 replaced all existing patient rooms, except those in Obstetrics and the Nursery, with 36 brand new multi-purpose patient rooms as well as 12 shelled rooms ready for future expansion. The outpatient building offers our patients access to healthcare services all in one location. The first floor will offer lab, oncology, nephrology, neurosurgery and rheumatology services. The second floor offers diabetes education, medication therapies, gastroenterology and neurology. The third floor houses our new wellness center, cardiac and pulmonary rehabilitation and offers those patients the experience to look out over uptown Marysville while utilizing our services. Both buildings have been very well received by our patients and are in high demand during the COVID pandemic.

COVID-19

In late 2019, a novel strain of the coronavirus was first reported in China. This strain, COVID-19, quickly spread across all continents. In March 2020, the World Health Organization, (WHO), officially declared a pandemic. The outbreak in the United States, and subsequent "shelter at home" declarations had a catastrophic impact on the economy of each state. In healthcare, most outpatient services and elective procedures were postponed unless of an emergent nature. For many hospitals, outpatient services are the lifeblood of maintaining a breakeven operating margin. Memorial experienced business disruptions in volumes and physician office visits which created a negative impact on operations. Cost containment by the management team and receipts from the CARES Act (Coronavirus Aid, Relief, and Economic Security) assisted in keeping a favorable margin, prior to the recording of the annual GASB 68, 71 and 75 journal entries.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

During 2020, Memorial made the decision to not layoff or furlough any of its team members during the downturn in operations. Administration believed it had worked too hard over the previous years to build a winning culture among its teams. Memorial believed saving labor costs in this fashion would put the organization at risk of having to start the culture rebuild from scratch, rather than have the current team in place, ready to hit the ground running, when services resumed. Memorial asked its displaced workforce to staff the COVID tables at each entrance, help prepare and deliver meals for our mobile meals programs, take vacation or take time off without pay. Memorial possessed a strong cash position and relied on it during these difficult times. For the year, Memorial was able to meet and exceed its debt covenants.

For 2021, Memorial approved a budget with a reduction in volumes and revenues when compared to the previous year. Volumes are similar to what the organization experienced back in 2019. However, Memorial continues to see material inflation on personal protective equipment and other needed resources. While the organization is expecting a slightly above breakeven margin, it does not believe it is in jeopardy of triggering any debt covenants in the coming year. Even though the vaccination process has begun, COVID and its growing variant strains still have a hold on the economy. At this time, the short and long term impact of COVID and the overall financial impact to Memorial is unknown.

New Electronic Medical Records

In March 2019, Memorial entered into an agreement with The Ohio State University on behalf of its Wexner Medical Center (OSU) to provide training and the installation of the EPIC electronic medical records through its Community Connect partnership. Implementation of the software began in May 2019, optimization specialist training in February 2020 and with a proposed go-live date of June 2020. Unfortunately, due to the impact of COVID-19, the go-live date was rescheduled to October 2020. With go-live, both Memorial Hospital and Memorial Medical Group are utilizing the system. The transition to EPIC has had its fair share of bumps, but nothing material that was not expected. At this time, there are a handful of open items that are continuing to challenge certain areas, but nothing material to cause any concern.

GASB Standards

Other matters pertain to the 2015 implementation and recognition of GASB Statement 68 and 71 (see the notes to the financial statements) and their continued impact on the system's operating results. GASB 68 requires government employers participating in defined benefit pension plans to recognize liabilities for plans whose actuarial liabilities exceed the plan's net assets. These are referred to as net pension liabilities. In 2018, Memorial implemented a new related standard, GASB 75 (see notes to the financial statements). This standard requires employers participating in other post-employment benefit (OPEB) plans to recognize liabilities for those plans whose actuarial liabilities exceed the plan's assets. These benefits consist primarily of post-retirement healthcare.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The adopted standards changed the recognition and reporting requirements for public pensions. While the overall structure and operation of the health system remains unchanged, we are now required to recognize our portion of the net unfunded liability (OPERS and OPEB) on our financial statements. One of our concerns is that Memorial Health is required by law to fund the statutory contribution rate of 14%. The OPERS website stated that based on actuarial analysis if the funding levels would begin to trend downward, they would seek the council of the General Assembly and either increase the statutory obligations of employees and/or employers or decrease the current benefit levels to its enrollees. OPEB benefits are not guaranteed and can be reduced or eliminated at any time by OPERS. These potential changes would allow OPERS to meet the long-term projected pension liability and remain viable. The initial impact of this "non-cash" entry was approximately \$30,000,000 for GASB 68 to our net position.

The implementation of GASB 75 brings a reduction in net position of \$26,556,000. The changes between years has increased and decreased the liabilities and the appropriate recognition and amortization of deferred inflows and outflows, thus the system continues to realize a reduction in its operating margin. Unfortunately, we cannot reasonably estimate what impact the change in the liability will have to operations in future years.

Contacting Memorial Health's Management

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

Jeff Ehlers
Chief Financial Officer

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED STATEMENTS OF NET POSITION DECEMBER 31, 2020 AND 2019

Assets and Deferred Outflows of Resources

	2020	2019
Current assets		
Cash and cash equivalents	\$ 38,896,226	\$ 32,324,636
Patient accounts receivable, net of uncollectible accounts of approximately \$7,759,000 and \$7,542,000 in 2020 and 2019, respectively	19,513,249	15,923,175
Short-term investments	15,369,421	17,708,017
Prepaid expenses and other current assets	2,326,939	2,814,106
Inventories	1,063,222	995,482
Current portion of contributions receivable	482,258	760,045
Total current assets	77,651,315	70,525,461
Capital assets, net	95,569,276	85,569,879
Long-term investments	68,167,818	63,986,046
Assets limited as to use		
Internally designated for specific purpose	1,749,983	270,282
Restricted by donors for capital improvements	188,245	268,197
Total assets limited as to use	1,938,228	538,479
Other assets		
Contributions receivable, net of current portion	194,672	634,073
Investment in joint ventures	506,128	419,222
Other assets	2,425,768	3,158,601
Total other assets	3,126,568	4,211,896
Net pension asset	972,744	541,920
Total noncurrent assets	169,774,634	154,848,220
Deferred outflows of resources		
Excess consideration from acquisition	288,250	288,250
Pension	10,387,257	24,612,562
Other post-employment benefits	8,069,463	4,979,871
Total deferred outflows of resources	18,744,970	29,880,683
Total assets and deferred outflows of resources	\$ 266,170,919	\$ 255,254,364

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019

Liabilities, Deferred Inflows of Resources and Net Position

	2020	2019
Current liabilities		
Current portion of long-term debt	\$ 2,271,143	\$ 1,848,271
Accounts payable	7,277,915	10,487,572
Accrued salaries, wages and related accruals	9,654,229	8,040,540
Estimated third-party settlements	660,000	1,194,544
Other current liabilities	652,470	313,430
Current portion of refundable advances	2,308,743	-
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Total current liabilities	22,824,500	21,884,357
Long-term liabilities		
Long-term portion of refundable advances	4,191,257	-
Long-term debt, net of current portion	65,498,712	56,475,140
	<hr/>	<hr/>
Total long-term liabilities	69,689,969	56,475,140
Other liabilities		
Accrued compensated absences	1,314,814	1,198,837
Net pension liability	54,882,569	74,274,265
Net other post-employment benefit liability	41,276,601	38,018,669
Other liabilities	157,500	210,000
	<hr/>	<hr/>
Total other liabilities	97,631,484	113,701,771
Deferred inflows of resources		
Pension	12,063,274	1,515,979
Other post-employment benefits	5,877,147	108,134
	<hr/>	<hr/>
Total deferred inflows of resources	17,940,421	1,624,113
	<hr/>	<hr/>
Total liabilities and deferred inflows of resources	208,086,374	193,685,381
Net position		
Net investment in capital assets	27,799,421	27,246,468
Restricted - expendable for		
Capital improvements	865,175	1,662,315
Pensions	972,744	541,920
Unrestricted	28,447,205	32,118,280
	<hr/>	<hr/>
Total net position	58,084,545	61,568,983
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Total liabilities, deferred inflows of resources and net position	\$ 266,170,919	\$ 255,254,364
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See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Operating revenues		
Net patient service revenue	\$ 135,047,579	\$ 133,927,032
Other operating revenue	6,537,535	7,445,490
Total operating revenues	141,585,114	141,372,522
Operating expenses		
Salaries and wages	60,236,308	55,730,394
Employee benefits	11,674,543	10,011,663
Pension	11,726,462	17,984,823
Other post-employment retirement benefits	5,777,257	4,423,769
Supplies	13,433,063	14,626,741
Professional fees and services	6,736,298	5,809,107
Purchased services	22,864,353	21,910,951
Insurance	767,263	742,081
Utilities	1,660,564	1,722,356
Depreciation and amortization	6,220,373	5,349,633
Other operating expenses	8,340,929	9,011,017
Total operating expenses	149,437,413	147,322,535
Operating (loss)	(7,852,299)	(5,950,013)
Nonoperating revenues (expenses)		
Investment income	2,146,897	3,263,978
Interest expense	(1,877,226)	(426,390)
Noncapital grants and contributions	4,122,032	177,440
Other nonoperating income (expense)	(23,842)	44,860
Total nonoperating revenues (expenses)	4,367,861	3,059,888
Excess (deficiency) of revenues over expenses	(3,484,438)	(2,890,125)
Capital gifts	-	325,874
Increase (decrease) in net position	(3,484,438)	(2,564,251)
Net position - beginning of year	61,568,983	64,133,234
Net position - end of year	\$ 58,084,545	\$ 61,568,983

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 137,422,961	\$ 134,380,599
Cash paid to employees for wages and benefits	(76,797,471)	(72,192,160)
Cash paid to vendors for services and goods	(52,111,343)	(57,064,647)
Other receipts (payments), net	7,254,723	8,006,534
Net cash provided by operating activities	15,768,870	13,130,326
Cash flows from noncapital financing activities		
Noncapital grants and contributions	4,122,032	177,440
Net cash provided by noncapital financing activities	4,122,032	177,440
Cash flows from capital and related financing activities		
Capital gifts	-	325,874
Proceeds from issuance of long-term debt	11,294,714	5,732,036
Principal payments on capital lease	(528,356)	(298,603)
Principal payments on long-term debt	(1,078,480)	(1,003,469)
Interest paid on long-term debt	(2,118,660)	(673,059)
Purchase of capital assets	(19,792,749)	(29,647,920)
Proceeds from sale of capital assets	14,943	1,087,870
Net cash provided by (used in) capital and related financing activities	(12,208,588)	(24,477,271)
Cash flows from investing activities		
Interest and dividends on investments	2,146,897	3,263,978
Purchase and reinvestment of investments	(3,000,000)	(22,565,610)
Proceeds from sale and maturity of investments	1,139,970	13,752,012
Net cash flows provided by (used in) investing activities	286,867	(5,549,620)
Net increase (decrease) in cash and cash equivalents	7,969,181	(16,719,125)
Cash and cash equivalents - beginning of year	32,799,351	49,518,476
Cash and cash equivalents- end of year	\$ 40,768,532	\$ 32,799,351
Balance sheet classification of cash and cash equivalents		
Cash and cash equivalents	\$ 38,896,226	\$ 32,324,636
Cash included in assets limited as to use	1,872,306	474,715
	\$ 40,768,532	\$ 32,799,351
Supplemental cash flow information		
Capital asset acquisitions in accounts payable	\$ -	\$ 3,548,890
Assets acquired under capital lease	\$ -	\$ 2,800,000

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2020 AND 2019

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

	2020	2019
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (7,852,299)	\$ (5,950,013)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,220,373	5,349,633
Provision for uncollectible accounts	7,785,504	9,194,886
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Patient accounts receivable	(11,375,578)	(9,882,828)
Estimated amounts due from and to third-party payors	(534,544)	1,141,509
Net pension asset	(430,824)	130,040
Deferred outflows of resources - pensions	14,225,305	(13,609,443)
Net pension liabilities	(19,391,696)	33,464,284
Deferred inflows of resources - pensions	10,547,295	(8,390,742)
Deferred outflows of resources - OPEB	(3,089,592)	(2,699,685)
Net OPEB liability	3,257,932	9,015,748
Deferred inflows of resources - OPEB	5,769,013	(2,052,390)
Deferred inflows of resources - Excess consideration from acquisition	-	(288,250)
Other assets	1,782,542	(23,633)
Accounts payable and accrued expenses	2,068,899	(2,089,153)
Refundable Advances	6,500,000	-
Other liabilities	286,540	(179,637)
Net cash flows from operating activities	\$ 15,768,870	\$ 13,130,326

See accompanying notes to combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

1. NATURE OF OPERATIONS AND REPORTING ENTITY

Organization and Principles of Combination

Memorial Hospital of Union County (Memorial Hospital) is an acute care hospital located in Marysville, Ohio. Memorial Hospital is a political subdivision of the State of Ohio and was formed under the provisions of the Ohio Revised Code. Memorial Hospital engages in business-type activities and is considered a discretely presented component unit of Union County, Ohio and is operated by a board of trustees (the Trustees). Members of the board of trustees are appointed by the county commissioners and county judges.

The combined financial statements for the year ended December 31, 2020 and 2019 included herein consist of the financial positions, results of operations, changes in net position, and cash flows of Memorial Hospital, Memorial Gables, Memorial Health Foundation, and Memorial Medical Group (collectively, Memorial Health). The boards of Memorial Health Foundation and Memorial Medical Group are appointed by the Trustees. All intercompany accounts and transactions between all entities have been eliminated in the preparation of the combined financial statements.

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

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

In 2008, the board of trustees formed Union County Physician Corporation (UCPC) in order to enhance the recruitment of new physicians and retention of existing physicians by offering employment for those physicians and specialties that are of strategic importance to Memorial Hospital. UCPC is currently doing business as Memorial Medical Group.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The combined financial statements of Memorial Health 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. Memorial Health follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provide a comprehensive look at Memorial Health's financial activities. The financial statements include Memorial Gables, Memorial Health Foundation, and Memorial Medical Group as blended component units in the combined financial statements.

Use of Estimates

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

Proprietary Fund Accounting

Memorial Health utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the full accrual basis. Substantially all revenue and expenses are subject to accrual.

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 purposes of the statements of cash flows.

Patient Accounts Receivable

Memorial Health reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. Memorial Health provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments is based on expected payment rates from payors based on current reimbursement methodologies.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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.

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.

Investments

Investments include certificates of deposit, money market accounts, corporate notes, government securities and private equities, 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.

Assets Limited as to Use

Assets whose use is limited consist of funds designated by the Trustees for the replacement, improvement and expansion of Memorial Hospital's facilities, and invested funds held by a trustee in connection with Memorial Health's bonds. Assets limited as to use also include funds whose use is specified by the donor.

Other Assets

During 2013, Memorial Health entered into an agreement with the City of Marysville, Ohio (the City) to obtain the naming rights to a City pavilion. Memorial Health 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 and other long-term liabilities of the combined balance sheets. During 2020 and 2019, amortization of the asset was \$52,500, and as of December 31, 2020 and 2019 the remaining liability was \$157,500 and \$210,000, respectively.

During 2019, Memorial Health entered into a subscription agreement with EPIC that related to a software implementation project, and included \$2,979,411 of implementation and support fees. The asset is being amortized over the term of the subscription service period of 60 months and is recorded within other assets of the combined balance sheets. During 2020 and 2019, accumulated amortization of the asset was \$942,680 and \$346,798, respectively and as of December 31, 2020 and 2019 the remaining asset was \$2,036,731 and \$2,632,613, respectively. The asset is offset by a liability of

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

\$1,973,041 and \$2,501,397 as of December 31, 2020 and 2019, respectively, and is recorded within long-term debt of the combined balance sheet.

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 Memorial Hospital's 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 Memorial 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 Memorial Hospital's determined rate for all employees.

Restricted Resources

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

Net Position

The net position of Memorial Health is classified in three components: (1) Net invested in capital assets consist of capital assets net of accumulated depreciation and is 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 Memorial Health; (3) Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

Operating Revenue and Expenses

Memorial Health's combined statement of revenues, expenses, 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 – Memorial Health'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 as a result of providing health care services within the surrounding area.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Net Patient Service Revenue

Memorial Health has agreements with third-party payors that provide for payments to Memorial Health 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.

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

Contributions

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

Charity Care

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

Of Memorial Hospital's total reported expenses (approximately \$128,995,000 and \$126,753,000 during 2020 and 2019, respectively), an estimated \$1,257,000 and \$567,000 arose from providing services to charity patients during 2020 and 2019, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on Memorial Hospital's total expenses divided by gross patient service revenue. Memorial 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 \$434,000 and \$757,000 for 2020 and 2019, respectively, and is reported as net patient service revenue in the combined financial statements.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

Pension and Postemployment Benefits Other Than Pensions (OPEB)

Substantially all of Memorial Hospital and Memorial Gable's employees are eligible to participate in defined benefit and defined contribution plans sponsored by Ohio Public Employees' Retirement System (OPERS). Memorial Health funds pension costs accrued based on contribution rates determined by OPERS. For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the pension and OPEB, and pension and OPEB expense, information about the net position of the OPERS and addition to/deduction from the OPERS's net position have been determined on the same basis as they are reported by the OPERS.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the American Recovery and Reinvestment Act of 2009, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under Medicare programs are generally made for up to four years based on a statutory formula. Payments under Medicare program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on Memorial Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. Memorial Health recognized revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events count occur that would cause the final amounts to differ materially from the initial payments under the program. During 2019, it was determined Memorial Hospital received a Medicaid EHR Incentive Payment overpayment. A liability for \$491,696 was recorded in estimated third-party settlements as of December 31, 2019. This liability was paid in full during 2020.

Federal Income Tax

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

Risk Management

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

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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

Subsequent Events

Memorial Health has evaluated subsequent events through May 19, 2021, the date the combined financial statements were available to be issued.

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.

Memorial Health has designated five banks for the deposit of its funds. An investment policy has been filed with the Auditor of State on behalf of Memorial Hospital. Investment of interim funds is limited to bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, no-load money market mutual funds, and the Ohio subdivision's fund (STAR Ohio).

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

1. **Active Funds** - Those funds required to be kept in a "cash" or "near cash" status for immediate use by Memorial Health. Such funds must be maintained either in depository accounts or withdrawable on demand, including Negotiable Order of Withdrawal (NOW) accounts.
2. **Inactive Funds** - Those funds not required for use within the current five-year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit, maturing not later than the end of the current period of designated depositories or as savings or deposit accounts, including, but not limited to passbook accounts.

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3. **Interim Funds** - Those funds which are not needed for immediate use but will be needed before the end of the current period of designation of deposit. Ohio laws permits interim funds to be invested or deposited in the following securities:
- Bonds, notes, or other obligations that are guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
 - Bonds, notes debentures, or other obligations or securities issued by any federal governmental agency.
 - No-load money market mutual funds consisting exclusively of obligations described in the Ohio Revised Code and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
 - Interim deposits in the eligible institutions applying for interim funds to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by saving or deposit accounts, including but not limited to, passbook accounts.
 - Bonds and other obligations of the State of Ohio.
 - The Ohio State Treasurer's investment pool (STAR Ohio).
 - Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Section 135.142.
 - Under limited circumstances, corporate debt obligations in either of the two highest rating classifications by at least two nationally recognized rating agencies. Protection of Memorial Health's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by single collateral pool established by the financial institution to secure the repayment of all public funds deposited with the institution.

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, Memorial Hospital's deposits may not be returned to it. Memorial Health's deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Ohio; bonds of any city, county, school district or special road district of the state of Ohio; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

	2020	2019
Uninsured and uncollateralized	\$ 20,367,654	\$ 11,978,960
Uninsured and collateral held by pledging financial institution's trust department or agent in other than Memorial Health's name	37,114,595	38,456,689
Total	\$ 57,482,249	\$ 50,435,649

Investments

Memorial Health may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. government agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At December 31, 2020 and 2019, Memorial Health had the following investments and maturities:

	Carrying Amount	Maturities	
		< than 1 year	> than 1 year
December 31, 2020			
Certificates of deposit	\$ 33,147,426	\$ 19,710,730	\$ 13,436,696
Money market	1,680,494	1,680,494	-
U.S. government agency notes	25,037,645	6,002,555	19,035,090
U.S. treasury obligations	7,544,686	7,544,686	-
Commercial paper	16,192,910	16,192,910	-
Total	\$ 83,603,161	\$ 51,131,375	\$ 32,471,786
December 31, 2019			
Certificates of deposit	\$ 28,789,834	\$ 18,608,321	\$ 10,181,513
Money market	118,961	118,961	-
U.S. government agency notes	35,125,364	3,462,291	31,663,073
U.S. treasury obligations	7,488,628	7,488,628	-
Commercial paper	10,235,040	10,235,040	-
Total	81,757,827	\$ 39,913,241	\$ 41,844,586

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Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. Memorial Health has an investment policy that meets the compliance requirements of state law. The investment policy guides the investment of funds in order to mitigate risk and generate investment income while preserving and maintaining sufficient liquidity to meet the objectives of Memorial Health. Memorial Health's investment policy limits its exposure to fair values losses from rising interest rates with policy limits of at least 15% of its investment portfolio in certificates of deposits and investments with maximum maturities of five years.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2020 and 2019, Memorial Health's investments in U.S. government agency securities not directly guaranteed by the U.S. government were rated AA+ by Standard & Poor's.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, Memorial Health will be unable to recover the value of its investment or collateral securities that are in the possession of an outside party. Memorial Health's investment policy meets the compliance requirements of the provisions of state law.

Cash deposits and investments of Memorial Health are composed of the following as of December 31, 2020 and 2019:

	2020	2019
Deposits	\$ 40,768,532	\$ 32,799,351
Certificates of deposit	33,147,426	28,789,834
Money market	1,680,494	118,961
U.S. government agency notes	25,037,645	35,125,364
U.S. treasury obligations	7,544,686	7,488,628
Commercial paper	16,192,910	10,235,040
Total	\$ 124,371,693	\$ 114,557,178
Amounts summarized by fund type:		
Cash and cash equivalents	\$ 38,896,226	\$ 32,324,636
Assets whose use is limited	1,938,228	538,479
Investments	83,537,239	81,694,063
Total	\$ 124,371,693	\$ 114,557,178

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4. FAIR VALUE MEASUREMENTS

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 Memorial Health 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, 2020 and 2019.

Money market: 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.

U.S. treasury obligations: 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.

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Assets measured at fair value on a recurring basis as of December 31, 2020 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Money market	\$ -	\$ 1,680,494	\$ -	\$ 1,680,494
U.S. government agency notes	-	25,037,645	-	25,037,645
U.S. treasury obligations	-	7,544,686	-	7,544,686
Commercial paper	-	16,192,910	-	16,192,910
	-	50,455,735	-	50,455,735
Certificates of deposits				33,147,426
Total				\$ 83,603,161

Assets measured at fair value on a recurring basis as of December 31, 2019 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Money market	\$ -	\$ 118,961	\$ -	\$ 118,961
U.S. government agency notes	-	35,125,364	-	35,125,364
U.S. treasury obligations	-	7,488,628	-	7,488,628
Commercial paper	-	10,235,040	-	10,235,040
	-	52,967,993	-	52,967,993
Certificates of deposits				28,789,834
Total				\$ 81,757,827

Memorial Health holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associate with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

5. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below as of December 31:

	2020	2019
Patient accounts receivable	\$ 49,142,119	\$ 40,673,438
Allowance for uncollectible accounts	(7,758,894)	(7,541,670)
Allowance for contractual adjustments	(21,869,976)	(17,208,593)
Patient accounts receivable, net	\$ 19,513,249	\$ 15,923,175

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Memorial Health 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:

	2020		2019	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	27%	38%	13%	35%
Medicaid	11%	13%	9%	14%
Commercial insurance and other	40%	42%	53%	43%
Self-pay	22%	7%	25%	8%
	100%	100%	100%	100%

6. CONTRIBUTIONS RECEIVABLE

During 2015, the Foundation began the Memorial 2020 Capital Campaign for expansion and renovation of Memorial Hospital. Contributions receivable associated with the campaign, net of the present value discount rate of 3%, as of December 31, 2020 and 2019 were as follows:

	2020	2019
Receivable in less than one year	\$ 482,258	\$ 760,045
Receivable in one to five years	200,934	659,367
Total unconditional promises to give	683,192	1,419,412
Less discounts to net present value	(6,262)	(25,294)
Net unconditional promises to give	\$ 676,930	\$ 1,394,118

7. ESTIMATED AMOUNTS DUE TO THIRD-PARTY PAYORS

Memorial Health has agreements with payors that provide for reimbursement to Memorial Health at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between Memorial Health'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.

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- **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 2017 for Medicare.

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

8. CAPITAL ASSETS

Capital assets for the year ended December 31, 2020 was as follows:

	<u>2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>2020</u>
Land	\$ 2,993,940	\$ -	\$ -	\$ -	\$ 2,993,940
Land improvements	4,786,815	299,525	-	-	5,086,340
Buildings and leasehold improvements	55,147,872	-	(59,826)	50,856,148	105,944,194
Equipment	47,512,381	5,826,921	(285,070)	2,932,777	55,987,009
Construction in progress	43,779,658	10,117,413	-	(53,788,925)	108,146
	<u>154,220,666</u>	<u>16,243,859</u>	<u>(344,896)</u>	<u>-</u>	<u>170,119,629</u>
Less accumulated depreciation:					
Land improvements	2,252,455	191,345	330	-	2,444,130
Buildings and leasehold improvements	31,045,365	2,440,632	(223,881)	-	33,262,116
Equipment	35,352,967	3,588,396	(97,256)	-	38,844,107
	<u>68,650,787</u>	<u>6,220,373</u>	<u>(320,807)</u>	<u>-</u>	<u>74,550,353</u>
Capital assets, net	<u>\$ 85,569,879</u>	<u>\$ 10,023,486</u>	<u>\$ (24,089)</u>	<u>\$ -</u>	<u>\$ 95,569,276</u>

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NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

Capital assets for the year ended December 31, 2019 was as follows:

	2018	Additions	Disposals	Transfers	2019
Land	\$ 3,434,800	\$ 39,440	\$ 480,300	\$ -	\$ 2,993,940
Land improvements	4,028,005	799,382	40,572	-	4,786,815
Buildings and leasehold improvements	54,463,934	1,838,618	1,152,882	(1,798)	55,147,872
Equipment	47,550,484	5,467,652	5,507,553	1,798	47,512,381
Construction in progress	15,927,940	27,851,718	-	-	43,779,658
	<u>125,405,163</u>	<u>35,996,810</u>	<u>7,181,307</u>	<u>-</u>	<u>154,220,666</u>
Less accumulated depreciation:					
Land improvements	2,129,704	158,204	35,453	-	2,252,455
Buildings and leasehold improvements	29,936,270	1,741,644	632,549	-	31,045,365
Equipment	37,464,074	3,359,188	5,470,295	-	35,352,967
	<u>69,530,048</u>	<u>5,259,036</u>	<u>6,138,297</u>	<u>-</u>	<u>68,650,787</u>
Capital assets, net	<u>\$ 55,875,115</u>	<u>\$ 30,737,774</u>	<u>\$ 1,043,010</u>	<u>\$ -</u>	<u>\$ 85,569,879</u>

9. ACCRUED SALARIES, WAGES AND RELATED ACCRUALS

The details of accrued liabilities at December 31, 2020 and 2019 were as follows:

	2020	2019
Payroll and related items	\$ 5,714,813	\$ 4,278,017
Self-insured benefits	3,705,756	3,273,947
Health insurance claims	233,660	488,576
	<u>9,654,229</u>	<u>8,040,540</u>
Total salaries, wages and related accruals	<u>\$ 9,654,229</u>	<u>\$ 8,040,540</u>

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NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

10. LONG-TERM DEBT

Information regarding Memorial Health's long-term debt activity and balances as of and for the year ended December 31, were as follows:

	2019	Additions	Payments	2020	Current Portion
Capital Lease Obligations					
OSU Epic Subscription	\$ 2,501,397	\$ -	\$ (528,356)	\$ 1,973,041	\$ 549,882
Hospital Facilities Revenue Bonds:					
Series 2016	9,315,081	-	(268,480)	9,046,601	255,122
Series 2017	5,855,286	11,294,714	-	17,150,000	388,347
Union County General Obligation Bonds:					
Series 2016A	3,390,000	-	(555,000)	2,835,000	580,000
Series 2016B	6,325,000	-	(245,000)	6,080,000	260,000
Series 2018	27,990,000	-	(10,000)	27,980,000	10,000
	<u>55,376,764</u>	<u>11,294,714</u>	<u>(1,606,836)</u>	<u>65,064,642</u>	<u>2,043,351</u>
Unamortized bond premiums	2,946,647	-	(241,434)	2,705,213	227,792
	<u>2,946,647</u>	<u>-</u>	<u>(241,434)</u>	<u>2,705,213</u>	<u>227,792</u>
Total long-term debt	<u>\$ 58,323,411</u>	<u>\$ 11,294,714</u>	<u>\$ (1,848,270)</u>	<u>\$ 67,769,855</u>	<u>\$ 2,271,143</u>

	2018	Additions	Payments	2019	Current Portion
Capital Lease Obligations					
OSU Epic Subscription	\$ -	\$ 2,800,000	\$ (298,603)	\$ 2,501,397	\$ 528,356
Hospital Facilities Revenue Bonds:					
Series 2016	9,538,550	-	(223,469)	9,315,081	268,481
Series 2017	123,250	5,732,036	-	5,855,286	-
Union County General Obligation Bonds:					
Series 2016A	3,925,000	-	(535,000)	3,390,000	555,000
Series 2016B	6,560,000	-	(235,000)	6,325,000	245,000
Series 2018	28,000,000	-	(10,000)	27,990,000	10,000
	<u>48,146,800</u>	<u>8,532,036</u>	<u>(1,302,072)</u>	<u>55,376,764</u>	<u>1,606,837</u>
Unamortized bond premiums	3,193,316	-	(246,669)	2,946,647	241,434
	<u>3,193,316</u>	<u>-</u>	<u>(246,669)</u>	<u>2,946,647</u>	<u>241,434</u>
Total long-term debt	<u>\$ 51,340,116</u>	<u>\$ 8,532,036</u>	<u>\$ (1,548,741)</u>	<u>\$ 58,323,411</u>	<u>\$ 1,848,271</u>

OSU EPIC Subscription Lease Obligation - effective May 1, 2019, Memorial Health entered into an electronic medical record system software license and access agreement in the amount of \$2,800,000. The \$2,800,000 lease obligation will be paid in 60 equal monthly installments of \$51,566, including principle and interest at a fixed rate of 4%, through April 2024. The debt is secured by the right-of-use asset valued at \$2,036,731 as of December 31, 2020.

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

The Hospital Facilities Improvement Revenue Bonds, Series 2016 loan of \$10,000,000 and Union County General Obligation Bond, Series 2016B loan of \$6,970,000 from direct placement contain a provision that whenever an event of default occurs, PNC Bank, National Association (PNC Bank), the holder of the bonds, without any further demand or notice, take one or any combination of the following remedial steps:

- 1) By notice, declare the total outstanding amount of the bonds due and payable
- 2) Proceed by appropriate court action to enforce specific performance by the County of Union, Ohio (the County) of the applicable covenants of the agreement or to recover for the breach thereof, including the payment of all amounts due from the County. The County shall pay or repay to PNC Bank all costs of such action or court action, including without limitation, reasonable attorneys' fees.
- 3) Pursue any other remedy granted to PNC Bank under the Master Trust Indenture or any other financing or security document executed in connection with any other indebtedness or other monetary obligation between the County and PNC Bank.

Furthermore, upon the occurrence and continuation of an event of default the Hospital Facilities Improvement Revenue Bonds, Series 2016 and Union County General Obligation Various Purpose Refunding Bonds, Series 2016B will bear interest at the default rate, which is the rate equal to the sum of the interest rate plus 3%.

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

The Hospital Facilities Improvement Revenue Bonds, Series 2017 loan of \$17,150,000 from direct placement contain a provision that whenever an event of default occurs, with written notice, the principal outstanding is due and payable immediately.

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NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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

The Union County General Obligation Various Purpose Refunding Bonds, Series 2016A loan of \$5,725,000 from direct placement contain a provision that if Memorial Health fails to maintain a coverage or liquidity requirement Memorial Health shall deposit into a reserve account within 30 days cash or eligible investments in the amount necessary to cause the balance then held in the reserve account to equal the reserve requirement.

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

The Union County General Obligation Various Purpose Refunding Bonds, Series 2016B loan of \$6,970,000 from direct placement is subject to the provision for an event of default as stated above.

Union County General Obligation Bonds, Series 2018 – dated April 19, 2018, were issued in the amount of \$28,000,000 with a stated interest rate of 3.00% through 2024, and varying stated interest rates between 3.00% and 5.00% through final maturity. Memorial Health issued the Series 2018 bonds to continue the second phase of its Memorial 2020 campus revitalization project. The Memorial 2020 campus revitalization project includes constructing an inpatient tower, ambulatory health center for medical oncology, ambulatory services, health center, diabetes center, and physician practice space, as well as completing various improvements of existing Memorial Health sites.

The Union County General Obligation Bonds, Series 2018 loan of \$28,000,000 from direct placement contain a provision that whenever an event of default occurs, with written notice, the principal outstanding is due and payable immediately.

Memorial Health executed a Master Trust Indenture with the County and PNC Bank whereby the County and PNC Bank executed the revenue and general obligation bonds on behalf of Memorial Health. Under the terms of the agreement, Memorial Health agreed to assume liability of the debt obligations and has pledged a security interest in substantially all of its assets to the County, PNC Bank, and any other creditor for future debt obligations. Memorial Hospital is bound by terms under the master trust indenture to various debt covenants. Management believes Memorial Hospital is in compliance with these covenants as of December 31, 2020.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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

Years Ending December 31	Notes from Direct Placements		Capital Leases	
	Principal	Interest *	Principal	Interest
2021	\$ 1,493,469	\$ 2,174,647	\$ 638,393	\$ 68,913
2022	1,581,131	2,155,747	572,285	46,510
2023	1,640,421	2,100,886	595,601	23,194
2024	1,693,400	2,044,683	166,762	2,558
2025	1,650,586	1,988,426	-	-
2026-2030	9,177,590	9,081,618	-	-
2031-2035	10,670,206	7,602,444	-	-
2036-2040	12,706,730	5,717,561	-	-
2041-2045	15,383,467	3,256,852	-	-
2046-2048	7,094,601	427,373	-	-
Total	<u>\$ 63,091,601</u>	<u>\$ 36,550,237</u>	<u>\$ 1,973,041</u>	<u>\$ 141,175</u>

(*) Anticipated interest expense, net of amortization of deferred bond premiums on the Series 2016A and Series 2016B General Obligation Various Purpose Refunding Bonds and Series 2018 General Obligation Bonds.

11. OPERATING LEASES

Memorial Health has various noncancellable operating lease agreements for equipment and building rental space, which expire in various years through 2035. These leases generally contain renewal options for periods ranging from 1 to 5 years and require Memorial Health to pay all executory costs (property taxes, maintenance and insurance). Future minimum lease payments at December 31, 2020 are as follows:

2021	\$ 3,392,428
2022	3,119,790
2023	2,869,087
2024	2,705,148
2025	6,535,770
2026-2030	7,887,516
2031-2035	3,564,339
Total	<u>\$ 30,074,078</u>

Rent expense for all operating leases approximated \$3,136,000 and \$3,177,000 in 2020 and 2019, respectively.

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12. REFUNDABLE ADVANCES

During 2020, the Provider Relief Fund (PRF) grants authorized under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act were distributed to healthcare providers impacted by the outbreak of COVID-19 pandemic under Catalog of Federal Domestic Assistance (CFDA) #93.498. Revenues from PRF grants are recognized to the extent of patient revenues lost as a result of the pandemic and COVID-19 related additional expenses. This revenue is included in the combined statements of revenues, expenses and changes in net position as nonoperating revenue. Patient revenues lost represent the deficiency in net patient service revenues recognized over the period impacted by the pandemic when compared with net patient service revenues budgeted for 2020. Provider Relief Fund grants included in refundable advances on the statement of net position represent grant funds received in excess of patient revenues lost and COVID-19 related expenses. These funds are subject to recoupment by the grantor in the event that the conditions for recognition are not met.

As part of the CARES act congress also authorized Coronavirus Relief Funds which were distributed to state and local governments. In 2020, the state of Ohio passed through funds to healthcare providers in the state. Revenues from Coronavirus Relief Funds are recognized to the extent of COVID-19 related expenses. This revenue is included in the combined statements of revenues, expenses, and changes in net position as other non-operating revenue. Coronavirus Relief Fund included in refundable advances on the combined statements of net position represent grant funds received in excess of COVID-19 related expenses. These funds are subject to recoupment by the grantor in the event that the conditions for recognition are not met.

The passage of the CARES Act also authorized the Center for Medicare and Medicaid Services (CMS) to expand the Medicare Accelerated and Advance Payment Program to a broader group of Medicare Part A providers and Part B suppliers. As an eligible healthcare organization, Memorial Health was eligible to request up to 100% of their Medicare payment amounts for a six-month period. These payments were issued in April 2020. Recoupment of the advance payment was to begin following a 120-day deferral period. The Continuing Appropriations Act, 2021 and Other Extensions Act which passed on September 30, 2020 allowed providers to extend repayment for a full year before recoupment begins. As of the date the combined financial statements were available to be issued, \$0 of the Medicare recoupment payments were made. The advance payments are included in refundable advances on the combined statements of net position.

As of and for the year ended December 31, 2020, revenues recognized, and refundable advances were as follows:

	<u>Revenue</u> <u>Recognized</u>	<u>Current Portion of</u> <u>Refundable Advances</u>	<u>Long-Term Portion</u> <u>of Refundable</u> <u>Advances</u>	<u>Total</u>
Medicare accelerated and advance payment program	\$ -	\$ 2,308,743	\$ 4,191,257	\$ 6,500,000
Coronavirus relief fund	245,927	-	-	245,927
Provider relief fund	3,633,207	-	-	3,633,207
Ending Balance	<u>\$ 3,879,134</u>	<u>\$ 2,308,743</u>	<u>\$ 4,191,257</u>	<u>\$ 10,379,134</u>

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13. NET PATIENT SERVICE REVENUE

Net patient service revenue for the year ending December 31 consists of the following:

	<u>2020</u>	<u>2019</u>
Patient Revenue:		
Inpatient services	\$ 60,273,511	\$ 56,642,363
Outpatient services	256,124,057	262,586,261
Total patient revenue	<u>316,397,568</u>	<u>319,228,624</u>
Revenue deductions:		
Provision for contractual allowances	170,794,164	174,822,425
Provision for bad debt allowances	7,785,504	9,194,886
Charity care, net of Hospital Care Assurance	2,770,321	1,284,281
Total revenue deductions	<u>181,349,989</u>	<u>185,301,592</u>
Total net patient service revenue	<u>\$ 135,047,579</u>	<u>\$ 133,927,032</u>

14. RETIREMENT PLANS

Memorial Hospital and Memorial Gables are participating employers of Memorial Health contributing 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 trust, which funds multiple health care plans including medical coverage, prescription drug program and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined Plans. This trust is also used to fund health care for Member Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 20 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 75. Please see the Plan Statement in the OPERS 2019 Comprehensive Annual Financial Report for details.

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The collective net OPEB liability of the retirement systems (GASB 75) and Memorial Health's proportionate share of the net OPEB liability as of December 31 were as follows:

	2020	2019
Net OPEB liability - all employers	\$ 13,812,597,868	\$ 13,037,639,421
Proportion of the net OPEB liability - Memorial Health	0.298833%	0.291607%
	<u>\$ 41,276,601</u>	<u>\$ 38,018,669</u>

OPEB expense relating to GASB 75, for the years ending December 31, 2020 and 2019, was \$5,777,257 and \$4,423,769, respectively.

At December 31, 2020, Memorial Health reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred outflows of resources:

Assumption changes	\$ 3,031,672
Change in proportionate share	1,474,511
Employer contributions subsequent to the measurement date	5,881,074
Total	<u>\$ 10,387,257</u>

Deferred inflows of resources:

Difference between expected and actual experience	\$ 922,282
Change in proportionate share	18,781
Net difference between projected and actual earnings on pension plan assets	11,074,007
Difference between Memorial Health contributions and proportionate share of contributions	48,204
Total	<u>\$ 12,063,274</u>

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At December 31, 2019, Memorial Health reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred outflows of resources:

Difference between expected and actual experience	\$	63,991
Assumption changes		6,588,049
Change in proportionate share		1,600,487
Net difference between projected and actual earnings on pension plan assets		10,199,519
Employer contributions subsequent to the measurement date		6,160,516
Total	\$	24,612,562

Deferred inflows of resources:

Difference between expected and actual experience	\$	1,190,655
Difference between Memorial Health contributions and proportionate share of contributions		292,677
Change in proportionate share		32,647
Total	\$	1,515,979

At December 31, 2020, Memorial Health reported deferred outflows of resources and deferred inflows of resources for OPEB from the following sources:

Deferred outflows of resources:

Difference between expected and actual experience	\$	1,107
Assumption changes		6,508,950
Change in proportionate share		1,453,379
Difference between Memorial Health contributions and proportionate share of contributions		81,330
Employer contributions subsequent to the measurement date		24,697
Total	\$	8,069,463

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Deferred inflows of resources:

Difference between expected and actual experience	\$	3,774,935
Net difference between projected and actual earnings on OPEB plan assets		2,101,794
Difference between Hospital contributions and proportionate share of contributions		418
Total	\$	<u><u>5,877,147</u></u>

At December 31, 2019, Memorial Health reported deferred outflows of resources and deferred inflows of resources for OPEB from the following sources:

Deferred outflows of resources:

Difference between expected and actual experience	\$	12,874
Assumption changes		1,225,767
Net difference between projected and actual earnings on OPEB plan assets		1,742,930
Change in proportionate share		1,786,182
Difference between Memorial Health contributions and proportionate share of contributions		52,021
Employer contributions subsequent to the measurement date		160,097
Total	\$	<u><u>4,979,871</u></u>

Deferred inflows of resources:

Difference between expected and actual experience	\$	103,156
Difference between Memorial Health contributions and proportionate share of contributions		4,978
Total	\$	<u><u>108,134</u></u>

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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:

2021	\$	212,916
2022		3,300,147
2023		(422,193)
2024		4,424,358
2025		19,896
Thereafter		21,967
Total	\$	7,557,091

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

2021	\$	(2,319,984)
2022		(768,778)
2023		(1,673)
2024		922,816
Total	\$	(2,167,619)

Statutory Authority

Ohio Revised Code (ORC) Chapter 145

Benefit Formula

Pensions: 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 35. 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.

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OPEB: The ORC permits, but does not require, OPERS to offer post-employment health care coverage. The ORC allows a portion of the employers' contributions to be used to fund health care coverage. The health care portion of the employer contribution rate for the Traditional Pension Plan and the Combined Pension Plan is comparable, as the same coverage options are provided to participants in both plans. Beginning January 1, 2015, the service eligibility criteria for health care coverage increased from 10 years to 20 years with a minimum age of 60, or 30 years of qualifying service at any age. Beginning with January 2016 premiums, Medicare-eligible retirees could select supplemental coverage through the connector, and may be eligible for monthly allowances deposited to a health reimbursement account to be used for reimbursement of eligible health care expenses. Coverage for non-Medicare retirees includes hospitalization, medical expenses and prescription drugs. The OPERS determines the amount, if any of the associated health care costs that will be absorbed by the OPERS and attempts to control costs by using managed care, case management, and other programs.

Contribution Rates

The ORC provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS may be set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of earnable salary of active members. In 2020 and 2019, State and Local employers contributed a rate of 14.0% of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the ORC. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 0.0% during calendar year 2020 and 2019. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for 2020 and 2019 was 4%.

Cost-of-Living Adjustments

Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual cost-of-living adjustment is provided on the member's base pension benefit at the date of retirement and is not compounded. For those members retiring under the Combined Plan will receive a 3% cost-of-living adjustment for benefit portion of their pension benefit. Current law provides for a 3% cost-of-living adjustment for benefit recipients retiring prior to January 7, 2013. For those benefit recipients retiring subsequent to January 7, 2013, beginning in calendar year 2019, law provided that the cost-of-living adjustment will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

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Measurement Date

December 31, 2019 for pension (OPEB is rolled forward from December 31, 2018 actuarial valuation date)

Actuarial Assumptions

Valuation Date: December 31, 2019 for pension and December 31, 2019 for OPEB

Rolled Forward Measurement Date: December 31, 2018 for OPEB

Actuarial Cost Method: Individual entry age

Investment Rate of Return: 7.20%

Inflation: 3.25%

Projected Salary Increases: 3.25% - 10.75%

Cost-of-Living Adjustments: 3.00% Simple – for those retiring after January 7, 2013, 3.00% Simple through 2019, then 2.15% Simple

Health Care Cost Trend: 10.5% initial, 3.5% ultimate through 2030

Mortality Rates

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

Date of Last Experience Study

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.

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The following table displays the OPERS Board-approved asset allocation policy for defined benefit pension assets for 2020 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long Term Expected Return *
Fixed Income	25%	1.8%
Domestic Equity	19%	5.8%
Real Estate	10%	5.2%
Private Equity	12%	10.7%
International Equity	21%	7.7%
Other Investments	13%	5.0%
Total	<u>100%</u>	

* Returns presented as arithmetic means

The following table displays the OPERS Board-approved asset allocation policy for health care assets for 2020 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long Term Expected Return *
Fixed Income	36%	1.5%
Domestic Equity	21%	5.8%
Real Estate	6%	5.7%
International Equity	23%	7.7%
Other Investments	14%	4.9%
Total	<u>100%</u>	

* Returns presented as arithmetic means

Discount Rate

Pension: The discount rate used to measure the total pension liability was 7.2% for the Traditional Pension Plan, the Combined Plan and the Member-Directed 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 contractually required rates, as actuarially determined. 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.

OPEB: A discount rate of 3.16% was used to measure the total OPEB liability on the measurement date of December 31, 2019. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation

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bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). The single discount rate was based on an expected rate of return on the health care investment portfolio of 6.0% and a municipal bond rate of 2.75%. The projected cash flows used to determine the discount rate assumed that the employer contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position and future contributions were significant to finance health care costs through 2031. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Health Care Cost Trend Rate

A health care cost trend rate of 10.5% was used to measure total OPEB liability on the measurement date of December 31, 2019. Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2019 is 10.5%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near wage inflation (3.25%).

Sensitivity of Net Pension Liability to Changes in Discount Rate

1% Decrease (6.2%)	Current Rate (7.2%)	1% Increase (8.2%)
<u>\$ 90,519,000</u>	<u>\$ 54,883,000</u>	<u>\$ 22,846,000</u>

Sensitivity of Net Pension Asset to Changes in Discount Rate

1% Decrease (6.2%)	Current Rate (7.2%)	1% Increase (8.2%)
<u>\$ 588,000</u>	<u>\$ 973,000</u>	<u>\$ 1,250,000</u>

Sensitivity of Net OPEB Liability to Changes in Discount Rate

1% Decrease (2.16%)	Current Rate (3.16%)	1% Increase (4.16%)
<u>\$ 54,017,053</u>	<u>\$ 41,276,601</u>	<u>\$ 31,075,644</u>

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Sensitivity of Net OPEB Liability to Changes in Health Care Cost Trend Rate

1% Decrease (9.5%)	Current Rate (10.5%)	1% Increase (11.5%)
<u>\$ 40,058,564</u>	<u>\$ 41,276,601</u>	<u>\$ 42,479,111</u>

The amount of contributions recognized by the OPERS Plan from Memorial Health for the years ending December 31, 2020 and 2019 were approximately \$6,499,000 and \$6,161,000, respectively.

The amount of contributions recognized by the OPEB Plan from Memorial Health for the years ending December 31, 2020 and 2019 were approximately \$25,000 and \$160,000, respectively.

15. MEDICAL MALPRACTICE CLAIMS

Based on the nature of its operations, Memorial Health is at times subject to pending or threatened legal actions, which arise in the normal course of its activities. Memorial Health 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, Memorial Health 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, Memorial Health has an umbrella policy with an additional \$5,000,000 of coverage. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on the occurrences during the claims-made term, but reported subsequently, will be uninsured.

Memorial Health 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 Memorial Health's cost for such claims for the year, and it has been charged to operations as a current expense.

16. DEFERRED COMPENSATION

Any employee of Memorial 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.

17. SELF-INSURED BENEFITS

Memorial Hospital is partially self-insured under a plan covering substantially all employees and dependents for health benefits. The plan is covered by a stop-loss policy that covers claims over

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\$150,000 per covered person, with an unlimited maximum annual payment amount. Claims in excess of employee premiums are charged to operations. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. In addition, Memorial Hospital self-insures for worker's compensation. Memorial Hospital has a \$1,500,000 per claim stop-loss policy with a private insurance carrier for worker's compensation.

Activity in Memorial Health's accrued employee health claims liability during 2020 and 2019 is summarized as follows:

	2020	2019
Balance, beginning of year	\$ 488,576	\$ 586,909
Current year claims incurred and changes in estimates for claims incurred in prior years	9,031,798	9,668,911
Claims and expenses paid	(9,286,714)	(9,767,244)
Balance, end of year	<u>\$ 233,660</u>	<u>\$ 488,576</u>

18. INVESTMENT IN JOINT VENTURES

During 1996, Memorial Health Foundation and two other area health care entities formed Health Partners, Ltd. (Health Partners), for which Memorial Hospital has a 33.33% ownership interest. Health Partners was formed to provide management services to the health clinic of a major area corporation. In 1996, Memorial Hospital contributed \$100,000 to Health Partners through Memorial Health Foundation. Memorial Hospital received distributions of \$0 and \$333,334, in 2020 and 2019, respectively, through Memorial Health Foundation.

During 2003, Memorial Health Foundation and other area health providers formed Marysville Ohio Medical Properties, LLC, of which Memorial Hospital has a 46.88% ownership interest. The corporation was formed as the property owner for the Marysville Ohio Surgery Center facility. During 2003, Memorial Hospital contributed \$130,000 through Memorial Health Foundation. During 2020 and 2019, Memorial Hospital received distributions of \$100,781 and \$61,875, respectively, through Memorial Health Foundation.

During 2014, Memorial Health Foundation and other health providers formed Mahoney Dialysis, LLC, of which Memorial Hospital had a 6.0% ownership. The organization was formed to provide dialysis and renal care services and related services to the area. During 2014, Memorial Hospital contributed \$106,020 through Memorial Health Foundation. During 2020 and 2019, Memorial Hospital received distributions of \$26,959 and \$28,905, respectively, through Memorial Health Foundation.

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During 2016, Memorial Health Foundation and other health providers formed City Gate MOB, LLC, of which Memorial Hospital has a 15.80% ownership interest. During 2016, Memorial Hospital contributed \$150,000 through Memorial Health Foundation. During 2019, Memorial Hospital sold its ownership interest in exchange for distributions of \$383,721. The final distribution of \$1,722 was received in 2020.

During 2017, Memorial Hospital entered into an operating rental lease agreement with Urbana MOB, LLC. As part of the formation of Urbana MOB, LLC and lease agreement entered into with Memorial Hospital, the Memorial Health Foundation was given a 10% ownership interest as a Class B member. During 2019, Memorial Hospital sold its ownership interest in exchange for distributions of \$252,326. The final distribution of \$2,074 was received in 2020.

19. HEART PAVILION COLLABORATION AGREEMENT

On January 1, 2011, Memorial Hospital entered into cardiovascular collaboration and management service agreements with The Ohio State University (OSU) to provide cardiovascular services to Memorial Hospital's patients on its campus. Under the terms of the agreements, each party provides certain equipment, facilities, personnel and management services. Program earnings, as defined, are determined and distributed under the terms of the agreements. As of December 31, 2020 and 2019, Memorial Hospital had amounts accrued of \$568,000 and \$245,000 for amounts due to OSU relating to revenues during 2020 and 2019, respectively.

20. MEDICAL PRACTICE ACQUISITION

On November 30, 2019, Memorial Health acquired Damascus Family Medicine, Inc., a physician medical practice, in exchange for approximately \$492,000. The practice was strategically acquired to expand Memorial Health's health care services in the community and included all of the assets of the medical practice, consisting of patient accounts receivable; medical equipment; office equipment; and furniture and fixtures. In addition, Memorial Health assumed the liabilities relating to certain indebtedness and forgave indebtedness from the medical practice to Memorial Health relating to a rental agreement. The acquisition value of the net position acquired as of the acquisition date was determined to be approximately \$200,000.

21. BLENDED COMPONENT UNITS

The combined financial statements include Memorial Gables, Memorial Health Foundation, and Memorial Medical Group, which are blended component units of Memorial Hospital as determined by GASB Statements No. 61 and No. 80.

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The following is a summary of the financial position and activities of the blended component units as of and for the year ending December 31, 2020:

	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Blended Component Unit Total
Assets:				
Current assets	\$ 1,939,440	\$ 1,984,418	\$ 2,268,437	\$ 6,192,295
Capital assets, net	5,643,266	-	-	5,643,266
Other assets	407,777	700,800	-	1,108,577
Deferred outflows of resources	1,862,517	-	-	1,862,517
Total assets and deferred outflows of resources	<u>\$ 9,853,000</u>	<u>\$ 2,685,218</u>	<u>\$ 2,268,437</u>	<u>\$ 14,806,655</u>
Liabilities:				
Current liabilities	\$ 1,243,594	\$ 9,500	\$ 788,395	\$ 2,041,489
Due to Memorial Hospital	188,706	22,702	1,109,156	1,320,564
Long term debt	1,307,273	-	-	1,307,273
Other liabilities	9,779,448	-	-	9,779,448
Deferred inflows of resources	1,810,416	-	-	1,810,416
Total liabilities and deferred inflows of resources	14,329,437	32,202	1,897,551	16,259,190
Net position:				
Net investment in capital assets	3,917,156	-	-	3,917,156
Restricted - expendable for				
Capital improvements	-	676,930	-	676,930
Pensions	98,162	-	-	98,162
Unrestricted	(8,491,755)	1,976,086	370,886	(6,144,783)
Total net position	<u>(4,476,437)</u>	<u>2,653,016</u>	<u>370,886</u>	<u>(1,452,535)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 9,853,000</u>	<u>\$ 2,685,218</u>	<u>\$ 2,268,437</u>	<u>\$ 14,806,655</u>

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	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Blended Component Unit Total
Operating revenues				
Net patient service revenue	\$ 8,276,674	\$ -	\$ 10,557,721	\$ 18,834,395
Other operating revenues	419,424	-	8,136,593	8,556,017
Total operating revenues	<u>8,696,098</u>	<u>-</u>	<u>18,694,314</u>	<u>27,390,412</u>
Operating expenses				
Depreciation and amortization	533,694	-	117,863	651,557
Other operating expenses	9,589,362	152,672	18,705,191	28,447,225
Total operating expenses	<u>10,123,056</u>	<u>152,672</u>	<u>18,823,054</u>	<u>29,098,782</u>
Income (Loss) from operations	(1,426,958)	(152,672)	(128,740)	(1,708,370)
Non-operating gains (losses)				
Investment income	-	233,809	-	233,809
Interest expense	1,497	-	-	1,497
Noncapital grants and contributions	992,674	-	369,279	1,361,953
Other nonoperating income (expense)	-	247	-	247
Total non-operating gains (losses)	<u>994,171</u>	<u>234,056</u>	<u>369,279</u>	<u>1,597,506</u>
Capital gifts	-	-	-	-
Transfers to Memorial Hospital	-	(1,641,565)	-	(1,641,565)
Increase (decrease in net position)	(432,787)	(1,560,181)	240,539	(1,752,429)
Net position - beginning of year	(4,043,650)	4,213,197	130,347	299,894
Net position - end of year	<u>\$ (4,476,437)</u>	<u>\$ 2,653,016</u>	<u>\$ 370,886</u>	<u>\$ (1,452,535)</u>

	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Blended Component Unit Total
Cash provided by (used in):				
Operating activities	\$ (598,942)	\$ 550,622	\$ 19,749	\$ (28,571)
Investing activities	(72,123)	131,143	-	59,020
Financing activities	466,561	(1,641,318)	369,279	(805,478)
Total	<u>(204,504)</u>	<u>(959,553)</u>	<u>389,028</u>	<u>(775,029)</u>
Cash - beginning of year	1,527,908	1,646,401	205,734	3,380,043
Cash - end of year	<u>\$ 1,323,404</u>	<u>\$ 686,848</u>	<u>\$ 594,762</u>	<u>\$ 2,605,014</u>

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

The following is a summary of the financial position and activities of the blended component units as of and for the year ending December 31, 2019:

	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Blended Component Unit Total
Assets:				
Current assets	\$ 2,467,371	\$ 2,986,327	\$ 1,455,705	\$ 6,909,403
Capital assets, net	6,051,437	-	-	6,051,437
Other assets	294,989	1,279,671	-	1,574,660
Deferred outflows of resources	3,139,721	-	-	3,139,721
Total assets and deferred outflows of resources	<u>\$ 11,953,518</u>	<u>\$ 4,265,998</u>	<u>\$ 1,455,705</u>	<u>\$ 17,675,221</u>
Liabilities:				
Current liabilities	\$ 1,316,469	\$ 9,500	\$ 570,692	\$ 1,896,661
Due to Memorial Hospital	787,729	43,301	754,666	1,585,696
Long term debt	1,726,110	-	-	1,726,110
Other liabilities	11,994,543	-	-	11,994,543
Deferred inflows of resources	172,317	-	-	172,317
Total liabilities and deferred inflows of resources	<u>15,997,168</u>	<u>52,801</u>	<u>1,325,358</u>	<u>17,375,327</u>
Net position:				
Net investment in capital assets	3,923,240	-	-	3,923,240
Restricted - expendable for				
Capital improvements	-	1,394,118	-	1,394,118
Pensions	57,497	-	-	57,497
Unrestricted	<u>(8,024,387)</u>	<u>2,819,079</u>	<u>130,347</u>	<u>(5,074,961)</u>
Total net position	<u>(4,043,650)</u>	<u>4,213,197</u>	<u>130,347</u>	<u>299,894</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 11,953,518</u>	<u>\$ 4,265,998</u>	<u>\$ 1,455,705</u>	<u>\$ 17,675,221</u>

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Blended Component Unit Total
Operating revenues				
Net patient service revenue	\$ 8,854,112	\$ -	\$ 9,189,477	\$ 18,043,589
Other operating revenues	666,368	-	6,727,500	7,393,868
Total operating revenues	<u>9,520,480</u>	<u>-</u>	<u>15,916,977</u>	<u>25,437,457</u>
Operating expenses				
Depreciation and amortization	506,582	-	90,597	597,179
Other operating expenses	10,668,837	196,420	15,755,024	26,620,281
Total operating expenses	<u>11,175,419</u>	<u>196,420</u>	<u>15,845,621</u>	<u>27,217,460</u>
Income (Loss) from operations	(1,654,939)	(196,420)	71,356	(1,780,003)
Non-operating gains (losses)				
Investment income	11,834	769,800	-	781,634
Interest expense	1,666	-	-	1,666
Noncapital grants and contributions	(31,055)	45,512	-	14,457
Other nonoperating income (expense)	-	-	-	-
Total non-operating gains (losses)	<u>(17,555)</u>	<u>815,312</u>	<u>-</u>	<u>797,757</u>
Capital gifts	-	325,874	-	325,874
Transfers to Memorial Hospital	-	(1,237,869)	-	(1,237,869)
Increase (decrease in net position)	(1,672,494)	(293,103)	71,356	(1,894,241)
Net position - beginning of year	(2,371,156)	4,506,300	58,991	2,194,135
Net position - end of year	<u>\$ (4,043,650)</u>	<u>\$ 4,213,197</u>	<u>\$ 130,347</u>	<u>\$ 299,894</u>

	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Blended Component Unit Total
Cash provided by (used in):				
Operating activities	\$ 697,978	\$ 358,183	\$ (381,852)	\$ 674,309
Investing activities	482,028	1,055,156	-	1,537,184
Financing activities	(1,283,456)	(866,483)	-	(2,149,939)
Total	<u>(103,450)</u>	<u>546,856</u>	<u>(381,852)</u>	<u>61,554</u>
Cash - beginning of year	1,631,358	1,099,545	587,586	3,318,489
Cash - end of year	<u>\$ 1,527,908</u>	<u>\$ 1,646,401</u>	<u>\$ 205,734</u>	<u>\$ 3,380,043</u>

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

22. 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. 87, *Leases*, issued June 2017, will be effective for periods beginning after June 15, 2021. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, by one year. GASB Statement No. 89 will be effective for periods beginning after December 15, 2020.

23. COMMITMENTS AND CONTINGENCIES

Compliance Risks

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance that have not been provided for in the consolidated financial statements; however, the possible future financial effects of this matter on Memorial Health, if any, are not presently determinable.

Coronavirus Pandemic

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national, and global economies. The extent to which COVID-19 impacts Memorial Health's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. To date, Memorial Health has experienced decreases in revenue and increases in the cost of certain supplies. Additional potential impacts include,

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

but are not limited to, additional costs for responding to COVID-19; shortages of healthcare personnel; shortages of clinical supplies; increased demand for services; delays, lost of, or reduction to revenue, contributions, and funding; and investment portfolio declines. Management believes Memorial Health is taking appropriate actions to respond to the pandemic; however, the full impact is unknown and cannot be reasonably estimated as of the date the combined financial statements were available to be issued.

SUPPLEMENTARY FINANCIAL INFORMATION

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINING STATEMENT OF NET POSITION DECEMBER 31, 2020

Assets and Deferred Outflows of Resources

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminating Entries	Total
Current assets						
Cash and cash equivalents	\$ 36,291,212	\$ 1,323,404	\$ 686,848	\$ 594,762	\$ -	\$ 38,896,226
Patient accounts receivable	17,237,999	601,575	-	1,673,675	-	19,513,249
Short-term investments	14,571,963	-	797,458	-	-	15,369,421
Prepaid expenses and other current assets	2,294,624	14,461	17,854	-	-	2,326,939
Inventories	1,063,222	-	-	-	-	1,063,222
Current portion of contributions receivable	-	-	482,258	-	-	482,258
Due from affiliate	1,320,564	-	-	-	(1,320,564)	-
Total current assets	72,779,584	1,939,440	1,984,418	2,268,437	(1,320,564)	77,651,315
Capital assets, net	89,926,010	5,643,266	-	-	-	95,569,276
Long-term investments	68,167,818	-	-	-	-	68,167,818
Assets limited as to use						
Internally designated for specific purpose	1,440,368	309,615	-	-	-	1,749,983
Restricted by donors for capital improvements	188,245	-	-	-	-	188,245
Total assets limited as to use	1,628,613	309,615	-	-	-	1,938,228
Other assets						
Contributions receivable, net of current portion	-	-	194,672	-	-	194,672
Investment in joint ventures	-	-	506,128	-	-	506,128
Other assets	2,425,768	-	-	-	-	2,425,768
Total other assets	2,425,768	-	700,800	-	-	3,126,568
Net pension asset	874,582	98,162	-	-	-	972,744
Total noncurrent assets	163,022,791	6,051,043	700,800	-	-	169,774,634
Deferred outflows of resources						
Excess consideration from acquisition	288,250	-	-	-	-	288,250
Pension	9,339,051	1,048,206	-	-	-	10,387,257
Other post-employment benefits	7,255,152	814,311	-	-	-	8,069,463
Total deferred outflows of resources	16,882,453	1,862,517	-	-	-	18,744,970
Total assets and deferred outflows of resources	\$ 252,684,828	\$ 9,853,000	\$ 2,685,218	\$ 2,268,437	\$ (1,320,564)	\$ 266,170,919

See report of independent auditors.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINING STATEMENT OF NET POSITION DECEMBER 31, 2020

Liabilities, Deferred Inflows of Resources and Net Position

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminating Entries	Total
Current liabilities						
Current portion of long-term debt	\$ 1,852,306	\$ 418,837	\$ -	\$ -	\$ -	\$ 2,271,143
Accounts payable	7,102,959	151,516	9,500	13,940	-	7,277,915
Accrued salaries, wages and related accruals	8,232,592	647,182	-	774,455	-	9,654,229
Estimated third-party settlements	640,000	20,000	-	-	-	660,000
Other current liabilities	646,411	6,059	-	-	-	652,470
Current portion of refundable advances	2,308,743	-	-	-	-	2,308,743
Due to affiliate	-	188,706	22,702	1,109,156	(1,320,564)	-
Total current liabilities	20,783,011	1,432,300	32,202	1,897,551	(1,320,564)	22,824,500
Long-term liabilities						
Long-term portion of refundable advances	4,191,257	-	-	-	-	4,191,257
Long-term debt, net of current portion	64,191,439	1,307,273	-	-	-	65,498,712
Total long-term liabilities	68,382,696	1,307,273	-	-	-	69,689,969
Other liabilities						
Accrued compensated absences	1,239,045	75,769	-	-	-	1,314,814
Net pension liability	49,344,222	5,538,347	-	-	-	54,882,569
Net other post-employment benefit liability	37,111,269	4,165,332	-	-	-	41,276,601
Other liabilities	157,500	-	-	-	-	157,500
Total other liabilities	87,852,036	9,779,448	-	-	-	97,631,484
Deferred inflows of resources						
Pension	10,845,937	1,217,337	-	-	-	12,063,274
Other post-employment benefits	5,284,068	593,079	-	-	-	5,877,147
Total deferred inflows of resources	16,130,005	1,810,416	-	-	-	17,940,421
Total liabilities and deferred inflows of resources	193,147,748	14,329,437	32,202	1,897,551	(1,320,564)	208,086,374
Net position						
Net investment in capital assets	23,882,265	3,917,156	-	-	-	27,799,421
Restricted - expendable for						
Capital improvements	188,245	-	676,930	-	-	865,175
Pensions	874,582	98,162	-	-	-	972,744
Unrestricted	34,591,988	(8,491,755)	1,976,086	370,886	-	28,447,205
Total net position	59,537,080	(4,476,437)	2,653,016	370,886	-	58,084,545
Total liabilities, deferred inflows of resources and net position	\$ 252,684,828	\$ 9,853,000	\$ 2,685,218	\$ 2,268,437	\$ (1,320,564)	\$ 266,170,919

See report of independent auditors.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2020

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminating Entries	Total
Operating revenues						
Net patient service revenue	\$ 116,213,184	\$ 8,276,674	\$ -	\$ 10,557,721	\$ -	\$ 135,047,579
Other operating revenue	6,637,723	419,424	-	8,136,593	(8,656,205)	6,537,535
Total operating revenues	122,850,907	8,696,098	-	18,694,314	(8,656,205)	141,585,114
Operating expenses						
Salaries and wages	45,219,841	4,836,524	-	10,179,943	-	60,236,308
Employee benefits	8,252,079	1,069,843	-	2,352,621	-	11,674,543
Pension	10,807,631	918,831	-	-	-	11,726,462
Other post-employment retirement benefits	5,366,992	410,265	-	-	-	5,777,257
Supplies	12,023,507	861,503	-	548,053	-	13,433,063
Professional fees and services	6,708,756	164,542	-	-	(137,000)	6,736,298
Purchased services	17,806,945	960,036	-	4,097,372	-	22,864,353
Insurance	461,172	47,246	-	258,845	-	767,263
Utilities	1,318,703	251,075	38,000	52,786	-	1,660,564
Depreciation and amortization	5,568,816	533,694	-	117,863	-	6,220,373
Other operating expenses	15,460,394	69,497	114,672	1,215,571	(8,519,205)	8,340,929
Total operating expenses	128,994,836	10,123,056	152,672	18,823,054	(8,656,205)	149,437,413
Operating income (loss)	(6,143,929)	(1,426,958)	(152,672)	(128,740)	-	(7,852,299)
Nonoperating revenues (expenses)						
Investment income	1,913,088	-	233,809	-	-	2,146,897
Interest expense	(1,878,723)	1,497	-	-	-	(1,877,226)
Noncapital grants and contributions	2,760,079	992,674	-	369,279	-	4,122,032
Other nonoperating income (expense)	(24,089)	-	247	-	-	(23,842)
Total nonoperating revenues (expenses)	2,770,355	994,171	234,056	369,279	-	4,367,861
Excess (deficiency) of revenues over expenses	(3,373,574)	(432,787)	81,384	240,539	-	(3,484,438)
Transfers	1,641,565	-	(1,641,565)	-	-	-
Increase (decrease in net position)	(1,732,009)	(432,787)	(1,560,181)	240,539	-	(3,484,438)
Net position - beginning of year	61,269,089	(4,043,650)	4,213,197	130,347	-	61,568,983
Net position - end of year	\$ 59,537,080	\$ (4,476,437)	\$ 2,653,016	\$ 370,886	\$ -	\$ 58,084,545

See report of independent auditors.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINING STATEMENT OF NET POSITION DECEMBER 31, 2019

Assets and Deferred Outflows of Resources

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminating Entries	Total
Current assets						
Cash and cash equivalents	\$ 28,944,593	\$ 1,527,908	\$ 1,646,401	\$ 205,734	\$ -	\$ 32,324,636
Patient accounts receivable	13,794,827	878,377	-	1,249,971	-	15,923,175
Short-term investments	17,152,695	-	555,322	-	-	17,708,017
Prepaid expenses and other current assets	2,728,461	61,086	24,559	-	-	2,814,106
Inventories	995,482	-	-	-	-	995,482
Current portion of contributions receivable	-	-	760,045	-	-	760,045
Due from affiliate	1,585,696	-	-	-	(1,585,696)	-
Total current assets	65,201,754	2,467,371	2,986,327	1,455,705	(1,585,696)	70,525,461
Capital assets, net	79,518,442	6,051,437	-	-	-	85,569,879
Long-term investments	63,759,670	-	226,376	-	-	63,986,046
Assets limited as to use						
Internally designated for specific purpose	32,790	237,492	-	-	-	270,282
Restricted by donors for capital improvements	268,197	-	-	-	-	268,197
Total assets limited as to use	300,987	237,492	-	-	-	538,479
Other assets						
Contributions receivable, net of current portion	-	-	634,073	-	-	634,073
Investment in joint ventures	-	-	419,222	-	-	419,222
Other assets	3,158,601	-	-	-	-	3,158,601
Total other assets	3,158,601	-	1,053,295	-	-	4,211,896
Net pension asset	484,423	57,497	-	-	-	541,920
Total noncurrent assets	147,222,123	6,346,426	1,279,671	-	-	154,848,220
Deferred outflows of resources						
Excess consideration from acquisition	288,250	-	-	-	-	288,250
Pension	21,984,213	2,628,349	-	-	-	24,612,562
Other post-employment benefits	4,468,499	511,372	-	-	-	4,979,871
Total deferred outflows of resources	26,740,962	3,139,721	-	-	-	29,880,683
Total assets and deferred outflows of resources	\$ 239,164,839	\$ 11,953,518	\$ 4,265,998	\$ 1,455,705	\$ (1,585,696)	\$ 255,254,364

See report of independent auditors.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINING STATEMENT OF NET POSITION DECEMBER 31, 2019

Liabilities, Deferred Inflows of Resources and Net Position

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminating Entries	Total
Current liabilities						
Current portion of long-term debt	\$ 1,446,184	\$ 402,087	\$ -	\$ -	\$ -	\$ 1,848,271
Accounts payable	10,149,702	301,775	9,500	26,595	-	10,487,572
Accrued salaries, wages and related accruals	6,921,066	575,377	-	544,097	-	8,040,540
Estimated third-party settlements	1,164,544	30,000	-	-	-	1,194,544
Other current liabilities	306,200	7,230	-	-	-	313,430
Due to affiliate	-	787,729	43,301	754,666	(1,585,696)	-
Total current liabilities	19,987,696	2,104,198	52,801	1,325,358	(1,585,696)	21,884,357
Long-term debt, net of current portion	54,749,030	1,726,110	-	-	-	56,475,140
Other liabilities						
Accrued compensated absences	1,118,437	80,400	-	-	-	1,198,837
Net pension liability	66,393,856	7,880,409	-	-	-	74,274,265
Net other post-employment benefit liability	33,984,935	4,033,734	-	-	-	38,018,669
Other liabilities	210,000	-	-	-	-	210,000
Total other liabilities	101,707,228	11,994,543	-	-	-	113,701,771
Deferred inflows of resources						
Pension	1,355,135	160,844	-	-	-	1,515,979
Other post-employment benefits	96,661	11,473	-	-	-	108,134
Total deferred inflows of resources	1,451,796	172,317	-	-	-	1,624,113
Total liabilities and deferred inflows of resources	177,895,750	15,997,168	52,801	1,325,358	(1,585,696)	193,685,381
Net position						
Net investment in capital assets	23,323,228	3,923,240	-	-	-	27,246,468
Restricted - expendable for						
Capital improvements	268,197	-	1,394,118	-	-	1,662,315
Pensions	484,423	57,497	-	-	-	541,920
Unrestricted	37,193,241	(8,024,387)	2,819,079	130,347	-	32,118,280
Total net position	61,269,089	(4,043,650)	4,213,197	130,347	-	61,568,983
Total liabilities, deferred inflows of resources and net position	\$ 239,164,839	\$ 11,953,518	\$ 4,265,998	\$ 1,455,705	\$ (1,585,696)	\$ 255,254,364

See report of independent auditors.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2019

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminating Entries	Total
Operating revenues						
Net patient service revenue	\$ 115,883,443	\$ 8,854,112	\$ -	\$ 9,189,477	\$ -	\$ 133,927,032
Other operating revenue	6,699,376	666,368	-	6,727,500	(6,647,754)	7,445,490
Total operating revenues	122,582,819	9,520,480	-	15,916,977	(6,647,754)	141,372,522
Operating expenses						
Salaries and wages	42,960,115	4,871,993	-	7,898,286	-	55,730,394
Employee benefits	6,910,394	1,113,331	-	1,987,938	-	10,011,663
Pension	16,187,479	1,797,344	-	-	-	17,984,823
Other post-employment retirement benefits	4,013,691	410,078	-	-	-	4,423,769
Supplies	13,293,106	867,230	-	466,405	-	14,626,741
Professional fees and services	5,779,837	166,270	-	-	(137,000)	5,809,107
Purchased services	16,853,848	1,080,245	-	3,976,858	-	21,910,951
Insurance	433,021	47,879	-	261,181	-	742,081
Utilities	1,350,033	274,363	40,292	57,668	-	1,722,356
Depreciation and amortization	4,752,454	506,582	-	90,597	-	5,349,633
Other operating expenses	14,218,851	40,104	156,128	1,106,688	(6,510,754)	9,011,017
Total operating expenses	126,752,829	11,175,419	196,420	15,845,621	(6,647,754)	147,322,535
Operating income (loss)	(4,170,010)	(1,654,939)	(196,420)	71,356	-	(5,950,013)
Nonoperating revenues (expenses)						
Investment income	2,482,344	11,834	769,800	-	-	3,263,978
Interest expense	(428,056)	1,666	-	-	-	(426,390)
Noncapital grants and contributions	162,983	(31,055)	45,512	-	-	177,440
Other nonoperating income (expense)	44,860	-	-	-	-	44,860
Total nonoperating revenues (expenses)	2,262,131	(17,555)	815,312	-	-	3,059,888
Excess (deficiency) of revenues over expenses	(1,907,879)	(1,672,494)	618,892	71,356	-	(2,890,125)
Capital gifts	-	-	325,874	-	-	325,874
Transfers	1,237,869	-	(1,237,869)	-	-	-
Increase (decrease in net position)	(670,010)	(1,672,494)	(293,103)	71,356	-	(2,564,251)
Net position - beginning of year	61,939,099	(2,371,156)	4,506,300	58,991	-	64,133,234
Net position - end of year	\$ 61,269,089	\$ (4,043,650)	\$ 4,213,197	\$ 130,347	\$ -	\$ 61,568,983

See report of independent auditors.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

REQUIRED SUPPLEMENTARY INFORMATION ON GASB 68 PENSION LIABILITIES (UNAUDITED) DECEMBER 31, 2020, 2019, 2018, 2017, 2016, 2015, 2014 AND 2013

Schedule of Proportionate Share of the Net Pension Liability (rounding to the nearest 1,000)	2020	2019	2018	2017	2016	2015	2014	2013
Memorial Health's proportion of the collective net pension liability	0.27767%	0.27119%	0.26013%	0.25406%	0.25521%	0.24945%	*	*
Memorial Health's proportionate share of the net pension liability	\$ 54,883,000	\$ 74,274,000	\$ 40,810,000	\$ 57,693,000	\$ 44,205,000	\$ 30,130,000	*	*
Memorial Health's proportion of the collective net pension asset	0.46649%	0.47495%	0.48127%	0.50236%	0.43231%	0.35544%	*	*
Memorial Health's proportionate share of the net pension asset	\$ 972,744	\$ 541,920	\$ 671,960	\$ 281,688	\$ 212,021	\$ 138,945	*	*
Memorial Health's covered payroll	\$ 45,147,000	\$ 38,623,000	\$ 36,368,000	\$ 34,796,000	\$ 38,924,000	\$ 40,883,000	*	*
Memorial Health's proportionate share of the net pension liability as a percentage of its covered payroll	121.6%	192.3%	112.2%	165.8%	113.6%	73.7%	*	*
Plan fiduciary net position as a percentage of the total pension liability	82.4%	74.9%	84.9%	77.4%	81.2%	86.5%	*	*
Schedule of Memorial Health's Contributions								
Contractually required contribution	\$ 6,499,000	\$ 6,161,000	\$ 5,407,000	\$ 4,728,000	\$ 4,176,000	\$ 4,671,000	\$ 4,906,000	\$ 4,604,000
Contributions in relation to the contractually required contribution	\$ 6,499,000	\$ 6,161,000	\$ 5,407,000	\$ 4,728,000	\$ 4,176,000	\$ 4,671,000	\$ 4,906,000	\$ 4,604,000
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 46,418,000	\$ 45,147,000	\$ 38,623,000	\$ 36,368,000	\$ 34,796,000	\$ 38,924,000	\$ 40,883,000	\$ 35,415,000
Contributions as a percentage of covered payroll	14%	14%	14%	13%	12%	12%	12%	13%

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.

* For 2014 and 2013 this information is not available.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

REQUIRED SUPPLEMENTARY INFORMATION ON GASB 75 OTHER POSTEMPLOYMENT BENEFIT LIABILITIES (UNAUDITED) DECEMBER 31, 2020, 2019, 2018, 2017, 2016, 2015, 2014 AND 2013

Schedule of Proportionate Share of the Net OPEB Liability (rounding to the nearest 1,000)	2020	2019	2018	2017	2016	2015	2014	2013
Memorial Health's proportion of the collective net OPEB liability	0.29883%	0.29161%	0.26708%	*	*	*	*	*
Memorial Health's proportionate share of the net OPEB liability	\$ 41,277,000	\$ 38,019,000	\$ 29,003,000	*	*	*	*	*
Memorial Health's covered payroll	\$ 45,147,000	\$ 38,623,000	\$ 36,368,000	\$ 34,796,000	\$ 38,924,000	\$ 40,883,000	*	*
Memorial Health's proportionate share of the net OPEB liability as a percentage of its covered payroll	91.4%	98.4%	79.7%	*	*	*	*	*
Plan fiduciary net position as a percentage of the total OPEB liability	47.8%	46.3%	54.1%	*	*	*	*	*
Schedule of Memorial Health's Contributions								
Contractually required OPEB contribution	\$ 25,000	\$ 160,000	\$ 146,000	\$ 364,000	\$ 696,000	\$ 778,000	\$ 818,000	\$ 354,000
Contributions in relation to the contractually required contribution	\$ 25,000	\$ 160,000	\$ 146,000	\$ 364,000	\$ 696,000	\$ 778,000	\$ 818,000	\$ 354,000
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 46,418,000	\$ 45,147,000	\$ 38,623,000	\$ 36,368,000	\$ 34,796,000	\$ 38,924,000	\$ 40,883,000	\$ 35,415,000
Contributions as a percentage of covered payroll	0%	0%	0%	1%	2%	2%	2%	1%

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.

* This information is not available as information for GASB 75 was only obtained in 2018.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

1. Defined Benefit Pension Plans

Changes of Benefit Terms:

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

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

Changes of Assumptions:

In 2016, the OPERS' Board of Trustees' actuarial consultants conducted an experience study for the period of 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions for the actuarial valuation as of December 31, 2019, used for Memorial Health's 2020 fiscal year. Amounts reported in Memorial Health's 2020 fiscal year for the OPERS pension plans reflect the following change of assumptions from the amounts reported for the 2019 fiscal year based on the experience study.

- Actuarially assumed expected rate of investment return decreased from 7.5 percent to 7.2 percent.
- Projected salary increases remained consistent at 3.25 percent – 10.75 percent for the Traditional Pension Plan and at 3.25 percent – 8.25 percent for the combined plan.

MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

2. Defined Benefit Postemployment Benefits Other Than Pensions

Changes of Assumptions:

Amounts reported in 2020 for OPERS reflect the following changes in assumptions based on an experience study for the five year period ending December 31, 2015:

- Wage inflation assumption remained consistent at 3.25 percent.
- Health care cost trend rate increased from 10 percent initial, 3.25 percent ultimate in 2029 to 10.5 percent initial, 3.5 percent in 2030.



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**INDEPENDENT AUDITOR'S REPORT OF 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 (Memorial Health), as of and for the year ended December 31, 2020, and the related notes to the combined financial statements, which collectively comprise Memorial Health's basic financial statements and have issued our report thereon dated May 19, 2021.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Memorial Health'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 Memorial Health's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent, or detect and timely correct a material misstatement of Memorial Health'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.

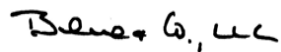
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies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

Compliance and Other Matters

As part of reasonably assuring whether the Memorial Health's financial statements are free of 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 financial statements. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*."

Purpose of this Report

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



Westerville, Ohio
May 19, 2021

OHIO AUDITOR OF STATE KEITH FABER



MEMORIAL HOSPITAL OF UNION COUNTY

UNION COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 8/17/2021

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov