

Memorial Hospital of Union County

Independent Auditor's Reports and Financial Statements

December 31, 2016 and 2015



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Memorial Hospital of Union County, Union County, prepared by BKD, LLP, for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

June 12, 2017

This page intentionally left blank.

Memorial Hospital of Union County
December 31, 2016 and 2015

Contents

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Financial Statements	
Balance Sheets.....	11
Statements of Revenues, Expenses and Changes in Net Position	13
Statements of Cash Flows	14
Notes to Financial Statements	15
Required Supplementary Information	
Schedule of Memorial Health’s Combined Proportionate Share of the Net Pension Liability (Asset) (Ohio Public Employees Retirement System (OPERS)).....	53
Schedule of Memorial Health’s Combined Contributions (Ohio Public Employees Retirement System (OPERS))	54
Notes to Required Supplementary Information.....	55
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	56

This page intentionally left blank.

Independent Auditor's Report

Board of Trustees
Memorial Hospital of Union County
Marysville, Ohio

Report on the Financial Statements

We have audited the accompanying balance sheet of Memorial Hospital of Union County (Memorial Hospital), an enterprise fund of Union County, Ohio, as of December 31, 2016, and the related statement of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

The 2015 financial statements, before they were restated for the matters discussed in Note 18, were audited by other auditors and their report thereon, dated March 22, 2016, expressed an unmodified opinion. 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 that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2017 on our consideration of the Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Memorial Hospital's internal control over financial reporting and compliance.

BKD, LLP

Cincinnati, Ohio
May 23, 2017

Memorial Hospital of Union County

Management's Discussion and Analysis

Years Ended December 31, 2016 and 2015

Introduction

This management's discussion and analysis of the financial performance of Memorial Hospital of Union County and its blended component units, Memorial Gables, Memorial Medical Group, and Memorial Health Foundation, (collectively, "Memorial Health"), provides an overview of Memorial Health's financial activities for the years ended December 31, 2016 and 2015. It should be read in conjunction with the accompanying financial statements of Memorial Hospital of Union County.

Financial Highlights

- Cash and investments increased in 2016 and 2015 by \$16,584,494 and \$6,195,189, or 26.41% and 10.95%, respectively.
- Memorial Health's net position increased in each of the past two years by \$10,880,093, or 16.89% in 2016, and a \$9,285,568, or 16.85% of the beginning net position after the cumulative effect of change in accounting principle recognized in 2015.
- Memorial Health reported operating income in 2016 of \$9,927,330 and in 2015 of \$9,309,786. The operating income in 2016 increased by \$617,544, or 6.63%, over the operating income reported in 2015. The operating income in 2015 decreased by \$1,524,261, or 14.07%, from the operating income reported in 2014.
- Net nonoperating expenses of \$557,250 increased by \$333,032, or 148.53%, in 2016 compared to 2015, and increased by \$204,272, or 1,024.13%, in 2015 compared to 2014.

Using This Annual Report

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

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

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

Memorial Hospital of Union County

Management's Discussion and Analysis

Years Ended December 31, 2016 and 2015

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

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during the reporting period.

Memorial Health's Net Position

Memorial Health's net position is the difference between its assets, liabilities, and deferred inflows and outflows of resources. Memorial Health's net position increased by \$10,880,093, or 16.89%, in 2016 over 2015, and by \$9,285,568, or 16.85% in 2015 over 2014, as shown in Table 1.

Memorial Hospital of Union County
Management's Discussion and Analysis
Years Ended December 31, 2016 and 2015

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

	2016	Restated - Note 18	
		2015	2014
Assets			
Patient accounts receivable, net	\$ 12,044,730	\$ 11,160,979	\$ 11,045,343
Other current assets	46,661,635	42,782,449	58,055,600
Capital assets, net	42,012,974	48,493,780	50,224,266
Net pension asset	212,021	138,945	-
Other noncurrent assets	37,908,473	23,586,578	1,252,774
Total assets	138,839,833	126,162,731	120,577,983
Deferred Outflows of Resources - Pensions			
	17,690,117	6,287,006	-
Total assets and deferred outflows of resources	\$ 156,529,950	\$ 132,449,737	\$ 120,577,983
Liabilities			
Long-term debt	\$ 23,315,418	\$ 25,638,689	\$ 28,114,305
Net pension liability	44,205,070	30,129,878	-
Other current and noncurrent liabilities	12,751,769	11,702,091	11,813,859
Total liabilities	80,272,257	67,470,658	39,928,164
Deferred Inflows of Resources - Pensions			
	970,242	571,721	-
Net Position			
Net investment in capital assets	21,009,051	22,855,091	22,109,961
Restricted expendable	2,154,173	670,277	651,796
Unrestricted	52,124,227	40,881,990	57,888,062
Total net position	75,287,451	64,407,358	80,649,819
Total liabilities, deferred inflows of resources and net position	\$ 156,529,950	\$ 132,449,737	\$ 120,577,983

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

Memorial Hospital of Union County
Management's Discussion and Analysis
Years Ended December 31, 2016 and 2015

Operating Results and Changes in Memorial Health's Net Position

In 2016, Memorial Health's net position increased by \$10,880,093, or 16.89%, as shown in Table 2. This increase is made up of several different components and represents an increase of 17.17% compared with the increase in net position for 2015 of \$9,285,568. Memorial Health's change in net position decreased from the increase in net position of \$10,814,101 in 2014, a decrease of 14.13%.

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

	2016	Restated - Note 18	
		2015	2014
Operating Revenues			
Net patient service revenue	\$ 116,152,447	\$ 104,249,931	\$ 99,515,008
Other operating revenue	3,344,701	3,638,171	3,347,145
Total operating revenues	119,497,148	107,888,102	102,862,153
Operating Expenses			
Salaries, wages and employee benefits	62,542,026	53,908,484	50,246,749
Purchased services and professional fees	19,986,499	17,982,754	19,519,779
Depreciation and amortization	5,486,601	5,576,385	4,931,706
Other operating expenses	21,554,692	21,110,693	17,329,872
Total operating expenses	109,569,818	98,578,316	92,028,106
Operating Income	9,927,330	9,309,786	10,834,047
Nonoperating Revenues (Expenses)			
Investment income	406,232	214,378	188,953
Interest expense	(1,175,097)	(887,270)	(1,058,542)
Noncapital grants and gifts	809,682	472,872	475,332
Other nonoperating losses	(598,067)	(24,198)	374,311
Total nonoperating expenses	(557,250)	(224,218)	(19,946)
Excess of Revenues Over Expenses Before Capital Gifts	9,370,080	9,085,568	10,814,101
Capital Gifts	1,510,013	200,000	-
Increase in Net Position	10,880,093	9,285,568	10,814,101
Net Position, Beginning of Year, As Previously Reported	64,407,358	80,649,819	69,835,718
Cumulative Effect of Change in Accounting Principle	-	(25,528,029)	-
Net Position, Beginning of Year, As Restated	64,407,358	55,121,790	69,835,718
Net Position, End of Year	\$ 75,287,451	\$ 64,407,358	\$ 80,649,819

Memorial Hospital of Union County

Management's Discussion and Analysis

Years Ended December 31, 2016 and 2015

Operating Income

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

The operating income for 2016 of \$9,927,330 increased by \$617,544, or 6.63% compared to operating income of \$9,309,786 for 2015. The operating income for 2015 decreased by \$1,524,261, or 14.07% compared to the operating income of \$10,834,047 for 2014. The primary components of the changes in operating income are:

- An increase in net patient service revenue of \$11,902,516, or 11.42%, for 2016, compared to an increase of \$4,734,923 in 2015 when compared to 2014.
- An increase in salaries, wages and employee benefits expense of \$8,633,542, or 16.02%, for 2016, compared to an increase of \$3,661,735 in 2015 when compared to 2014. The majority of the increase during 2016 is the result of the adoption of GASB Statements No. 68 and 71. Pension expense increased \$3,791,165 compared to 2015.
- An increase in purchased services and professional fees of \$2,003,745, or 11.14%, for 2016, compared to a decrease of \$1,537,025 in 2015 when compared to 2014.
- An increase in other operating expenses of \$443,999, or 2.10%, for 2016, compared to an increase of \$3,780,821, or 21.82%, in 2015 when compared to 2014.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense, and gifts from donors all of which remained relatively consistent between 2016 and 2015. During 2016, Memorial Health recognized a loss on disposal of capital assets of \$598,067 compared to a loss of \$24,198 in 2015.

Capital Gifts

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

Memorial Health's Cash Flows

Changes in Memorial Health's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2016, 2015 and 2014, as discussed earlier, with one exception. Net cash provided by operating activities of \$17,600,734 in 2016 increased by \$5,118,183 when compared to the net cash provided by operating activities of \$12,482,551 in 2015.

Memorial Hospital of Union County

Management's Discussion and Analysis

Years Ended December 31, 2016 and 2015

Capital Asset and Debt Administration

Capital Assets

At the end of 2016 and 2015, Memorial Health had \$42,012,974 and \$48,493,780 invested in capital assets, net of accumulated depreciation, as detailed in *Note 7* to the financial statements. In 2016, Memorial Health purchased new equipment totaling \$3,676,056. The cost of additions during 2015 totaled \$3,869,983.

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

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

The first phase of the financing plan for the new buildings was completed in December 2016. It included the refinancing of the Heart Pavilion plus an additional draw for the initial soft costs of the project. The next phase will include general obligation bonds and a private placement issue. These issuances should be closed in the late Spring or early Summer of 2017.

In 2014, Memorial Hospital opened a 34,000 square foot multi story medical office building in the City Gate plaza. The new building, owned by an independent third party, 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 plans to expand its footprint. A new building, built by a third party, will provide an additional 20,000 square feet of medical space on this adjacent lot and is planned to open in the Spring of 2017. Memorial will occupy 12,000 square feet of the building and an independent physician practice will occupy the remaining space. The two City Gate buildings will be connected through adjoining parking lots and walkways and will allow our patients to access either facility without leaving the grounds. In the new building, Memorial will offer primary care, general surgery and ENT space.

Memorial Hospital of Union County

Management's Discussion and Analysis

Years Ended December 31, 2016 and 2015

Memorial Hospital is also set to break ground on a 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 it acquired several years ago. The practice has been very successful and we plan to recruit additional physicians to the practice. The new building will offer an urgent care, x-ray, lab testing and physical and occupational therapy services. In addition, we will provide rotating physician specialists and a clinical pharmacist and nurse practitioner to evaluate and counsel patients with complex conditions on how to manage their prescribed medications. The new location will allow Memorial to increase access and the opportunity to expand services to improve the coordination of care.

Long-term Debt Obligations

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

Other Economic Factors

As we look into 2017 and future years, we expect to see certain economic factors continue to influence the future of healthcare in our nation and Union County. The continual changes in health care reform will remain a hot topic and item of uncertainty.

In 2014, we first began to see health insurance exchange patients present for service in Union County. Currently, there are only a few providers offering coverage in the area. Due to the lack of demand of the product, Memorial has not been impacted by the plans. We have been approached by several payers to offer the exchange products, however with no demand at Memorial, it does not make sense to add additional plans at this time. The future of the exchange will come under great scrutiny with the recent changes in the White House. Newly elected President Trump has vowed to repeal the Affordable Care Act (ACA) and replace it with an alternative plan. The new plan is said to be patient centered allowing consumers more choices at a lower cost. While the plan is currently not available to review and assess the impact to our hospital or those we serve, one thing is certain, the future of healthcare should have a different look in the years ahead.

The recognition of GASB Statements No. 68 and 71, as discussed in *Note 16* to the financial statements, continues to have a material impact on Memorial Health's operating results. The recently adopted standards changed the recognition and reporting requirements for defined benefit pensions plans. While the overall structure and operation of the Ohio Public Employees Retirement System (OPERS) remains unchanged, Memorial Health is now required to recognize its portion of the pension amounts within the financial statements of Memorial Health. One concern is the requirement of the participating employers, Memorial Hospital and Memorial Gables, to contribute the statutorily required contribution rate of 14% of eligible employee wages. According to the OPERS website 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 statutorily required contribution rates of employees and/or employers or decrease the current benefit levels to its

Memorial Hospital of Union County
Management's Discussion and Analysis
Years Ended December 31, 2016 and 2015

enrollees. These changes would allow OPERS to meet the long-term projected pension liability and remain viable. When implemented, the initial impact of this “paper” entry to record the liability was approximately \$30,000,000 to Memorial Health’s net position. The change in the pension liability between 2015 and 2016 have now pushed the net pension liability balance to roughly \$44,200,000. After the appropriate recognition and amortization of deferred inflows and outflows of resources, Memorial Health recognized a reduction in operating income of roughly \$3,000,000. Unfortunately, we cannot reasonably estimate the impact the change in the liability will have to operations in future years.

Contacting Memorial Health’s Management

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

Jeff Ehlers
Vice President and Chief Financial Officer

Memorial Hospital of Union County
Balance Sheets
December 31, 2016 and 2015

Assets and Deferred Outflows of Resources

	2016	2015 (Restated - Note 18)
Current Assets		
Cash and cash equivalents	\$ 27,351,973	\$ 21,162,479
Short-term investments	15,417,195	18,573,328
Patient accounts receivable, net of allowance; 2016 - \$6,143,963, 2015 - \$6,030,849	12,044,730	11,160,979
Contributions receivable	456,479	50,000
Estimated amounts due from third-party payers	1,084,809	833,739
Supplies	891,610	844,897
Prepaid expenses and other current assets	1,459,569	1,318,006
Total current assets	58,706,365	53,943,428
Noncurrent Cash and Investments		
Internally designated for specific purpose	552,675	637,310
Restricted by donors for capital improvements	496,049	314,970
Bond proceeds - restricted for capital improvements	2,311,495	-
	3,360,219	952,280
Long-term Investments	33,243,630	22,100,436
Other Assets	315,000	367,500
Capital Assets, Net	42,012,974	48,493,780
Contributions Receivable, Net	989,624	166,362
Net Pension Asset	212,021	138,945
Total assets	138,839,833	126,162,731
Deferred Outflows of Resources - Pensions	17,690,117	6,287,006
Total assets and deferred outflows of resources	\$ 156,529,950	\$ 132,449,737

Memorial Hospital of Union County
Balance Sheets (continued)
December 31, 2016 and 2015

Liabilities, Deferred Inflows of Resources and Net Position

	2016	2015 (Restated - Note 18)
Current Liabilities		
Current maturities of long-term debt	\$ 1,091,252	\$ 5,056,837
Accounts payable	3,934,981	3,275,823
Accrued salaries, wages, and related accruals	6,052,454	5,482,977
Estimated amounts due to third-party payers	852,397	852,397
Other current liabilities	599,911	767,272
Total current liabilities	12,530,995	15,435,306
 Long-Term Debt	 22,224,166	 20,581,852
Accrued Compensated Absences	997,026	956,122
Other Liabilities	315,000	367,500
Net Pension Liability	44,205,070	30,129,878
Total liabilities	80,272,257	67,470,658
 Deferred Inflows of Resources - Pensions	 970,242	 571,721
 Net Position		
Net investment in capital assets	21,009,051	22,855,091
Restricted - expendable for		
Capital improvements	1,942,152	531,332
Pensions	212,021	138,945
Unrestricted	52,124,227	40,881,990
Total net position	75,287,451	64,407,358
Total liabilities, deferred inflows of resources and net position	\$ 156,529,950	\$ 132,449,737

Memorial Hospital of Union County
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2016 and 2015

	2016	2015 (Restated - Note 18)
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2016 - \$7,208,365, 2015 - \$7,508,988	\$ 116,152,447	\$ 104,249,931
Other	3,344,701	3,638,171
	<u>119,497,148</u>	<u>107,888,102</u>
Operating Expenses		
Salaries and wages	46,397,422	43,867,582
Employee benefits	16,144,604	10,040,902
Purchased services	15,417,358	14,291,503
Professional fees	4,569,141	3,691,251
Supplies	12,216,781	12,439,598
Utilities	1,851,673	1,704,467
Insurance	597,809	583,123
Depreciation and amortization	5,486,601	5,576,385
Other operating expenses	6,888,429	6,383,505
	<u>109,569,818</u>	<u>98,578,316</u>
Operating Income	<u>9,927,330</u>	<u>9,309,786</u>
Nonoperating Revenues (Expenses)		
Investment income	406,232	214,378
Interest expense	(1,175,097)	(887,270)
Loss on sale and disposal of capital assets	(598,067)	(24,198)
Noncapital grants and gifts	809,682	472,872
	<u>(557,250)</u>	<u>(224,218)</u>
Excess of Revenues Over Expenses Before Capital Gifts	<u>9,370,080</u>	<u>9,085,568</u>
Capital Gifts	<u>1,510,013</u>	<u>200,000</u>
Increase in Net Position	10,880,093	9,285,568
Net Position, Beginning of Year, as restated	<u>64,407,358</u>	<u>55,121,790</u>
Net Position, End of Year	<u>\$ 75,287,451</u>	<u>\$ 64,407,358</u>

Memorial Hospital of Union County
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015 (Restated - Note 18)
Operating Activities		
Receipts from and on behalf of patients	\$ 115,017,626	\$ 104,196,696
Payments to suppliers and contractors	(34,849,982)	(39,431,565)
Payments to employees	(58,934,119)	(55,681,634)
Other operating payments, net	(3,632,791)	3,399,054
Net cash provided by operating activities	17,600,734	12,482,551
Noncapital Financing Activities		
Noncapital grants and gifts	809,682	672,872
Other noncapital financing payments	-	27,673
Net cash used in noncapital financing activities	809,682	700,545
Capital and Related Financing Activities		
Capital gifts	(5,382)	-
Proceeds from issuance of long-term debt	24,063,961	-
Principal paid on long-term debt	(26,339,073)	(2,475,616)
Interest paid on notes payable to banks and long-term debt	(1,223,256)	(887,270)
Purchase of capital assets	(3,081,445)	(3,869,983)
Proceeds from sale of capital assets	4,067,387	-
Net cash used in capital and related financing activities	(2,517,808)	(7,232,869)
Investing Activities		
Interest and dividends on investments	406,232	438,411
Purchase of investments	(22,315,942)	(39,849,642)
Proceeds from disposition and maturity of investments	14,614,535	15,522,126
Net cash used in investing activities	(7,295,175)	(23,889,105)
Increase (Decrease) in Cash and Cash Equivalents	8,597,433	(17,938,878)
Cash and Cash Equivalents, Beginning of Year, as restated	22,114,759	40,053,637
Cash and Cash Equivalents, End of Year	\$ 30,712,192	\$ 22,114,759
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 27,351,973	\$ 21,162,479
Cash included in noncurrent cash and investments	3,360,219	952,280
	30,712,192	22,114,759
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 9,927,330	\$ 9,309,786
Depreciation and amortization	5,486,601	5,576,385
Provision for uncollectible accounts	7,208,365	7,508,988
Changes in operating assets and liabilities:		
Patient accounts receivable	(8,092,116)	(7,760,158)
Estimated amounts due from and to third-party payers	(251,070)	-
Accounts payable and accrued expenses	459,874	(945,610)
Net pension asset and net pension liability	2,997,526	(1,302,382)
Other assets and liabilities	(135,776)	95,542
Net cash provided by operating activities	\$ 17,600,734	\$ 12,482,551
Supplemental Cash Flows Information		
Capital asset acquisitions in accounts payable	\$ 589,804	\$ -

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2016 and 2015

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

Nature of Operations and Reporting Entity

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

The combined financial statements for the years ended December 31, 2016 and 2015 included herein consist of the net position, results of operations, changes in net position, and cash flows of Memorial Hospital, Memorial Gables, Memorial Health Foundation, and Memorial Medical Group (collectively, Memorial Health). All intercompany accounts and transactions between all entities have been eliminated in the preparation of the financial statements.

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

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

In 2006, UCHS merged with the Union County Hospital Association (UCHA). UCHS assumed the name of UCHA. The prior operations of UCHA were dissolved and the remaining assets were transferred to Memorial Hospital of Union County. UCHA is currently doing business as Memorial Health Foundation.

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

Basis of Accounting and Presentation

The financial statements of Memorial Health have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2016 and 2015

and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. Memorial Health first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available. The financial statements include Memorial Gables, Memorial Health Foundation, and Memorial Medical Group as blended component units in Memorial Hospital's financial statements.

Use of Estimates

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

Cash Equivalents

Memorial Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, cash equivalents consisted primarily of money market accounts.

Risk Management

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

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

Investments, Investment Income, and Assets Limited as to Use

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

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2016 and 2015

Assets limited as to use include (1) assets internally designated by the Board of Trustees for future capital improvements and special operating needs over which the Board retains control and may at its discretion subsequently use for other purposes (2) assets externally restricted by donors and (3) assets held by trustee. Amounts required to meet current obligations are recognized as current assets.

Patient Accounts Receivable

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

Supplies

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

Contributions Receivable

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

Capital Assets

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

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

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

Deferred Outflows of Resources

Memorial Health reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its balance sheets. Deferred outflows of resources at December 31, 2016 and 2015 were related to pensions and consisted of pension contributions subsequent to the measurement date, the change in proportionate share, and the net difference between projected and actual earnings on pension plan investments and are discussed further in *Note 16*.

Other Assets

During 2013, Memorial Hospital entered into an agreement with the City of Marysville, Ohio (the City) to obtain the naming rights to a City pavilion. Memorial Hospital is obligated to pay the City a total of \$525,000 over a ten year term for the right to name and use the structure, which includes the promotion of Hospital programs and services to the community. The asset is being amortized over the economic life of the pavilion. The current portion of the asset is recorded as an other current asset and the non-current portion is recorded within other assets of the balance sheets. The current portion of the liability is recorded within other current liabilities and the long term portion is recorded in the other liabilities section of the balance sheets. Amortization costs of the asset were \$52,500 for each of the years ending December 31, 2016 and 2015. As of December 31, 2016 and 2015, the remaining asset and liability balances were \$367,500 and \$420,000, respectively.

Compensated Absences

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

Activity in Memorial Health’s accrued compensated absences liability during 2016 and 2015 is summarized as follows:

	2016	2015 (Restated - Note 18)
Balance, beginning of year	\$ 956,122	\$ 974,490
Current year benefits earned	135,082	132,171
Benefits vested and change in estimate for forfeitures	(94,178)	(150,539)
Balance, end of year	\$ 997,026	\$ 956,122

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2016 and 2015

Cost-Sharing Multiple-Employer Defined Benefit Pension Plans

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

Deferred Inflows of Resources

Memorial Health reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its balance sheets. Deferred inflows of resources at December 31, 2016 and 2015 were related to pensions and consisted of the net difference between expected and actual experience and are discussed further in *Note 16*.

Net Position

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

Net Patient Service Revenue

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

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2016 and 2015

Other Operating Revenue and Expenses

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

Contributions

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

Charity Care

Memorial Health provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy and by reference to state legislation. These policies essentially define charity care as those services for which no payment is anticipated. When assessing a patient’s ability to pay for necessary medical care services, Memorial Health utilizes generally recognized poverty income levels but also includes certain cases where incurred charges are significant when compared to income. Charity care provided by Memorial Hospital, measured at cost, was approximately \$664,000 and \$495,000 in 2016 and 2015, respectively. Estimated costs are derived using Memorial Hospital’s cost to charge ratio in the Medicare cost report. Because Memorial Health does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Memorial Hospital recorded revenue of approximately \$1,085,000 and \$833,000 for the years ended December 31, 2016 and 2015, respectively, for amounts received from a State of Ohio uncompensated care fund, net of payments into the fund, to subsidize charity services provided under its charity care policy.

Income Taxes

As essential government functions of the County, Memorial Hospital and Memorial Gables are generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, Memorial Hospital and Memorial Gables are subject to federal income tax on any unrelated business taxable income.

Memorial Health Foundation and Memorial Medical Group are legally separate, tax-exempt component units of Memorial Hospital. Memorial Health Foundation and Memorial Medical Group are exempt under Section 501(c) as organizations described in Section 501(c)(3) of the Internal Revenue Code. Memorial Health Foundation and Memorial Medical Group’s primary

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2016 and 2015

function is to raise and hold funds to support Memorial Hospital and its programs. The boards of Memorial Health Foundation and Memorial Medical Group are appointed and approved by the Trustees.

Memorial Health Foundation and Memorial Medical Group

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

Electronic Health Records Incentive Program

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

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

Memorial Hospital has recorded revenue of approximately \$377,000 and \$350,000 for the years ended 2016 and 2015, respectively, which is included in other revenue within operating revenues in the statements of revenues, expenses and changes in net position.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation. The reclassifications had no effect on the changes in net position.

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

Note 2: Net Patient Service Revenue

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

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. Certain inpatient nonacute services and defined medical education costs are paid based on a cost reimbursement methodology. Memorial Health is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by Memorial Health and audits thereof by the Medicare administrative contractor.

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

Approximately 21% and 25% of net patient service revenue was from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2016 and 2015, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2016 and 2015

Note 3: Deposits, Investments and Investment Income

Deposits

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

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

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

- 1) **Active Funds** – Those funds required to be kept in a “cash” or “near cash” status for immediate use by Memorial Hospital. Such funds must be maintained either in depository accounts or withdrawable on demand, including Negotiable Order of Withdrawal (NOW) accounts.
- 2) **Inactive Funds** - Those funds not required for use within the current five-year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit, maturing not later than the end of the current period of designated depositories or as savings or deposit accounts, including, but not limited to passbook accounts.
- 3) **Interim Funds** - Those funds which are not needed for immediate use but will be needed before the end of the current period of designation of deposit. Ohio laws permits interim funds to be invested or deposited in the following securities:
 - Bonds, notes, or other obligations that are guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
 - Bonds, notes debentures, or other obligations or securities issued by any federal governmental agency.
 - No-load money market mutual funds consisting exclusively of obligations described in the Ohio Revised Code and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
 - Interim deposits in the eligible institutions applying for interim funds to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by saving or deposit accounts, including but not limited to, passbook accounts.
 - Bonds and other obligations of the State of Ohio.

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2016 and 2015

- 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 Hospital, and must be purchased with the expectation that it will be held to maturity.

Custodial Credit Risk

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

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

At December 31, 2016 and 2015, respectively, approximately \$42,500,000 and \$37,000,000 of Memorial Health's bank balances were exposed to custodial credit risk. At December 31, 2016, \$820,385 of Memorial Health's bank balances of \$43,730,982 were uninsured and uncollateralized.

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

Investments

Memorial Health may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities. At December 31, 2016 and 2015, Memorial Health had the following investments and maturities:

Type	2016		
	Carrying Value	Maturities in Years	
		Less Than 1	More Than 1
Certificates of deposit	\$ 20,017,736	\$ 15,626,602	\$ 4,391,134
U.S. government agency notes	18,130,094	-	18,130,094
Commercial paper	12,456,839	12,456,839	-
		<u>\$ 28,083,441</u>	<u>\$ 22,521,228</u>
Private equities	<u>716,030</u>		
	<u>\$ 51,320,699</u>		
Type	December 31, 2015		
	Carrying Value	Maturities in Years	
		Less Than 1	More Than 1
Certificates of deposit	\$ 19,497,559	\$ 14,492,204	\$ 5,005,355
U.S. government agency notes	16,543,319	-	16,543,319
Commercial paper	4,027,289	4,027,289	-
		<u>\$ 18,519,493</u>	<u>\$ 21,548,674</u>
Private equities	<u>583,638</u>		
	<u>\$ 40,651,805</u>		

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

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2016 and 2015, Memorial Health's investments in U. S. government agency securities not directly guaranteed by the U. S. government were rated AA+ by Standard & Poor's.

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

Summary of Carrying Values

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

	2016	
	Fair Value	Amortized Historical Cost
Carrying value:		
Deposits and money market accounts	\$ 28,052,318	\$ 28,052,318
Certificates of deposits	20,017,736	19,889,744
U.S. government securities	18,130,094	18,297,074
Commercial paper	12,456,839	12,417,508
Private equities	716,030	716,030
	\$ 79,373,017	\$ 79,372,674
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 27,351,973	\$ 27,351,973
Investments	52,021,044	52,020,701
	\$ 79,373,017	\$ 79,372,674

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

	2015	
	(Restated - Note 18)	
	Fair Value	Amortized Historical Cost
Carrying value:		
Deposits and money market accounts	\$ 22,136,718	\$ 22,136,718
Certificates of deposits	19,497,559	19,428,158
U.S. government securities	16,543,319	16,573,605
Commercial paper	4,027,289	4,023,186
Private equities	583,638	583,638
	\$ 62,788,523	\$ 62,745,305
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 21,162,479	\$ 21,162,479
Investments	41,626,044	41,582,826
	\$ 62,788,523	\$ 62,745,305

Note 4: Disclosures About Fair Value of Assets and Liabilities

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

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

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

	2016			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Negotiable certificates of deposits	\$ 4,252,161	\$ -	\$ 4,252,161	\$ -
U.S. government securities	18,130,094	-	18,130,094	-
Commercial paper	12,456,839	-	12,456,839	-
Private equities	716,030	-	-	716,030
	<u>\$ 35,555,124</u>	<u>\$ -</u>	<u>\$ 34,839,094</u>	<u>\$ 716,030</u>
	2015 (Restated - Note 18)			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Negotiable certificates of deposits	\$ 3,901,512	\$ -	\$ 3,901,512	\$ -
U.S. government securities	16,543,319	-	16,543,319	-
Commercial paper	4,027,289	-	4,027,289	-
Private equities	583,638	-	-	583,638
	<u>\$ 25,055,758</u>	<u>\$ -</u>	<u>\$ 24,472,120</u>	<u>\$ 583,638</u>

Investments

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

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2016 and 2015

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

Note 5: Investment in Joint Ventures

During 1996, Memorial Health Foundation and two other area health care entities formed Health Partners, Ltd. (Health Partners), for which Memorial Hospital has a 33.33% ownership interest. This corporation was formed to provide management services to the clinic of a major area corporation. In 1996, Memorial Hospital contributed \$100,000 to Health Partners through Memorial Health Foundation. During 2016 and 2015, Memorial Hospital received distributions of \$224,578 and \$244,993, respectively, through Memorial Health Foundation.

During 2003, Memorial Health Foundation and other health providers formed Marysville Ohio Surgery Center, LLC, of which Memorial Hospital has a 37.74% ownership interest. Memorial Health was formed to promote health care and provide outpatient surgical service in the area. During 2003, Memorial Hospital contributed \$159,000 through Memorial Health Foundation. During 2015, Memorial Hospital received distributions of \$9,493 through Memorial Health Foundation. During 2015, Memorial Hospital purchased the operating assets for \$450,000 to be used within an outpatient surgery department of Memorial Hospital and the partnership was dissolved.

During 2003, Memorial Health Foundation and other area health providers formed Marysville Ohio Medical Properties, LLC, of which Memorial Hospital has a 46.88% ownership interest. Memorial Health was formed as the property owner for the Marysville Ohio Surgery Center facility. During 2003, Memorial Hospital contributed through Memorial Health Foundation \$130,000. During 2016 and 2015, Memorial Hospital received distributions of \$33,750 and \$95,625, respectively, through Memorial Health Foundation.

During 2014, Memorial Health Foundation and other health providers formed Mahoney Dialysis, LLC, of which Memorial Hospital has a 6.00% ownership. Memorial Health was formed to provide dialysis and renal care services and related services to the area. During 2014 Memorial Hospital contributed \$106,020 through Memorial Health Foundation. During 2016 and 2015, Memorial Hospital received distributions of \$54,986 and \$34,630, respectively, through Memorial Health Foundation.

During 2016, Memorial Health Foundation and other health providers formed City Gate MOB, LLC, of which Memorial Health Foundation has a 15.80% ownership interest. During 2016, Memorial Hospital contributed \$150,000 through Memorial Health Foundation.

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

Note 6: Patient Accounts Receivable

Memorial Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2016 and 2015 consisted of:

	2016	2015
Medicare	12%	13%
Medicaid	4%	3%
Other third-party payers	66%	67%
Patients	18%	17%
	100%	100%

Note 7: Capital Assets

Capital assets activity for the years ended December 31 were:

	2016				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 7,121,773	\$ -	\$ 4,510,800	\$ -	\$ 2,610,973
Land improvements	4,119,372	39,171	304,891	-	3,853,652
Buildings and leasehold improvements	53,190,670	646,526	510,076	-	53,327,120
Equipment	44,598,174	2,553,553	636,289	-	46,515,438
Construction in progress	-	436,806	-	-	436,806
	109,029,989	3,676,056	5,962,056	-	106,743,989
Less accumulated depreciation:					
Land improvements	1,858,905	254,594	296,249	-	1,817,250
Buildings and leasehold improvements	26,255,272	1,562,207	350,724	-	27,466,755
Equipment	32,422,032	3,669,800	644,822	-	35,447,010
	60,536,209	5,486,601	1,291,795	-	64,731,015
Capital assets, net	\$ 48,493,780	\$ (1,810,545)	\$ 4,670,261	\$ -	\$ 42,012,974

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

	2015				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 7,064,945	\$ 56,828	\$ -	\$ -	\$ 7,121,773
Land improvements	4,144,014	28,616	53,258	-	4,119,372
Buildings and leasehold improvements	53,105,081	310,184	264,249	39,654	53,190,670
Equipment	43,614,358	3,019,682	2,458,627	422,761	44,598,174
Construction in progress	7,742	454,673	-	(462,415)	-
	<u>107,936,140</u>	<u>3,869,983</u>	<u>2,776,134</u>	<u>-</u>	<u>109,029,989</u>
Less accumulated depreciation:					
Land improvements	1,653,275	254,678	49,048	-	1,858,905
Buildings and leasehold improvements	24,946,155	1,564,390	255,273	-	26,255,272
Equipment	31,112,444	3,757,317	2,447,729	-	32,422,032
	<u>57,711,874</u>	<u>5,576,385</u>	<u>2,752,050</u>	<u>-</u>	<u>60,536,209</u>
Capital assets, net	<u>\$ 50,224,266</u>	<u>\$ (1,706,402)</u>	<u>\$ 24,084</u>	<u>\$ -</u>	<u>\$ 48,493,780</u>

Note 8: Contributions Receivable

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

	2016	2015
Due within one year	\$ 456,479	\$ 50,000
Due in one to five years	1,072,297	180,000
	1,528,776	230,000
Less unamortized discount	(82,673)	(13,638)
	<u>\$ 1,446,103</u>	<u>\$ 216,362</u>

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

Accounts payable and accrued expenses included in current liabilities at December 31, 2016 and 2015 consisted of:

	2016	2015 (Restated - Note 18)
Payable to suppliers and contractors	\$ 3,716,206	\$ 3,064,225
Payroll and related amounts	4,907,197	4,396,369
Employee health insurance	474,154	638,577
Workers' compensation premiums	301,000	178,000
Pension and retirement plan contributions	844,257	908,608
Other	344,532	340,293
	<u>\$ 10,587,346</u>	<u>\$ 9,526,072</u>

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2016 and 2015

Note 10: Heart Pavilion Collaboration Agreement

On January 1, 2011, Memorial Hospital entered into cardiovascular collaboration and management service agreements with The Ohio State University (OSU) to provide cardiovascular services to Memorial Hospital's patients on its campus. Under the terms of the agreements, each party provides certain equipment, facilities, personnel and management services. Program earnings, as defined, are determined and distributed under the terms of the agreements. As of December 31, 2016 and 2015, Memorial Hospital had amounts accrued approximating \$515,000 and \$100,000, respectively, for amounts due to The Ohio State University relating to revenues during 2016 and 2015, respectively.

Note 11: Medical Malpractice Claims

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

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

Note 12: Employee Health Claims

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

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

Activity in Memorial Health's accrued employee health claims liability during 2016 and 2015 is summarized as follows:

	2016	2015
Balance, beginning of year	\$ 638,577	\$ 442,117
Current year claims incurred and changes in estimates for claims incurred in prior years	4,451,382	5,278,460
Claims and expenses paid	(4,615,805)	(5,082,000)
Balance, end of year	\$ 474,154	\$ 638,577

Note 13: Deferred Compensation

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

Note 14: Long-term Debt Obligations

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

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

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

	2015				
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt:					
Hospital Facilities					
Revenue Bonds:					
Series 2010	\$ 510,501	\$ -	\$ (510,501)	\$ -	\$ -
Series 2011	8,283,692	-	(371,427)	7,912,265	380,033
Series 2014	3,322,001	-	(142,970)	3,179,031	3,179,031
Union County General					
Obligation Bonds:					
Series 2003	680,000	-	(25,000)	655,000	25,000
Series 2005	6,075,000	-	(655,000)	5,420,000	680,000
Series 2007	8,045,000	-	(215,000)	7,830,000	225,000
Commercial Installment Note	477,264	-	(225,955)	251,309	231,734
Capital lease obligations	720,847	-	(329,763)	391,084	336,039
Total long-term debt	\$ 28,114,305	\$ -	\$ (2,475,616)	\$ 25,638,689	\$ 5,056,837

Hospital Facilities Revenue Bonds, Series 2010 – Dated July 7, 2010, were issued in the amount of \$2,750,000 to finance the acquisition of an electronic medical records system for Memorial Hospital. The bonds matured on July 1, 2015 and were paid in full.

Hospital Facilities Revenue Bonds, Series 2011 (Heart Pavilion Project) – Dated December 13, 2011, were issued in the amount of \$9,000,000 to finance the acquisition, construction, equipping and installation of a new heart pavilion located on Memorial Hospital’s main campus. The bonds mature on December 1, 2021, and are subject to redemption at the option of the issuer on any interest payment date. The bonds were repurchased and paid in full during 2016 as part of the issuance of the Series 2016 Hospital Facilities Revenue Bonds.

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

Hospital Facilities Revenue Bonds, Series 2016 – Dated December 14, 2016, were issued in the amount of \$10,000,000 with an interest rate of 2.33% issued to redeem the Series 2011 (Heart Pavilion Project) Hospital Facilities Revenue Bonds, and for capital project costs.

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

Union County General Obligation Various Purpose Refunding Bonds, Series 2005 – Dated July 1, 2005, were issued in the amount of \$9,850,000 to refund a callable portion of the 1996 General Obligation Bonds and the 1999 Improvement Bonds. The bonds were repurchased and paid in full during 2016 as part of the issuance of the Series 2016A Union County General Obligation Various Purpose Refunding Bonds.

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

Union County General Obligation Various Purpose Refunding Bonds, Series 2007 – Dated April 10, 2007, were issued in the amount of \$9,750,000 with interest rates ranging from 4.0% to 5.0% to refinance a portion of the 2003 Bonds, retire the 2006 notes and fund capital projects of Memorial Hospital. The bonds were repurchased and paid in full during 2016 as part of the issuance of the Series 2016B Union County General Obligation Various Purpose Refunding Bonds.

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

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

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

The debt service requirements as of December 31, 2016 are as follows:

Years Ending December 31,	Total to be Paid	Principal	Interest ^(A)
2017	\$ 1,606,740	\$ 988,377	\$ 618,363
2018	1,545,964	982,697	563,267
2019	1,546,364	1,013,374	532,990
2020	1,543,214	1,048,576	494,638
2021	1,548,763	1,095,122	453,641
2022-2026	7,206,189	5,549,393	1,656,796
2027-2031	5,359,549	4,320,971	1,038,578
2032-2036	3,379,330	2,848,757	530,573
2037-2041	2,330,390	1,951,420	378,970
2042-2046	2,330,380	2,195,929	134,451
	<u>\$ 28,396,883</u>	<u>\$ 21,994,616</u>	<u>\$ 6,402,267</u>

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

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

Capital Lease Obligations

Memorial Hospital has entered into various lease obligations for capital equipment which are considered capital leases. Assets under capital leases at December 31, 2016 are as follows:

Memorial Hospital has a \$2,950,000 commercial installment note, proceeds from which were used to purchase medical buildings in December 2006. The note is secured by related property with a net book value of \$2,324,660.

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

In 2012 Memorial Hospital leased a CT scanner under a capital lease. This lease includes interest at 1.25% with monthly payments of \$12,778 through June 2017. Depreciation of the asset under the capital lease is included in depreciation expense for 2016. The lease is secured by the equipment with a net book value of \$50,984 at December 31, 2016.

In 2012, Memorial Hospital leased a CT scanner under a capital lease. This lease includes interest at 1.25% with monthly payments of \$1,018 through June 2017. Depreciation of the asset under the capital lease is included in depreciation expense for 2016. The lease is secured by the equipment with a net book value of \$4,065.

Note 15: Operating Leases

Noncancellable operating leases for equipment and building rentals expire in various years through 2031. These leases generally contain renewal options for periods ranging from 1 to 5 years and require Memorial Hospital to pay all executory costs (property taxes, maintenance and insurance). Future minimum lease payments at December 31, 2016, were:

2017	\$ 2,162,635
2018	1,700,204
2019	1,624,142
2020	1,628,106
2021	1,576,850
2022–2026	6,042,083
2027–2031	<u>3,073,493</u>
Future minimum lease payments	<u><u>\$ 17,807,513</u></u>

Rent expense for all operating leases approximated \$3,615,000 and \$3,783,000 during 2016 and 2015, respectively.

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2016 and 2015

Note 16: Pension Plans

Plan Descriptions

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

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

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

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

Benefits Provided

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

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2016 and 2015

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

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

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

All employees are required to become contributing members of OPERS when they begin employment at Memorial Health unless they are exempted or excluded as defined by the ORC. For actuarial purposes, employees who have earned sufficient service credit (60 contributing months) are entitled to a future benefit from OPERS. As of December 31, 2016 and 2015, 787 and 778 employees participated in the OPERS defined benefit pension plans, respectively, and 42 and 41 employees participated in the defined contribution pension plan, respectively. Memorial Health's proportionate share of inactive members is included in the net pension liability and net pension asset as discussed in the following notes.

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

Contributions

The ORC provides OPERS statutory authority over employee and employer contributions. The required statutorily determined contribution rates of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The statutorily required contribution rates for all three plans for the employee and Memorial Health, stated as a percent of covered payroll, are as follows for the years ended December 31, 2016 and 2015:

	OPERS
Employee	10%
Memorial Health	14%

For the years ended December 31, 2016 and 2015, contributions to the defined benefit pension plans from Memorial Health were as follows:

	OPERS	
	2016	2015
Traditional Plan	\$ 3,941,380	\$ 4,448,902
Combined Plan	234,186	221,984
Total	\$ 4,175,566	\$ 4,670,886

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

As of December 31, 2016 and 2015, Memorial Health reported a net pension liability and net pension asset for its share of the OPERS defined benefit plans as follows:

	Net Pension Liability (Asset)	
	2016	2015
Traditional Plan	\$ 44,205,070	\$ 30,129,878
Combined Plan	(212,021)	(138,945)

The net pension liability and net pension asset were measured as of December 31, 2015 and December 31, 2014 and the total pension liability and total pension asset used to calculate the net pension liability and net pension asset were determined by an actuarial valuation as of that date. Memorial Health's proportion of the net pension liability and net pension asset were based on its share of contributions to the respective defined benefit pension plans relative to the contributions of all participating employers during the measurement period. At December 31, 2016, Memorial Health's proportionate share was 0.255207% for the Traditional Plan and 0.435700% for the

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

Combined Plan. At December 31, 2015, Memorial Health's proportionate share was 0.249810% for the Traditional Plan and 0.360873% for the Combined Plan. Memorial Health's change in proportionate share between the two years was 0.005397% and 0.074827% for the Traditional and Combined Plans, respectively.

For the years ended December 31, 2016 and 2015, Memorial Health recognized pension expense related to the defined benefit pension plans of \$7,368,847 and \$2,712,879 as follows:

	Pension Expense	
	2016	2015
Traditional Plan	\$ 7,231,694	\$ 2,652,260
Combined Plan	137,153	60,619
	\$ 7,368,847	\$ 2,712,879

At December 31, 2016 and 2015, Memorial Health reported deferred outflows of resources and deferred inflows of resources related to defined benefit pensions from the following sources:

	2016					
	Traditional Plan		Combined Plan		Total Defined Benefit Plans	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 854,128	\$ -	\$ 96,747	\$ -	\$ 950,875
Net difference between projected and actual earnings on pension plan investments	12,993,529	-	91,543	-	13,085,072	-
Change in Memorial Health's proportionate share of the net pension liability (asset)	429,479	-	-	19,367	429,479	19,367
Memorial Health's contributions subsequent to the measurement date	3,941,380	-	234,186	-	4,175,566	-
	\$ 17,364,388	\$ 854,128	\$ 325,729	\$ 116,114	\$ 17,690,117	\$ 970,242
	2015					
	Traditional Plan		Combined Plan		Total Defined Benefit Plans	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 529,323	\$ -	\$ 42,398	\$ -	\$ 571,721
Net difference between projected and actual earnings on pension plan investments	1,607,639	-	8,481	-	1,616,120	-
Memorial Health's contributions subsequent to the measurement date	4,448,902	-	221,984	-	4,670,886	-
	\$ 6,056,541	\$ 529,323	\$ 230,465	\$ 42,398	\$ 6,287,006	\$ 571,721

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

At December 31, 2016, Memorial Health reported \$4,175,566 as deferred outflows of resources related to pensions resulting from Memorial Health's contributions subsequent to the measurement date and will be recognized as a decrease (increase) in the net pension liability (asset) for the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2016, related to pensions will be recognized in pension expense as follows:

	2016		
	Traditional Plan	Combined Plan	Total Defined Benefit Plans
2017	\$ 3,039,974	\$ 8,886	\$ 3,048,860
2018	3,247,739	8,886	3,256,625
2019	3,340,730	8,886	3,349,616
2020	2,940,437	6,326	2,946,763
2021	-	(14,640)	(14,640)
Thereafter	-	(42,915)	(42,915)
	\$ 12,568,880	\$ (24,571)	\$ 12,544,309

Actuarial Assumptions

The total pension liability and total pension asset for the years ended December 31, 2016 and 2015 were determined using the following actuarial valuations and actuarial assumptions for the respective plans:

OPERS Traditional Plan	2016	2015
Valuation date	December 31, 2015	December 31, 2014
Experience study	5 year period ended December 31, 2010	Period ended December 31, 2010
Actuarial cost method	Individual entry age	Individual entry age
Wage inflation	3.75%	3.75%
Projected salary increases	4.25% - 10.05% including wage inflation at 3.75%	4.25% - 10.05% including wage inflation at 3.75%
Investment rate of return	8.00%	8.00%
Cost-of-living adjustments	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.80% simple	3.00% simple

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

OPERS Combined Plan	2016	2015
Valuation date	December 31, 2015	December 31, 2014
Experience study	5 year period ended December 31, 2010	Period ended December 31, 2010
Actuarial cost method	Individual entry age	Individual entry age
Wage inflation	3.75%	3.75%
Projected salary increases	4.25% - 8.05% including wage inflation at 3.75%	4.25% - 8.05% including wage inflation at 3.75%
Investment rate of return	8.00%	8.00%
Cost-of-living adjustments	Pre 1/7/2013 retirees: 3.00% simple Post 1/7/2013 retirees: 3.00% simple through 2018 Post 2018: 2.80% simple	3.00% simple

Mortality rates for OPERS are the RP-2000 mortality table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used.

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

<u>Asset Class</u>	<u>OPERS Defined Benefit Plans</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equities	20.70%	5.84%
International equities	18.30%	7.40%
Fixed income	23.00%	2.31%
Real estate	10.00%	4.25%
Private equities	10.00%	9.25%
Other investments	18.00%	4.59%
	<u>100.00%</u>	<u>5.27%</u>

Discount Rate

The discount rate used to measure the total pension liability and total pension asset was 8% for the years ended December 31, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at statutorily required rates.

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total pension asset.

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

Memorial Health's proportionate share of the net pension liability and net pension asset as of December 31, 2016 has been calculated using a discount rate of 8%. The following presents Memorial Health's combined proportionate share of the net pension liability and net pension asset calculated using a discount rate 1% higher and 1% lower than the current rate as follows.

	2016		
	Current		
	1% Decrease (7.0%)	Discount Rate (8.0%)	1% Increase (9.0%)
Traditional Plan Net Pension Liability	\$ 70,429,476	\$ 44,205,070	\$ 22,085,614
Combined Plan Net Pension Asset	(4,357)	(212,021)	(379,059)

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plans

At December 31, 2016 and 2015, Memorial Health reported a payable for its employer share of contributions to the pension plans of approximately \$323,000 and \$313,000, respectively, for an outstanding amount of statutorily required contributions to the pension plans for the years ended December 31, 2016 and 2015, respectively.

Defined Contribution Plans

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

Pension expense recorded for the years ended December 31, 2016 and 2015 for employer contributions to the Member-Directed Plan was approximately \$481,000 and \$476,000.

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2016 and 2015

Other Postemployment Benefits

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

Each year the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For the calendar years ended December 31, 2016 and 2015, OPERS allocated 2.0% of the employer contribution rate to fund the health care program for members in the Traditional Pension Plan and Combined Plan. The allocated 2.0% is the statutorily required contribution rates for OPERS, payment amounts vary depending on the number of covered dependents and the coverage selected. Memorial Health's employer contributions to OPERS to fund OPEB for the years ended December 31, 2016 and 2015 approximated 2.0%, or approximately \$696,000 and \$667,000, respectively.

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

Note 17: Contingencies

Investigation

Memorial Health is the subject of an investigation regarding specific third-party payer program billing issues. Management believes Memorial Health's medical records fully support the codes used and billings submitted and intends to vigorously defend Memorial Health should any assertions to the contrary be made. No provision has been made in the financial statements for any adverse outcome that might ultimately result from this matter, as the amount of any such loss is not reasonably estimable. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Litigation

In the normal course of business, Memorial Health is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by Memorial Health's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. Memorial Health evaluates such allegations by conducting investigations to determine the validity of each

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 18: Restatement of Prior Years' Financial Statements

In prior years, Memorial Health recorded certain liabilities as long-term which should have been current and netted certain assets against a current liability that should have been reflected as an asset. In addition, certain assets were incorrectly classified as current that should have been long-term and the majority of its net position reported as restricted expendable should have been reported as unrestricted. As a result of these identified misclassifications, the 2015 financial statements including the balance sheet, statement of revenues, expenses and changes in net position and the statement of cash flows along with the related footnotes have been restated with significant items noted in the table below. In addition, the beginning net position as of January 1, 2015 has also been adjusted by \$50,000.

Balance Sheet	2015, As Previously Reported	2015, As Restated	Difference
Noncurrent assets	\$ 71,085,498	\$ 72,219,303	\$ 1,133,805
Total assets	125,139,944	126,162,731	1,022,787
Total assets and deferred outflows of resources	131,426,950	132,449,737	1,022,787
Current liabilities	12,032,440	15,435,306	3,402,866
Noncurrent liabilities	54,465,431	52,035,352	(2,430,079)
Total liabilities	66,497,871	67,470,658	972,787
Total liabilities and deferred inflows of resources	67,069,592	68,042,379	972,787
Restricted and expendable net position	5,908,409	670,277	(5,238,132)
Unrestricted net position	35,593,858	40,881,990	5,288,132
Total liabilities, deferred inflows of resources and net position	\$ 131,426,950	\$ 132,449,737	\$ 1,022,787

Statement of Cash Flows	2015, As Previously Reported	2015, As Restated	Difference
Net cash used in noncapital financing activities	\$ 27,673	\$ 700,545	\$ 672,872
Net cash used in capital and related financing activities	(6,559,997)	(7,232,869)	(672,872)

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

Note 19: Future Change in Accounting Principle

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

Note 20: Blended Component Units

The financial statements of Memorial Hospital of Union County include the financial statements of Memorial Gables, Memorial Health Foundation and Memorial Medical Group, which are blended component units of Memorial Hospital as determined by GASB Statement No. 61 and No. 080. Reclassifications have been made to the 2015 tables within the blended component units footnote to allocate Memorial Gables' proportionate share of the pension amounts based on guidance within GASB Statement No. 68. These amounts were previously recorded under Memorial Hospital. The reclassifications had no effect on the total changes in net position. The following is a summary of the combined financial statements of Memorial Hospital and its blended component units as of and for the years ended December 31, 2016 and 2015:

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

Assets and Deferred Outflows of Resources

December 31, 2016

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

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

Liabilities, Deferred Inflows of Resources and Net Position

December 31, 2016

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

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2016 and 2015

Statement of Revenues, Expenses and Changes in Net Position

Year Ended December 31, 2016

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

Statement of Cash Flows

Year Ended December 31, 2016

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

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

Assets and Deferred Outflows of Resources

December 31, 2015 (Restated - Note 18)

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminations	Total
Current Assets						
Cash and cash equivalents	\$ 17,806,231	\$ 2,316,040	\$ 946,966	\$ 93,242	\$ -	\$ 21,162,479
Short-term investments	17,849,592	-	723,736	-	-	18,573,328
Patient accounts receivable, net of allowance; \$6,030,849	9,878,478	886,421	-	396,080	-	11,160,979
Contributions receivable	-	-	50,000	-	-	50,000
Estimated amounts due from third-party payers	833,739	-	-	-	-	833,739
Supplies	844,897	-	-	-	-	844,897
Prepaid expenses and other current assets	1,215,136	17,695	-	85,175	-	1,318,006
Due from affiliate	227,350	-	-	-	(227,350)	-
Total current assets	48,655,423	3,220,156	1,720,702	574,497	(227,350)	53,943,428
Noncurrent Cash and Investments						
Internally designated for specific purpose	564,508	72,802	-	-	-	637,310
Restricted by donors for capital improvements	314,970	-	-	-	-	314,970
	879,478	72,802	-	-	-	952,280
Long-term Investments	21,516,798	-	583,638	-	-	22,100,436
Other Assets	367,500	-	-	-	-	367,500
Capital Assets, Net	42,608,330	5,885,450	-	-	-	48,493,780
Contributions Receivable, Net	-	-	166,362	-	-	166,362
Net Pension Asset	122,344	16,601	-	-	-	138,945
Total assets	114,149,873	9,195,009	2,470,702	574,497	(227,350)	126,162,731
Deferred Outflows of Resources - Pensions	5,535,853	751,153	-	-	-	6,287,006
Total assets and deferred outflows of resources	\$ 119,685,726	\$ 9,946,162	\$ 2,470,702	\$ 574,497	\$ (227,350)	\$ 132,449,737

Memorial Hospital of Union County
Notes to Financial Statements
December 31, 2016 and 2015

Liabilities, Deferred Inflows of Resources and Net Position

December 31, 2015 (Restated - Note 18)

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminations	Total
Current Liabilities						
Current maturities of long-term debt	\$ 4,730,170	\$ 326,667	\$ -	\$ -	\$ -	\$ 5,056,837
Accounts payable	3,053,104	167,039	-	55,680	-	3,275,823
Accrued salaries, wages, and related accruals	4,625,864	398,304	-	458,809	-	5,482,977
Estimated amounts due to third-party payers	705,000	147,397	-	-	-	852,397
Other current liabilities	728,593	12,070	-	26,609	-	767,272
Due to affiliate	-	185,848	3,650	37,852	(227,350)	-
Total current liabilities	13,842,731	1,237,325	3,650	578,950	(227,350)	15,435,306
Long-Term Debt	17,394,935	3,186,917	-	-	-	20,581,852
Accrued Compensated Absences	883,914	72,208	-	-	-	956,122
Other Liabilities	367,500	-	-	-	-	367,500
Net Pension Liability	26,530,050	3,599,828	-	-	-	30,129,878
Total liabilities	59,019,130	8,096,278	3,650	578,950	(227,350)	67,470,658
Deferred Inflows of Resources - Pensions	503,413	68,308	-	-	-	571,721
Net Position						
Net investment in capital assets	20,483,225	2,371,866	-	-	-	22,855,091
Restricted - expendable for						
Capital improvements	314,970	-	216,362	-	-	531,332
Pensions	122,344	16,601	-	-	-	138,945
Unrestricted	39,242,644	(606,891)	2,250,690	(4,453)	-	40,881,990
Total net position	60,163,183	1,781,576	2,467,052	(4,453)	-	64,407,358
Total liabilities, deferred inflows of resources and net position	<u>\$ 119,685,726</u>	<u>\$ 9,946,162</u>	<u>\$ 2,470,702</u>	<u>\$ 574,497</u>	<u>\$ (227,350)</u>	<u>\$ 132,449,737</u>

Memorial Hospital of Union County

Notes to Financial Statements

December 31, 2016 and 2015

Statement of Revenues, Expenses and Changes in Net Position

Year Ended December 31, 2015 (Restated - Note 18)

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminations	Total
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts; \$7,508,988	\$ 90,685,596	\$ 9,140,413	\$ -	\$ 4,423,922	\$ -	\$ 104,249,931
Other	3,846,860	-	-	2,125,363	(2,334,052)	3,638,171
Total operating revenues	94,532,456	9,140,413	-	6,549,285	(2,334,052)	107,888,102
Operating Expenses						
Salaries and wages	34,203,796	4,531,987	-	4,210,084	921,715	43,867,582
Employee benefits	8,011,601	1,333,792	-	695,509	-	10,040,902
Purchased services	13,317,750	1,005,381	-	890,087	(921,715)	14,291,503
Professional fees	3,672,290	18,961	-	-	-	3,691,251
Supplies	11,319,833	842,121	-	277,644	-	12,439,598
Utilities	1,317,389	284,557	36,048	66,473	-	1,704,467
Insurance	427,350	41,513	-	114,260	-	583,123
Depreciation and amortization	5,161,524	414,861	-	-	-	5,576,385
Other operating expenses	7,890,235	170,118	214,505	442,699	(2,334,052)	6,383,505
Total expenses and losses	85,321,768	8,643,291	250,553	6,696,756	(2,334,052)	98,578,316
Operating Income (Loss)	9,210,688	497,122	(250,553)	(147,471)	-	9,309,786
Nonoperating Revenues (Expenses)						
Investment income	181,558	1	32,819	-	-	214,378
Interest expense	(731,928)	(155,342)	-	-	-	(887,270)
Loss on sale and disposal of capital assets	(24,084)	(114)	-	-	-	(24,198)
Noncapital grants and gifts	116,205	695	355,972	-	-	472,872
Total nonoperating revenues (expenses)	(458,249)	(154,760)	388,791	-	-	(224,218)
Excess (Deficiency) of Revenues Over Expenses Before Capital Gifts	8,752,439	342,362	138,238	(147,471)	-	9,085,568
Capital Gifts	-	-	200,000	-	-	200,000
Increase (Decrease) in Net Position	8,752,439	342,362	338,238	(147,471)	-	9,285,568
Net Position, Beginning of Year, as restated	51,410,744	1,439,214	2,128,814	143,018	-	55,121,790
Net Position, End of Year	\$ 60,163,183	\$ 1,781,576	\$ 2,467,052	\$ (4,453)	\$ -	\$ 64,407,358

Statement of Cash Flows

Year Ended December 31, 2015 (Restated - Note 18)

	Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminations	Total
Cash provided by (used in):						
Operating activities	\$ 12,028,779	\$ 944,415	\$ (423,265)	\$ (67,378)	\$ -	\$ 12,482,551
Noncapital financing activities	143,764	809	555,972	-	-	700,545
Capital and related financing activities	(6,655,902)	(609,786)	32,819	-	-	(7,232,869)
Investing activities	(23,857,157)	(65,266)	33,318	-	-	(23,889,105)
Increase (Decrease) in Cash and Cash Equivalents	(18,340,516)	270,172	198,844	(67,378)	-	(17,938,878)
Cash and cash equivalents - beginning of year, as restated	37,026,225	2,118,670	748,122	160,620	-	40,053,637
Cash and cash equivalents - end of year	\$ 18,685,709	\$ 2,388,842	\$ 946,966	\$ 93,242	\$ -	\$ 22,114,759

Required Supplementary Information

Memorial Hospital of Union County

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

Traditional Defined Benefit Pension Plan	2016	2015
Memorial Health's proportion of the net pension liability	0.26%	0.25%
Memorial Health's proportionate share of the net pension liability	\$ 44,205,070	\$ 30,129,878
Memorial Health's covered-employee payroll	\$ 31,763,039	\$ 26,251,089
Memorial Health's proportionate share of the net pension liability as a percentage of its covered-employee payroll	139.17%	114.78%
Plan fiduciary net position as a percentage of the total pension liability	81.08%	86.45%

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

For the years ended December 31, 2016 and 2015, the above amounts are presented as of the date of the actuarial valuation of December 31, 2015 and December 31, 2014, respectively.

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

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

Traditional Defined Benefit Pension Plan	2016	2015
Statutorily required contributions	\$ 3,941,380	\$ 4,448,902
Contributions in relation to the statutorily required contributions	(3,941,380)	(4,448,902)
Contribution deficiency (excess)	\$ -	\$ -
Memorial Health's covered-employee payroll	32,844,837	37,074,183
Contributions as a percentage of covered-employee payroll	12.00%	12.00%
Combined Defined Benefit Pension Plan	2016	2015
Statutorily required contributions	\$ 234,186	\$ 221,984
Contributions in relation to the statutorily required contributions	(234,186)	(221,984)
Contribution deficiency (excess)	\$ -	\$ -
Memorial Health's covered-employee payroll	1,951,549	1,849,867
Contributions as a percentage of covered-employee payroll	12.00%	12.00%

The above amounts are presented as of December 31, 2016 and December 31, 2015, respectively.

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

Memorial Hospital of Union County

Notes to Required Supplementary Information

Changes of Benefit Terms

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

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

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

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

Changes of Assumptions

There were no changes of assumptions for OPERS for the fiscal years presented.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Memorial Hospital of Union County
Marysville, Ohio

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Memorial Hospital of Union County, an enterprise fund of Union County, Ohio, and its blended component units (collectively, "Memorial Health"), which comprise the balance sheet as of December 31, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 23, 2017, which contained an explanatory paragraph with reference to the report of other auditors as restated for certain matters.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A 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. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Memorial Health's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-001 to be a material weakness.

Compliance and Other Matters

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

Memorial Health's Response to Findings

Memorial Health's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Memorial Health's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We also noted certain matters that we reported to Memorial Health's management in a separate letter dated May 23, 2017.

Purpose of this Report

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

BKD, LLP

Cincinnati, Ohio
May 23, 2017

Memorial Hospital of Union County
Schedule of Findings and Responses
Year Ended December 31, 2016

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2016-001	<p>Criteria or specific requirement: Management is responsible for establishing and maintaining effective internal controls over financial reporting.</p> <p>Condition: The audit of the financial statements identified adjustments to the current year's presentation as well as material reclassifications of the prior year financial statements.</p> <p>Context: Management is responsible for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.</p> <p>Effect: Potentially significant misstatements in the financial statements and disclosures.</p> <p>Cause: Audit procedures identified improper classification between current and noncurrent assets and liabilities, as well as improper classifications of balances between restricted and unrestricted net position.</p> <p>Recommendation: Management review its process for the preparation of financial statements and classification and presentation of account balances.</p> <p>Views of responsible officials and planned corrective actions: Management will modify their preparation and review procedures to ensure proper classification of balances going forward.</p>

This page intentionally left blank.



Dave Yost • Auditor of State

MEMORIAL HOSPITAL OF UNION COUNTY

UNION COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 27, 2017