

**MEMORIAL HOSPITAL OF UNION COUNTY  
AND AFFILIATES**

**COMBINED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2019 AND 2018**

*CPAs / ADVISORS*





OHIO AUDITOR OF STATE  
KEITH FABER



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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 Blue & Co., LLC, for the audit period January 1, 2019 through December 31, 2019. 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 "Keith Faber".

Keith Faber  
Auditor of State  
Columbus, Ohio

June 15, 2020

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# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

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## REPORT OF INDEPENDENT AUDITORS

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

### Report on the Combined Financial Statements

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

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

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Memorial Health's preparation and fair presentation of the combined 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 Memorial Health'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 combined financial statements.

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

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

### Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Memorial Health as of December 31, 2019, and its changes in net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Relationship to Union County, Ohio

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

### Change in Accounting Principle

As discussed in Note 3 to the combined financial statements, Memorial Health adopted Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, during the year ended December 31, 2019. Our opinion is not modified with respect to this matter.

### COVID-19

As discussed in Note 23 to the combined financial statements, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods for Memorial Health. We did not modify our opinion regarding this matter.

### Prior Period Combined Financial Statements

The combined financial statements as of December 31, 2018, were audited by other auditors whose report dated May 31, 2019, expressed an unmodified opinion on those statements.

### Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* on pages i through xi and the Required Supplemental Information on GASB 68 Pension Liabilities and GASB 75 Other Postemployment Benefit Liabilities on pages 53 through 56, to supplement the basic combined financial statements. Such information, although not a part of the basic combined financial statements, is required by the Governmental



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

Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

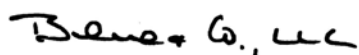
#### Report on Combining Information

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

The combining information on pages 47 through 52 present additional analysis and is not a required part of the basic combined financial statements. The combining statement of net position and combining statements of revenues, expenses, and changes in net position are management's responsibility and were derived from and relate directly to the underlying accounting and other records used to prepare the basic combined financial statements. We subjected these combining statements to the auditing procedures we applied to the basic combined financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects to the basic combined financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2020 on our consideration of Memorial Health's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Memorial Health's internal control over financial reporting and compliance.



Westerville, Ohio  
May 20, 2020

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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### Management's Discussion and Analysis

The discussion and analysis of the financial performance of Memorial Hospital of Union County and its blended component units, Memorial Gables, Memorial Medical Group, and Memorial Health Foundation (collectively, "Memorial Health"), provides an overview of Memorial Health's financial activities for the year ended December 31, 2019, 2018 and 2017. Please read in conjunction with the accompanying basic financial statements of Memorial Hospital of Union County.

### Financial Highlights

- Memorial Health's net position decreased \$2,564,251 in 2019 and \$16,869,436 in 2018.
- Memorial Health reported an operating loss of \$5,950,013 in 2019 and operating income of \$7,586,800 in 2018.
- Total operating revenues increased from 2018 to 2019 by \$6,375,715 or 5%. Total operating revenues increased from 2017 to 2018 by \$9,901,160 or 8%.
- Memorial Health had an increases in operating expense of \$19,912,528 or 16% in 2019 and \$5,876,424 or 5% in 2018. Included in the operating expenses for 2019 was \$17,984,823 and \$4,423,769 of expense relating to continued impact of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pension*, and GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions*, respectively. Operating expenses for 2018 included expense of \$9,323,190 and \$2,473,576 relating to GASB 68 and 75, respectively.

### Using This Annual Report

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

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

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

### **Statement of Cash Flows**

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

### **Net Position**

Memorial Health's net position is the difference between its assets, liabilities, and deferred outflows and inflows of resources. In 2019, Memorial Health's net position decreased by \$2,564,251. As noted on page i \$10,611,826 of this decrease related to the annual expenses associated with GASB 68 and 75. In 2018, Memorial Health's net position decreased by \$16,869,436. As noted on page iii \$26,555,556 of this decrease related to the adoption of GASB 75.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### Condensed Financial Information

The following is a comparative analysis of major components of the statements of net position of Memorial Health as of December 31, 2019, 2018, and 2017:

	2019	2018	2017
<b>Assets and deferred outflows of resources</b>			
Current assets	\$ 70,525,461	\$ 68,336,523	\$ 53,493,627
Noncurrent assets	69,278,341	76,693,833	56,818,316
Capital assets, net	85,569,879	55,875,115	42,546,119
Deferred outflows - excess consideration provided for acquisition	288,250	-	-
Deferred outflows-pension	24,612,562	11,003,119	22,772,848
Deferred outflows-OPEB	4,979,871	2,280,186	-
Total assets and deferred outflows of resources	<u>\$ 255,254,364</u>	<u>\$ 214,188,776</u>	<u>\$ 175,630,910</u>
<b>Liabilities and deferred inflows of resources</b>			
Current liabilities	\$ 21,884,357	\$ 16,725,613	\$ 13,850,349
Long-term liabilities	170,176,911	121,262,684	80,290,468
Deferred inflows-pension	1,515,979	9,906,721	487,423
Deferred inflows-OPEB	108,134	2,160,524	-
Total liabilities and deferred outflows of resources	<u>\$ 193,685,381</u>	<u>\$ 150,055,542</u>	<u>\$ 94,628,240</u>
<b>Net position</b>			
Net investment in capital assets	\$ 27,246,468	\$ 23,373,220	\$ 20,203,729
Restricted	2,204,235	3,001,305	2,742,261
Unrestricted	<u>32,118,280</u>	<u>37,758,709</u>	<u>58,056,680</u>
Total net position	<u>\$ 61,568,983</u>	<u>\$ 64,133,234</u>	<u>\$ 81,002,670</u>

The most significant change in Memorial Health's net position in 2019, 2018 and 2017 was the result of operations during the years and the effects of recent changes in accounting principles. During 2018, Memorial Health adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The effect of the adoption of the new accounting principles in 2018 resulted in Memorial Health recording its share of postemployment benefits other than pensions (OPEB) of the total OPEB liability of \$29,002,921 as of December 31, 2018 and a cumulative effect of change in accounting principle of \$26,555,556. See Note 14 to the combined financial statements for more information regarding the OPEB amounts. Other changes in Memorial Health's net position include adjustments of its share of pension and OPEB amounts during the years, along with increases in capital assets during 2019, net of accumulated depreciation, due to the Memorial 2020 expansion projects.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### Operating Results and Changes in Net Position

The following is a comparative analysis of the statements of revenues and expenses and changes in net position for the years ended December 31, 2019, 2018, and 2017:

	2019	2018	2017
<b>Operating revenues</b>			
Net patient service revenue	\$ 133,927,032	\$ 128,473,380	\$ 119,628,426
Other operating revenue	7,445,490	6,523,427	5,467,221
Total operating revenue	141,372,522	134,996,807	125,095,647
<b>Operating expenses</b>			
Salaries and wages	55,730,394	51,754,629	49,596,666
Employee benefits	10,011,663	8,421,430	9,024,369
Pension	17,984,823	9,323,190	12,580,092
Other post-employment retirement benefits	4,423,769	2,473,576	507,393
Supplies	14,626,741	13,889,561	11,718,148
Professional fees and services	5,809,107	5,514,878	4,833,011
Purchased services	21,910,951	21,392,513	17,325,853
Insurance	742,081	669,668	614,977
Utilities	1,722,356	1,647,305	1,831,703
Depreciation and amortization	5,349,633	5,006,450	5,002,641
Other operating expenses	9,011,017	7,316,807	8,498,730
Total operating expenses	147,322,535	127,410,007	121,533,583
<b>Operating income (loss)</b>	(5,950,013)	7,586,800	3,562,064
<b>Nonoperating revenues (expenses)</b>			
Investment income	3,263,978	1,956,553	819,240
Interest expense	(426,390)	(420,020)	(598,437)
Noncapital grants and contributions	177,440	252,073	502,352
Other nonoperating income (expense)	44,860	(174,099)	(3,172)
Total nonoperating revenues (expenses)	3,059,888	1,614,507	719,983
<b>Excess (deficiency) of revenues over expenses</b>	(2,890,125)	9,201,307	4,282,047
Capital contributions	325,874	484,813	1,433,172
<b>Increase (decrease in net position)</b>	(2,564,251)	9,686,120	5,715,219
<b>Net position - beginning of year, as previously reported</b>	64,133,234	81,002,670	75,287,451
<b>Cumulative effect of change in accounting principle</b>	-	(26,555,556)	-
<b>Net position - beginning of year</b>	64,133,234	54,447,114	75,287,451
<b>Net position - end of year</b>	\$ 61,568,983	\$ 64,133,234	\$ 81,002,670

### Operating Revenues

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

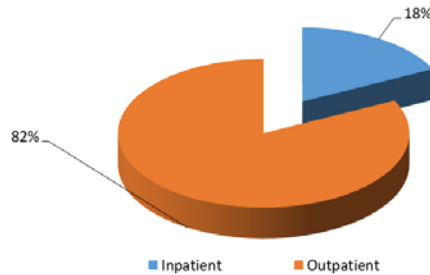
Operating revenue changes were a result of the following factors:

- Net patient revenue increased \$5,453,652 or 4% from 2018 to 2019.
- Net patient revenue increased \$8,844,954 or 7% from 2017 to 2018.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

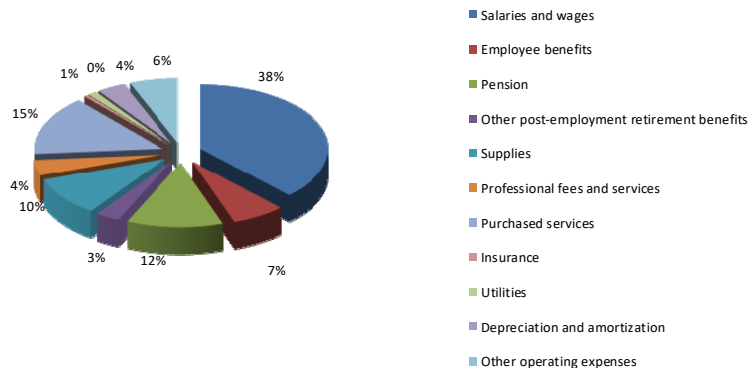


### Operating Expenses

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

- Salaries and wages increased by \$3,975,765 or 7.7% from 2018 to 2019. Salaries and wages increased by \$2,157,963 or 4.4% from 2017 to 2018.
- Employee benefits increased by \$1,590,233 or 18.9% from 2018 to 2019. Employee benefits decreased by \$602,939 or 6.7% from 2017 to 2018.
- Pension expense increased by \$8,661,633 or 92.9% from 2018 to 2019. Pension expense decreased by \$3,256,902 or 25.9% from 2017 to 2018.
- OPEB expense increased \$1,950,193 or 78.8% from 2018 to 2019. OPEB expense increased \$1,966,183 from 2017 to 2018.
- Supplies expense increased \$737,180 or 5.3% from 2018 to 2019. Supplies expense increased \$2,171,413 or 18.5% from 2017 to 2018.
- Purchase services increased \$518,438 or 2.4% from 2018 to 2019. Purchase services increased \$4,066,660 or 23.5% from 2017 to 2018.
- Other operating expense increased \$1,694,210 or 23.2% from 2018 to 2019. Other operating expense decreased \$1,181,923 or 13.9% from 2017 to 2018.

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



# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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### **Sources of Revenue**

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

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

### **Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses consist primarily of investment income, interest expense, and gifts from donors. Changes between 2019, 2018, and 2017 are primarily due to increases in investment income. Interest expense remained consistent between 2019, 2018 and 2017. During 2019, Memorial Health experienced a gain from disposal of capital assets of \$44,860, compared to a loss of \$174,099 in 2018 and a loss of \$3,172 in 2017.

### **Capital Contributions**

Memorial Health recognized gifts and contributions receivable totaling \$325,874, \$484,813, and \$1,433,172 during 2019, 2018 and 2017, respectively, from various individuals and companies to purchase capital assets as part of the Memorial 2020 projects.

### **Statement of Cash Flows**

The primary purpose of the statement of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows helps assess

- An entity's ability to generate future net cash flows
- Its ability to meet obligations as they come due
- Its need for financing

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

	Year Ended December 31		
	2019	2018	2017
Cash provided by (used in):			
Operating activities	\$ 13,130,326	\$ 16,341,382	\$ 17,477,222
Capital and related financing activities	(24,477,271)	12,757,480	(6,207,892)
Investing activities	(5,549,620)	(1,513,380)	(20,802,953)
Noncapital financing activities	177,440	252,073	502,352
Total	(16,719,125)	27,837,555	(9,031,271)
Cash - beginning of year	49,518,476	21,680,921	30,712,192
Cash - end of year	<u>\$ 32,799,351</u>	<u>\$ 49,518,476</u>	<u>\$ 21,680,921</u>

### **Participation in the Ohio Public Employees Retirement System**

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

The Ohio Revised Code establishes statutory authority for determining employer contributions to the state's cost-sharing retirement plans. Memorial Health remits the statutorily required contributions to the retirement system in the month subsequent to the related pay periods. These statutorily required contributions constitute the full legal funding requirements of Memorial Health for the participation of its employees in the pension and OPEB retirement plans. Although accounting standards require the recognition of the net pension and OPEB liability, net pension asset, and the related deferred outflows of resources, deferred inflows of resources, and additional actuarially determined defined benefit pension and defined benefit OPEB expense, they do not represent legal claims on Memorial Health's resources and there are no additional cash flows or funding requirements outside of the statutorily required contributions.



# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

At December 31, 2019 and 2018, Memorial Health had \$85,569,879 and \$55,875,115, respectively, invested in capital assets, net of accumulated depreciation. Memorial Health acquired or constructed capital assets in the amount of \$35,996,810 and \$18,594,030 during 2019 and 2018, respectively.

	December 31		
	2019	2018	2017
<b>Capital assets not being depreciated</b>			
Land	\$ 2,993,940	\$ 3,434,800	\$ 3,400,769
Construction in progress	43,779,658	15,927,940	1,982,070
Subtotal	46,773,598	19,362,740	5,382,839
<b>Capital assets being depreciated - net of accumulated depreciation</b>			
Land improvements	2,534,360	1,898,301	1,855,118
Buildings and leasehold improvements	24,102,507	24,527,664	25,487,600
Equipment	12,159,414	10,086,410	9,820,562
Subtotal	38,796,281	36,512,375	37,163,280
Total	\$ 85,569,879	\$ 55,875,115	\$ 42,546,119

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

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

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

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

In December 2017, we completed the next phase of the financing and closed on a revenue bond in the amount \$17,150,000. The bond is a drawdown structure and allows for Memorial to access funding when needed. In April 2018, with the assistance from the Union County Commissioners, Memorial Health concluded the final phase of our financing plan with the issuance of \$28,000,000 in General Obligation Bonds. Late in 2019, Memorial Health exhausted funding from the General Obligation Bonds and initiated its first draw with PNC revenue bonds. The project is expected to be operational in the fall of 2020.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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### **Long-Term Debt Obligations**

At December 31, 2019 and 2018, Memorial Health had \$58,323,411 and \$51,340,116, respectively, in revenue bonds, general obligation bonds and capital leases outstanding, net of unamortized bond premiums. Memorial Health's formal debt issuances, revenue bonds, are subject to limitations imposed by state law. More detailed information about Memorial Health's long-term debt obligations are further discussed in Note 11 to the combined financial statements.

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

Over the last three years, Memorial Hospital has been very active in growing its market share with additional service lines, physician recruiting and expanding its presence through growth in new buildings. The end of 2018 yielded three new buildings located off the main campus and a major hospital expansion. One of those buildings opened in April 2018 and is located in Champaign County to address the needs of that market. The expansion of the main campus commenced in the spring of 2018 and carries a price tag of over \$50 million. The Memorial 2020 Project encompasses both the inpatient and outpatient pavilions that will provide state-of-the-art facilities for those it serves.

In the inpatient pavilion, patients will enjoy comfortable, modern hospital rooms with full, private bathrooms. Memorial 2020 will replace all existing patient rooms, except those in Obstetrics and the Nursery, with 36 brand new multi-purpose patient rooms as well as 12 shelled rooms ready for future expansion. The outpatient building will offer patients the ability to access to healthcare services in one location. The first floor will offer lab, oncology, nephrology, neurosurgery and rheumatology services. The second floor will offer diabetes education, medication therapies, gastroenterology and neurology. The third floor will house our wellness center, cardiac and pulmonary rehabilitation.

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

The adopted standards changed the recognition and reporting requirements for public pensions. While the overall structure and operation of the health system remains unchanged, Memorial Health is now required to recognize its portion of the net unfunded liability (OPERS and OPEB) on its financial statements. One of our concerns is that Memorial Health is required by law to fund the statutory contribution rate of 14%. The OPERS website states that based on actuarial analysis if the funding levels would begin to trend downward, they would seek the council of the General Assembly and either increase the statutory obligations of employees and/or employers or decrease the current

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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benefit levels to its enrollees. OPEB benefits are not guaranteed and can be reduced or eliminated at any time by OPERS. These potential changes would allow OPERS to meet the long-term projected pension liability and remain viable. The initial impact of this "non-cash" entry was approximately \$30,000,000 for GASB 68 to our net position. The initial implementation of GASB 75 was a reduction in net position of approximately \$26,556,000. The changes between years has increased and decreased the liabilities and the appropriate recognition and amortization of deferred inflows and outflows, the system continues to realize a reduction in its operating margin. Unfortunately, we cannot reasonably estimate what impact the change in the liability will have to operations in future years.

In March 2019, Memorial Health entered into an agreement with The Ohio State University on behalf of its Wexner Medical Center (OSU) to provide training and the installation of the EPIC electronic medical record through its Community Connect partnership. Implementation of the software began in May 2019, optimization specialist training in February 2020 with a go-live date of June 2020. Unfortunately, due to the impact of COVID-19, the go-live date has been rescheduled until October 2020. Once installed, both Memorial Hospital and Memorial Medical Group will be utilizing the system.

In December 2019, a novel strain of the coronavirus was first reported in China. This strain, COVID-19, has quickly spread across all continents. In March 2020, the World Health Organization, (WHO), officially declared a pandemic. The outbreak in the United States, and subsequent "shelter at home" declarations has had a catastrophic impact on the economy of each state. In healthcare, most outpatient services and elective procedures have been postponed unless of an emergent nature. For many hospitals, outpatient services are the lifeblood of maintaining simply a breakeven operating margin. Memorial Health is experiencing disruptions in volumes and a negative impact on operations. The Ohio Hospital Association (OHA) is projecting the impact to Ohio hospitals to exceed \$1.2 billion per month. While Memorial currently possesses a strong cash position, days of cash on hand will be required to assist the organization in meeting its obligations to team members and suppliers. We are expecting to see a drop in days of cash on hand during the crisis, but believe we will not be in jeopardy of triggering any of our debt covenants relative to this measure. However, with an expected material decline in revenues and operating margin, the debt service coverage ratio will not meet the debt covenant requirements for the year. Given the unprecedented nature of COVID-19 on the economy, the outlook of stakeholders pursuing violations to our debt is uncertain. At this time, the overall financial impact to Memorial Health is unknown.

### **Contacting Memorial Health's Management**

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

Jeff Ehlers  
Chief Financial Officer

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINED STATEMENTS OF NET POSITION DECEMBER 31, 2019 AND 2018

### Assets and Deferred Outflows of Resources

	2019	2018
<b>Current assets</b>		
Cash and cash equivalents	\$ 32,324,636	\$ 30,840,625
Patient accounts receivable, net of uncollectible accounts of approximately \$7,542,000 and \$6,962,000 in 2019 and 2018, respectively	15,923,175	15,235,233
Short-term investments	17,708,017	18,137,698
Estimated third-party settlements	-	611,965
Prepaid expenses and other current assets	2,814,106	1,923,919
Inventories	995,482	837,691
Current portion of contributions receivable	760,045	749,392
Total current assets	70,525,461	68,336,523
<b>Capital assets, net</b>	85,569,879	55,875,115
<b>Long-term investments</b>	63,986,046	54,196,604
<b>Assets limited as to use</b>		
Internally designated for specific purpose	270,282	165,971
Restricted by donors for capital improvements	268,197	374,183
Bond proceeds - restricted for capital improvements	-	18,838,221
Total assets limited as to use	538,479	19,378,375
<b>Other assets</b>		
Contributions receivable, net of current portion	634,073	1,205,770
Investment in joint ventures	419,222	718,126
Other assets	3,158,601	522,998
Total other assets	4,211,896	2,446,894
<b>Net pension asset</b>	541,920	671,960
Total noncurrent assets	154,848,220	132,568,948
<b>Deferred outflows of resources</b>		
Excess consideration from acquisition	288,250	-
Pension	24,612,562	11,003,119
Other post-employment benefits	4,979,871	2,280,186
Total deferred outflows of resources	29,880,683	13,283,305
Total assets and deferred outflows of resources	\$ 255,254,364	\$ 214,188,776

*See accompanying notes to combined financial statements.*

**MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES**

COMBINED STATEMENTS OF NET POSITION  
DECEMBER 31, 2019 AND 2018

**Liabilities, Deferred Inflows of Resources and Net Position**

	2019	2018
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 1,848,271	\$ 1,278,039
Accounts payable	10,487,572	6,328,512
Accrued salaries, wages and related accruals	8,040,540	8,013,495
Estimated third-party settlements	1,194,544	665,000
Other current liabilities	313,430	440,567
Total current liabilities	21,884,357	16,725,613
<b>Long-term debt, net of current portion</b>	56,475,140	50,062,077
<b>Other liabilities</b>		
Accrued compensated absences	1,198,837	1,125,205
Net pension liability	74,274,265	40,809,981
Net other post-employment benefit liability	38,018,669	29,002,921
Other liabilities	210,000	262,500
Total other liabilities	113,701,771	71,200,607
<b>Deferred inflows of resources</b>		
Pension	1,515,979	9,906,721
Other post-employment benefits	108,134	2,160,524
Total deferred inflows of resources	1,624,113	12,067,245
Total liabilities and deferred inflows of resources	193,685,381	150,055,542
<b>Net position</b>		
Net investment in capital assets	27,246,468	23,373,220
Restricted - expendable for		
Capital improvements	1,662,315	2,329,345
Pensions	541,920	671,960
Unrestricted	32,118,280	37,758,709
Total net position	61,568,983	64,133,234
Total liabilities, deferred inflows of resources and net position	\$ 255,254,364	\$ 214,188,776

*See accompanying notes to combined financial statements.*

## MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

### COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
<b>Operating revenues</b>		
Net patient service revenue	\$ 133,927,032	\$ 128,473,380
Other operating revenue	7,445,490	6,523,427
Total operating revenues	141,372,522	134,996,807
<b>Operating expenses</b>		
Salaries and wages	55,730,394	51,754,629
Employee benefits	10,011,663	8,421,430
Pension	17,984,823	9,323,190
Other post-employment retirement benefits	4,423,769	2,473,576
Supplies	14,626,741	13,889,561
Professional fees and services	5,809,107	5,514,878
Purchased services	21,910,951	21,392,513
Insurance	742,081	669,668
Utilities	1,722,356	1,647,305
Depreciation and amortization	5,349,633	5,006,450
Other operating expenses	9,011,017	7,316,807
Total operating expenses	147,322,535	127,410,007
<b>Operating income (loss)</b>	(5,950,013)	7,586,800
<b>Nonoperating revenues (expenses)</b>		
Investment income	3,263,978	1,956,553
Interest expense	(426,390)	(420,020)
Noncapital grants and contributions	177,440	252,073
Other nonoperating income (expense)	44,860	(174,099)
Total nonoperating revenues (expenses)	3,059,888	1,614,507
<b>Excess (deficiency) of revenues over expenses</b>	(2,890,125)	9,201,307
Capital gifts	325,874	484,813
<b>Increase (decrease in net position)</b>	(2,564,251)	9,686,120
<b>Net position - beginning of year, as previously reported</b>	-	81,002,670
<b>Cumulative effect of change in accounting principle</b>	-	(26,555,556)
<b>Net position - beginning of year</b>	64,133,234	54,447,114
<b>Net position - end of year</b>	\$ 61,568,983	\$ 64,133,234

See accompanying notes to combined financial statements.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
<b>Cash flows from operating activities</b>		
Cash received from patients and third-party payors	\$ 134,380,599	\$ 125,993,133
Cash paid to employees for wages and benefits	(72,192,160)	(67,430,828)
Cash paid to vendors for services and goods	(57,064,647)	(40,017,244)
Other receipts (payments), net	8,006,534	(2,203,679)
Net cash provided by operating activities	13,130,326	16,341,382
<b>Cash flows from noncapital financing activities</b>		
Noncapital contributions	177,440	252,073
Net cash provided by noncapital financing activities	177,440	252,073
<b>Cash flows from capital and related financing activities</b>		
Capital gifts	325,874	774,138
Proceeds from issuance of long-term debt	5,732,036	30,245,092
Principal payments on capital lease	(298,603)	-
Principal payments on long-term debt	(1,003,469)	(982,697)
Interest paid on long-term debt	(673,059)	(684,689)
Purchase of capital assets	(29,647,920)	(16,687,678)
Proceeds from sale of capital assets	1,087,870	93,314
Net cash provided by (used in) capital and related financing activities	(24,477,271)	12,757,480
<b>Cash flows from investing activities</b>		
Interest and dividends on investments	3,263,978	1,956,553
Purchase and reinvestment of investments	(22,565,610)	(34,809,904)
Proceeds from sale and maturity of investments	13,752,012	31,339,971
Net cash flows provided by (used in) investing activities	(5,549,620)	(1,513,380)
<b>Net increase in cash and cash equivalents</b>	(16,719,125)	27,837,555
<b>Cash and cash equivalents - beginning of year</b>	49,518,476	21,680,921
<b>Cash and cash equivalents- end of year</b>	\$ 32,799,351	\$ 49,518,476
<b>Balance sheet classification of cash and cash equivalents</b>		
Cash and cash equivalents	\$ 32,324,636	\$ 30,840,625
Cash included in assets limited as to use	474,715	18,677,851
	\$ 32,799,351	\$ 49,518,476
<b>Supplemental cash flow information</b>		
Capital asset acquisitions in accounts payable	\$ 6,348,890	\$ 1,906,352
Assets acquired under capital lease	\$ 2,979,411	\$ -

See accompanying notes to combined financial statements.



# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019 AND 2018

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

	2019	2018
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ (5,950,013)	\$ 7,586,800
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,349,633	5,006,450
Provision for uncollectible accounts	9,194,886	8,910,444
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Patient accounts receivable	(9,882,828)	(11,344,435)
Estimated amounts due from and to third-party payors	1,141,509	(651,965)
Net pension asset	130,040	(390,272)
Deferred outflows of resources - pensions	(13,609,443)	11,769,729
Net pension liabilities	33,464,284	(16,882,725)
Deferred inflows of resources - pensions	(8,390,742)	9,419,298
Deferred outflows of resources - OPEB	(2,699,685)	(2,280,186)
Net OPEB liability	9,015,748	2,447,365
Deferred inflows of resources - OPEB	(2,052,390)	2,160,524
Deferred inflows of resources - Excess consideration from acquisition	(288,250)	-
Other assets	(23,633)	(264,022)
Accounts payable and accrued expenses	(2,089,153)	854,377
Other liabilities	(179,637)	-
Net cash flows from operating activities	\$ 13,130,326	\$ 16,341,382

*See accompanying notes to combined financial statements.*

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### 1. NATURE OF OPERATIONS AND REPORTING ENTITY

#### Organization and Principles of Combination

Memorial Hospital of Union County (Memorial Hospital) is an acute care hospital located in Marysville, Ohio. Memorial Hospital is a political subdivision of the State of Ohio and was formed under the provisions of the Ohio Revised Code. Memorial Hospital 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 year ended December 31, 2019 and 2018 included herein consist of the financial positions, results of operations, changes in net position, and cash flows of Memorial Hospital, Memorial Gables, Memorial Health Foundation, and Memorial Medical Group (collectively, Memorial Health). The boards of Memorial Health Foundation and Memorial Medical Group are appointed by the Trustees. All intercompany accounts and transactions between all entities have been eliminated in the preparation of the combined financial statements.

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

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

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

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

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

#### Use of Estimates

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

#### Proprietary Fund Accounting

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

#### Cash and Cash Equivalents

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

#### Patient Accounts Receivable

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### Inventories

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

### Capital Assets

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

### Investments

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

### Assets Limited as to Use

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

### Other Assets

During 2013, Memorial Health entered into an agreement with the City of Marysville, Ohio (the City) to obtain the naming rights to a City pavilion. Memorial Health is obligated to pay the City a total of \$525,000 over a ten year term for the right to name and use the structure, which includes the promotion of Hospital programs and services to the community. The asset is being amortized over the economic life of the pavilion and is recorded within other assets and other long-term liabilities of the combined balance sheets. During 2019 and 2018, amortization of the asset was \$52,500, and as of December 31, 2019 and 2018 the remaining liability was \$210,000 and \$262,500, respectively.

During 2019, Memorial Health entered into a subscription agreement with EPIC that relates to a software implementation project, and includes \$2,979,411 of implementation and support fees. The asset is being amortized over the term of the subscription service period of 60 months and is recorded within other assets of the combined balance sheets. During 2019, amortization of the asset was \$346,798, and as of December 31, 2019 the remaining asset was \$2,632,613. The asset is offset by a liability of \$2,501,397 as of December 31, 2019 and is recorded within long-term debt of the combined balance sheet.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### Compensated Absences

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

### Restricted Resources

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

### Net Position

The net position of Memorial Health is classified in three components: (1) Net invested in capital assets consist of capital assets net of accumulated depreciation and is reduced by the current balance of any outstanding borrowings used to finance the purchase or construction of those assets; (2) Restricted expendable net position are assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to Memorial Health; (3) Unrestricted net position is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

### Operating Revenue and Expenses

Memorial Health's combined statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing health care services – Memorial Health's principal activity. Nonexchange revenue, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred as a result of providing health care services within the surrounding area.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### Net Patient Service Revenue

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

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

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

### Contributions

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

### Charity Care

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

Of Memorial Hospital's total reported expenses (approximately \$126,753,000 and \$108,151,000 during 2019 and 2018, respectively), an estimated \$567,000 and \$680,000 arose from providing services to charity patients during 2019 and 2018, respectively. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on Memorial Hospital's total expenses divided by gross patient service revenue. Memorial Hospital participates in the Hospital Care Assurance Program (HCAP) which provides for additional payments to hospitals that provide a disproportionate share of uncompensated services to the indigent and uninsured. Net amounts received through this program totaled approximately \$757,000 and \$687,000 for 2019 and 2018, respectively, and is reported as net patient service revenue in the combined financial statements.

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# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### Pension and Postemployment Benefits Other Than Pensions (OPEB)

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

### Electronic Health Records Incentive Program

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

### Federal Income Tax

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

### Risk Management

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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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.

### Reclassifications

Certain reclassifications have been made to the 2018 combined financial statements to conform to the 2019 presentation. The reclassifications had no effect on the changes in financial position.

### Subsequent Events

Memorial Health has evaluated subsequent events through May 20, 2020, the date the combined financial statements were available to be issued.

## 3. CHANGE IN ACCOUNTING PRINCIPLE

During 2019, Memorial Health implemented *GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which requires that additional essential information related to debt be disclosed in the notes to the combined financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. See Note 11 for the additional disclosures related to debt.

## 4. DEPOSITS AND INVESTMENTS

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



# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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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 Health into three categories:

1. **Active Funds** - Those funds required to be kept in a "cash" or "near cash" status for immediate use by Memorial Health. Such funds must be maintained either in depository accounts or withdrawable on demand, including Negotiable Order of Withdrawal (NOW) accounts.
  2. **Inactive Funds** - Those funds not required for use within the current five-year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit, maturing not later than the end of the current period of designated depositories or as savings or deposit accounts, including, but not limited to passbook accounts.
  3. **Interim Funds** - Those funds which are not needed for immediate use but will be needed before the end of the current period of designation of deposit. Ohio laws permits interim funds to be invested or deposited in the following securities:
    - Bonds, notes, or other obligations that are guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
    - Bonds, notes debentures, or other obligations or securities issued by any federal governmental agency.
    - No-load money market mutual funds consisting exclusively of obligations described in the Ohio Revised Code and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
    - Interim deposits in the eligible institutions applying for interim funds to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by saving or deposit accounts, including but not limited to, passbook accounts.
    - Bonds and other obligations of the State of Ohio.
    - The Ohio State Treasurer's investment pool (STAR Ohio).
    - Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Section 135.142.
    - Under limited circumstances, corporate debt obligations in either of the two highest rating classifications by at least two nationally recognized rating agencies.
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# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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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 or purchase unless matched to a specific obligation or debt of Memorial Health, and must be purchased with the expectation that it will be held to maturity.

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

### **Custodial Credit Risk**

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

	<u>2019</u>	<u>2018</u>
Uninsured and uncollateralized	\$ 11,978,960	\$ 1,665,044
Uninsured and collateral held by pledging financial institution's trust department or agent in other than Memorial Health's name	<u>38,456,689</u>	<u>51,743,251</u>
Total	<u>\$ 50,435,649</u>	<u>\$ 53,408,295</u>

### **Investments**

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

At December 31, 2019 and 2018, Memorial Health had the following investments and maturities:

December 31, 2019	Carrying Amount	Maturities	
		< than 1 year	> than 1 year
Certificates of deposit	\$ 28,789,834	\$ 18,608,321	\$ 10,181,513
Money market	118,961	118,961	-
U.S. government agency notes	35,125,364	3,462,291	31,663,073
U.S. treasury obligations	7,488,628	7,488,628	-
Commercial paper	10,235,040	10,235,040	-
Total	<u>\$ 81,757,827</u>	<u>\$ 39,913,241</u>	<u>\$ 41,844,586</u>

December 31, 2018	Carrying Amount	Maturities	
		< than 1 year	> than 1 year
Certificates of deposit	\$ 3,432,547	\$ 1,728,917	\$ 1,703,630
U.S. government agency notes	15,656,536	8,421,933	7,234,603
U.S. treasury obligations	16,329,231	16,329,231	-
Commercial paper	37,616,512	37,616,512	-
Total	<u>\$ 73,034,826</u>	<u>\$ 64,096,593</u>	<u>\$ 8,938,233</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 an investment policy that meets the compliance requirements of state law. The investment policy guides the investment of funds in order to mitigate risk and generate investment income while preserving and maintaining sufficient liquidity to meet the objectives of Memorial Health. Memorial Health's investment policy limits its exposure to fair value losses from rising interest rates with policy limits of at least 15% of its investment portfolio in certificates of deposits and investments with maximum maturities of five years.

### Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2019 and 2018, Memorial Health's investments in U.S. government agency securities not directly guaranteed by the U.S. government were rated AA+ by Standard & Poor's.

### Custodial Credit Risk

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Cash deposits and investments of Memorial Health are composed of the following as of December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Deposits	\$ 32,799,351	\$ 49,518,476
Certificates of deposit	28,789,834	3,432,547
Money market	118,961	-
U.S. government agency notes	35,125,364	15,656,536
U.S. treasury obligations	7,488,628	16,329,231
Commercial paper	10,235,040	37,616,512
Total	\$ 114,557,178	\$ 122,553,302
Amounts summarized by fund type:		
Cash and cash equivalents	\$ 32,324,636	\$ 30,840,625
Assets whose use is limited	538,479	19,378,375
Investments	81,694,063	72,334,302
Total	\$ 114,557,178	\$ 122,553,302

### 5. FAIR VALUE MEASUREMENTS

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

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

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

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018.

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

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

U.S. treasury obligations: Valued using pricing models maximizing the use of observable inputs for similar securities.

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

Memorial Health's policy is to recognize transfers, if any, between levels as of the actual date of the event or change in circumstances. No transfers between levels occurred in 2019 and 2018.

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

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Assets measured at fair value on a recurring basis as of December 31, 2018 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
U.S. government agency notes	\$ -	\$ 15,656,536	\$ -	\$ 15,656,536
U.S. treasury obligations	-	16,329,231	-	16,329,231
Commercial paper	-	37,616,512	-	37,616,512
	<u>-</u>	<u>69,602,279</u>	<u>-</u>	<u>69,602,279</u>
Certificates of deposits				3,432,547
Total				<u>\$ 73,034,826</u>

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

### 6. PATIENT ACCOUNTS RECEIVABLE

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

	2019	2018
Patient accounts receivable	\$ 40,673,438	\$ 38,401,484
Allowance for uncollectible accounts	(7,541,670)	(6,961,909)
Allowance for contractual adjustments	(17,208,593)	(16,204,342)
Patient accounts receivable, net	<u>\$ 15,923,175</u>	<u>\$ 15,235,233</u>

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

	2019		2018	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	13%	35%	16%	37%
Medicaid	9%	14%	11%	15%
Commercial insurance and other	53%	43%	55%	39%
Self-pay	25%	8%	18%	9%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### 7. CONTRIBUTIONS RECEIVABLE

During 2015, the Foundation began the Memorial 2020 Capital Campaign for expansion and renovation of Memorial Hospital. Contributions receivable associated with the campaign, net of the present value discount rate of 3%, as of December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 760,045	\$ 749,392
Receivable in one to five years	659,367	1,265,405
Total unconditional promises to give	<u>1,419,412</u>	<u>2,014,797</u>
Less discounts to net present value	<u>(25,294)</u>	<u>(59,635)</u>
Net unconditional promises to give	<u><u>\$ 1,394,118</u></u>	<u><u>\$ 1,955,162</u></u>

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

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

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

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying combined financial statements. Cost reports have been final settled through 2016 for Medicare.

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

### 9. CAPITAL ASSETS

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

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



**MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

Capital assets for the year ended December 31, 2018 was as follows:

	<b>2017</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>2018</b>
Land	\$ 3,400,769	\$ 130,503	\$ 96,472	\$ -	\$ 3,434,800
Land improvements	3,869,925	103,313	163,505	218,272	4,028,005
Buildings and leasehold improvements	54,548,928	498,020	865,123	282,109	54,463,934
Equipment	48,461,272	3,414,755	4,326,731	1,188	47,550,484
Construction in progress	1,982,070	14,447,439	-	(501,569)	15,927,940
	<u>112,262,964</u>	<u>18,594,030</u>	<u>5,451,831</u>	<u>-</u>	<u>125,405,163</u>
Less accumulated depreciation:					
Land improvements	2,014,807	124,847	9,950	-	2,129,704
Buildings and leasehold improvements	29,061,328	1,641,305	766,363	-	29,936,270
Equipment	38,640,710	3,231,469	4,408,105	-	37,464,074
	<u>69,716,845</u>	<u>4,997,621</u>	<u>5,184,418</u>	<u>-</u>	<u>69,530,048</u>
Capital assets, net	<u>\$ 42,546,119</u>	<u>\$ 13,596,409</u>	<u>\$ 267,413</u>	<u>\$ -</u>	<u>\$ 55,875,115</u>

Certain amounts included in construction in progress relate to Memorial Health's Memorial 2020 Project and software upgrade for which estimated remaining costs for completion approximate \$6,800,000 and \$732,000, respectively. Both projects are expected to be complete during 2020.

10. ACCRUED SALARIES, WAGES AND RELATED ACCRUALS

The details of accrued liabilities at December 31, 2019 and 2018 were as follows:

	<b>2019</b>	<b>2018</b>
Payroll and related items	\$ 4,278,017	\$ 4,347,733
Self-insured benefits	3,273,947	3,078,853
Health insurance claims	488,576	586,909
Total salaries, wages and related accruals	<u>\$ 8,040,540</u>	<u>\$ 8,013,495</u>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

### 11. LONG-TERM DEBT

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

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

	2017	Additions	Payments	2018	Current Portion
Hospital Facilities Revenue Bonds:					
Series 2016	\$ 9,776,247	\$ -	\$ (237,697)	\$ 9,538,550	\$ 243,374
Series 2017	123,250	-	-	123,250	-
Union County General Obligation Bonds:					
Series 2016A	4,445,000	-	(520,000)	3,925,000	535,000
Series 2016B	6,785,000	-	(225,000)	6,560,000	235,000
Series 2018	-	28,000,000	-	28,000,000	10,000
	<u>21,129,497</u>	<u>28,000,000</u>	<u>(982,697)</u>	<u>48,146,800</u>	<u>1,023,374</u>
Unamortized bond premiums	1,212,893	2,245,092	(264,669)	3,193,316	254,665
Total long-term debt	<u>22,342,390</u>	<u>30,245,092</u>	<u>(1,247,366)</u>	<u>51,340,116</u>	<u>1,278,039</u>

**OSU EPIC Subscription Lease Obligation** - effective May 1, 2019, Memorial Health entered into an electronic medical record system software license and access agreement in the amount of \$2,800,000. The \$2,800,000 lease obligation will be paid in 60 equal monthly installments of \$51,566, including principle and interest at a fixed rate of 4%, through April 2024. The debt is secured by the right-of-use asset valued at \$2,632,613 as of December 31, 2019.

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

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

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

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

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

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

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

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

**Union County General Obligation Bonds, Series 2018** – dated April 19, 2018, were issued in the amount of \$28,000,000 with a stated interest rate of 3.00% through 2024, and varying stated interest rates between 3.00% and 5.00% through final maturity. Memorial Health issued the Series 2018 bonds to continue the second phase of its Memorial 2020 campus revitalization project. The Memorial 2020 campus revitalization project includes constructing an inpatient tower, ambulatory health center for medical oncology, ambulatory services, health center, diabetes center, and physician practice space, as well as completing various improvements of existing Memorial Health sites. Components of the 2018 Project are anticipated to be completed at various completion dates through fall 2019 with a budget of approximately \$54,000,000.

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

Memorial Health executed a Master Trust Indenture with the County and PNC Bank whereby the County and PNC Bank executed the revenue and general obligation bonds on behalf of Memorial Health. Under the terms of the agreement, Memorial Health agreed to assume liability of the debt obligations and has pledged a security interest in substantially all of its assets to the County, PNC Bank, and any other creditor for future debt obligations. Memorial Hospital is bound by terms under the master trust indenture to various debt covenants. Management believes Memorial Hospital is in compliance with these covenants as of December 31, 2019.

**MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS  
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The following is a schedule by years of debt principal and interest payments:

Years Ending December 31	Notes from Direct Placements		Capital Leases	
	Principal	Interest *	Principal	Interest
2020	\$ 1,078,481	\$ 1,989,842	\$ 528,356	\$ 90,439
2021	1,413,325	1,821,166	549,882	68,913
2022	1,581,131	1,779,660	572,285	46,510
2023	1,640,420	1,735,676	595,601	23,194
2024	1,693,400	1,690,312	255,273	2,558
2025-2029	8,866,804	7,772,466	-	-
2030-2034	9,121,321	6,638,994	-	-
2035-2039	8,846,361	5,256,165	-	-
2040-2044	10,859,507	3,349,552	-	-
2045-2047	7,774,617	805,105	-	-
Total	<u>\$ 52,875,367</u>	<u>\$ 32,838,938</u>	<u>\$ 2,501,397</u>	<u>\$ 231,614</u>

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

12. OPERATING LEASES

Memorial Health has various noncancellable operating lease agreements for equipment and building rental space, which expire in various years through 2033. These leases generally contain renewal options for periods ranging from 1 to 5 years and require Memorial Health to pay all executory costs (property taxes, maintenance and insurance). Future minimum lease payments at December 31, 2019 are as follows:

2020	\$ 3,358,822
2021	3,276,701
2022	3,028,542
2023	2,777,839
2024	2,613,900
2025-2029	12,343,886
2030-2033	4,640,010
Total	<u>\$ 32,039,700</u>

Rent expense for all operating leases approximated \$3,177,000 and \$3,292,000 in 2019 and 2018, respectively.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### 13. NET PATIENT SERVICE REVENUE

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

	<u>2019</u>	<u>2018</u>
Patient Revenue:		
Inpatient services	\$ 56,642,363	\$ 52,830,460
Outpatient services	262,586,261	250,157,696
Total patient revenue	<u>319,228,624</u>	<u>302,988,156</u>
Revenue deductions:		
Provision for contractual allowances	174,822,425	163,895,767
Provision for bad debt allowances	9,194,886	8,910,444
Charity care, net of Hospital Care Assurance	1,284,281	1,708,565
Total revenue deductions	<u>185,301,592</u>	<u>174,514,776</u>
Total net patient service revenue	<u>\$ 133,927,032</u>	<u>\$ 128,473,380</u>

### 14. RETIREMENT PLANS

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

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

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. Please see the Plan Statement in the OPERS 2016 Comprehensive Annual Financial Report for details.

The Ohio Revised Code permits, but does not mandate, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code.

**MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES**

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

Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Retirement Plans

In accordance with GASB Statement No. 68 and 75, employers participating in cost-sharing multiple-employer plans are required to recognize a proportionate share of the collective net pension and OPEB liabilities of the plans.

Although changes in the net pension liabilities and assets generally are recognized as expense in the current period, certain items are deferred and recognized as expense in future periods. Deferrals for differences between projected and actual investment returns are amortized to pension expense over five years. Deferrals for employer contributions subsequent to the measurement date are amortized in the following period (one year). Other deferrals are amortized over the estimated remaining service lives of both active and inactive employees (amortization periods range from 3 to 10 years).

The collective net pension asset and liability of the retirement systems (GASB 68) and Memorial Health’s proportionate share of the net pension asset and liability as of December 31 were as follows:

	<u>2019</u>	<u>2018</u>
Net pension liability - all employers	\$ 27,387,972,593	\$ 15,688,061,327
Proportion of the net pension liability - Memorial Health	0.271193%	0.260134%
	<u>\$ 74,274,265</u>	<u>\$ 40,809,981</u>
	<u>2019</u>	<u>2018</u>
Net pension asset - all employers	\$ 114,100,958	\$ 139,622,518
Proportion of the net asset liability - Memorial Health	0.474948%	0.481269%
	<u>\$ 541,920</u>	<u>\$ 671,960</u>

Pension expense, relating to GASB 68, for the years ending December 31, 2019 and 2018, was \$17,984,823 and \$9,323,190, respectively.

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

	<u>2019</u>	<u>2018</u>
Net OPEB liability - all employers	\$ 13,037,639,421	\$ 10,859,263,395
Proportion of the net OPEB liability - Memorial Health	0.291607%	0.267080%
	<u>\$ 38,018,669</u>	<u>\$ 29,002,921</u>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

OPEB expense relating to GASB 75, for the years ending December 31, 2019 and 2018, was \$4,423,769 and \$2,473,576, respectively.

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

**Deferred outflows of resources:**

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

**Deferred inflows of resources:**

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

At December 31, 2018, Memorial Health reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Deferred outflows of resources:**

Difference between expected and actual experience	\$	41,677
Assumption changes		4,935,787
Change in proportionate share		618,496
Employer contributions subsequent to the measurement date		5,407,159
<b>Total</b>	<b>\$</b>	<b>11,003,119</b>

**Deferred inflows of resources:**

Difference between expected and actual experience	\$	1,004,417
Net difference between projected and actual earnings on pension plan assets		8,867,384
Change in proportionate share		34,920
<b>Total</b>	<b>\$</b>	<b>9,906,721</b>



**MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES**

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

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

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

At December 31, 2018, Memorial Health reported deferred outflows of resources and deferred inflows of resources for OPEB from the following sources:

<b>Deferred outflows of resources:</b>	
Difference between expected and actual experience	\$ 22,593
Assumption changes on OPEB plan assets	2,111,720
Employer contributions subsequent to the measurement date	145,873
<b>Total</b>	<u><u>\$ 2,280,186</u></u>

<b>Deferred inflows of resources:</b>	
Net difference between projected and actual earnings on OPEB plan assets	\$ 2,160,524
<b>Total</b>	<u><u>\$ 2,160,524</u></u>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

2020	\$ (7,542,958)
2021	(3,823,643)
2022	(916,428)
2023	(4,653,038)
2024	-
Thereafter	-
<b>Total</b>	<u><u>\$ (16,936,067)</u></u>

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

2020	\$ (2,263,420)
2021	(1,255,488)
2022	(314,699)
2023	(878,033)
2024	-
Thereafter	-
<b>Total</b>	<u><u>\$ (4,711,640)</u></u>

### Statutory Authority

Ohio Revised Code (ORC) Chapter 145

### Benefit Formula

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

### Contribution Rates

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

Employee contribution rates are expressed as a percentage of earnable salary of active members. In 2018, State and Local employers contributed a rate of 14.0% of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the ORC. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 0.0% during calendar year 2019 and 2018. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2019 remained consistent at 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for 2018 and 2019 was 4%.

### Cost-of-Living Adjustments

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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that the cost-of-living adjustment will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

### Measurement Date

December 31, 2018 for pension (OPEB is rolled forward from December 31, 2017 actuarial valuation date)

### Actuarial Assumptions

Valuation Date: December 31, 2018 for pension and December 31, 2017 for OPEB

Rolled Forward Measurement Date: December 31, 2018 for OPEB

Actuarial Cost Method: Individual entry age

Investment Rate of Return: 7.20%

Inflation: 3.25%

Projected Salary Increases: 3.25% - 10.75%

Cost-of-Living Adjustments: 3.00% Simple – for those retiring after January 7, 2013, 3.00% Simple through 2018, then 2.15% Simple

Health Care Cost Trend: 10.0% initial, 3.25% ultimate

### Mortality Rates

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

### Date of Last Experience Study

December 31, 2015

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### Investment Return Assumptions

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

The following table displays the OPERS Board-approved asset allocation policy for defined benefit pension assets for 2018 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long Term Expected Return *
Fixed Income	23%	2.8%
Domestic Equity	19%	6.2%
Real Estate	10%	4.9%
Private Equity	10%	10.8%
International Equity	20%	7.8%
Other Investments	18%	5.5%
Total	<u>100%</u>	

\* Returns presented as arithmetic means

The following table displays the OPERS Board-approved asset allocation policy for health care assets for 2018 and the long-term expected real rates of return:

Asset Class	Target Allocation	Long Term Expected Return *
Fixed Income	34%	2.4%
Domestic Equity	21%	6.2%
Real Estate	6%	6.0%
International Equity	22%	7.8%
Other Investments	17%	5.6%
Total	<u>100%</u>	

\* Returns presented as arithmetic means

### Discount Rate

Pension: The discount rate used to measure the total pension liability was 7.2% for the Traditional Pension Plan, the Combined Plan and the Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of

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# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OPEB: A discount rate of 3.96% was used to measure the total OPEB liability on the measurement date of December 31, 2018. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). The single discount rate was based on an expected rate of return on the health care investment portfolio of 6.0% and a municipal bond rate of 3.71%. The projected cash flows used to determine the discount rate assumed that the employer contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position and future contributions were significant to finance health care costs through 2031. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2031, and the municipal bond rate was applied to all health care costs after that date.

### Health Care Cost Trend Rate

A health care cost trend rate of 10.0% was used to measure total OPEB liability on the measurement date of December 31, 2018. Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 10.0%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near wage inflation (3.25%).

### Sensitivity of Net Pension Liability to Changes in Discount Rate

1% Decrease (6.2%)	Current Rate (7.2%)	1% Increase (8.2%)
<u>\$ 109,725,000</u>	<u>\$ 74,274,000</u>	<u>\$ 44,815,000</u>

### Sensitivity of Net Pension Asset to Changes in Discount Rate

1% Decrease (6.2%)	Current Rate (7.2%)	1% Increase (8.2%)
<u>\$ 181,000</u>	<u>\$ 542,000</u>	<u>\$ 808,000</u>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### Sensitivity of Net OPEB Liability to Changes in Discount Rate

1% Decrease (2.96%)	Current Rate (3.96%)	1% Increase (4.96%)
<u>\$ 48,640,000</u>	<u>\$ 38,019,000</u>	<u>\$ 29,572,000</u>

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

1% Decrease (9.0%)	Current Rate (10.0%)	1% Increase (11.0%)
<u>\$ 36,544,000</u>	<u>\$ 38,019,000</u>	<u>\$ 39,717,000</u>

The amount of contributions recognized by the OPERS Plan from Memorial Health for the years ending December 31, 2019 and 2018 were approximately \$6,161,000 and \$5,407,000, respectively.

The amount of contributions recognized by the OPEB Plan from Memorial Health for the years ending December 31, 2019 and 2018 were approximately \$160,000 and \$146,000, respectively.

## 15. MEDICAL MALPRACTICE CLAIMS

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

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

## 16. DEFERRED COMPENSATION

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

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# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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retirement, death or unforeseeable emergency. Certain amounts are being accrued for annually under this plan.

### 17. SELF-INSURED BENEFITS

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

Activity in Memorial Health's accrued employee health claims liability during 2019 and 2018 is summarized as follows:

	2019	2018
Balance, beginning of year	\$ 586,909	\$ 791,271
Current year claims incurred and changes in estimates for claims incurred in prior years	9,668,911	6,513,790
Claims and expenses paid	(9,767,244)	(6,718,152)
Balance, end of year	<u>\$ 488,576</u>	<u>\$ 586,909</u>

### 18. INVESTMENT IN JOINT VENTURES

During 1996, Memorial Health Foundation and two other area health care entities formed Health Partners, Ltd. (Health Partners), for which Memorial Hospital has a 33.33% ownership interest. Health Partners was formed to provide management services to the health clinic of a major area corporation. In 1996, Memorial Hospital contributed \$100,000 to Health Partners through Memorial Health Foundation. Memorial Hospital received distributions of \$333,334 and \$0, in 2019 and 2018, respectively, through Memorial Health Foundation.

During 2003, Memorial Health Foundation and other area health providers formed Marysville Ohio Medical Properties, LLC, of which Memorial Hospital has a 46.88% ownership interest. The corporation was formed as the property owner for the Marysville Ohio Surgery Center facility. During 2003, Memorial Hospital contributed \$130,000 through Memorial Health Foundation. During 2019 and 2018, Memorial Hospital received distributions of \$61,875 and \$64,688, respectively, through Memorial Health Foundation.



# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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During 2014, Memorial Health Foundation and other health providers formed Mahoney Dialysis, LLC, of which Memorial Hospital had a 6.0% ownership. The organization was formed to provide dialysis and renal care services and related services to the area. During 2014, Memorial Hospital contributed \$106,020 through Memorial Health Foundation. During 2019 and 2018, Memorial Hospital received distributions of \$28,905 and \$29,914, respectively, through Memorial Health Foundation.

During 2016, Memorial Health Foundation and other health providers formed City Gate MOB, LLC, of which Memorial Hospital has a 15.80% ownership interest. During 2016, Memorial Hospital contributed \$150,000 through Memorial Health Foundation. In 2018, Memorial Hospital received distributions of \$19,981 through Memorial Health Foundation. During 2019, Memorial Hospital sold its ownership interest in exchange for distributions of \$383,721.

During 2017, Memorial Hospital entered into an operating rental lease agreement with Urbana MOB, LLC. As part of the formation of Urbana MOB, LLC and lease agreement entered into with Memorial Hospital, the Memorial Health Foundation was given a 10% ownership interest as a Class B member. Memorial Health Foundation was not required to contribute any initial capital upon creation of Urbana MOB, LLC and did not receive any distributions in 2018. During 2019, Memorial Hospital sold its ownership interest in exchange for distributions of \$252,326.

### 19. HEART PAVILION COLLABORATION AGREEMENT

On January 1, 2011, Memorial Hospital entered into cardiovascular collaboration and management service agreements with The Ohio State University (OSU) to provide cardiovascular services to Memorial Hospital's patients on its campus. Under the terms of the agreements, each party provides certain equipment, facilities, personnel and management services. Program earnings, as defined, are determined and distributed under the terms of the agreements. As of December 31, 2019 and 2018, Memorial Hospital had amounts accrued of \$245,000 and \$171,000 for amounts due to OSU relating to revenues during 2019 and 2018, respectively.

### 20. MEDICAL PRACTICE ACQUISITION

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

### 21. BLENDED COMPONENT UNITS

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

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

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

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

**MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

The following is a summary of the financial position and activities of the blended component units as of and for the year ending December 31, 2018:

	<u>Memorial Gables</u>	<u>Memorial Health Foundation</u>	<u>Memorial Medical Group</u>	<u>Blended Component Unit Total</u>
<b>Assets:</b>				
Current assets	\$ 2,786,398	\$ 2,617,087	\$ 1,754,400	\$ 7,157,885
Capital assets, net	5,713,745	-	-	5,713,745
Other assets	280,359	1,923,896	-	2,204,255
Deferred outflows of resources	1,436,605	-	-	1,436,605
Total assets and deferred outflows of resources	<u>\$ 10,217,107</u>	<u>\$ 4,540,983</u>	<u>\$ 1,754,400</u>	<u>\$ 16,512,490</u>
<b>Liabilities:</b>				
Current liabilities	\$ 1,116,132	\$ -	\$ 752,901	\$ 1,869,033
Due to Memorial Hospital	396,769	34,683	942,508	1,373,960
Long term debt	2,143,074	-	-	2,143,074
Other liabilities	7,627,202	-	-	7,627,202
Deferred inflows of resources	1,305,086	-	-	1,305,086
Total liabilities and deferred inflows of resources	12,588,263	34,683	1,695,409	14,318,355
<b>Net position:</b>				
Net investment in capital assets	3,175,755	-	-	3,175,755
Restricted - expendable for				
Capital improvements	-	1,955,162	-	1,955,162
Pensions	72,673	-	-	72,673
Unrestricted	<u>(5,619,584)</u>	<u>2,551,138</u>	<u>58,991</u>	<u>(3,009,455)</u>
Total net position	<u>(2,371,156)</u>	<u>4,506,300</u>	<u>58,991</u>	<u>2,194,135</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 10,217,107</u>	<u>\$ 4,540,983</u>	<u>\$ 1,754,400</u>	<u>\$ 16,512,490</u>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Blended Component Unit Total
<b>Operating revenues</b>				
Net patient service revenue	\$ 8,508,190	\$ -	\$ 8,949,901	\$ 17,458,091
Other operating revenues	592,336	-	5,753,250	6,345,586
Total operating revenues	<u>9,100,526</u>	<u>-</u>	<u>14,703,151</u>	<u>23,803,677</u>
<b>Operating expenses</b>				
Depreciation and amortization	439,149	-	95,195	534,344
Other operating expenses	9,373,421	193,100	15,345,222	24,911,743
Total operating expenses	<u>9,812,570</u>	<u>193,100</u>	<u>15,440,417</u>	<u>25,446,087</u>
<b>Income (Loss) from operations</b>	(712,044)	(193,100)	(737,266)	(1,642,410)
<b>Non-operating gains (losses)</b>				
Investment income	10,597	202,669	-	213,266
Interest expense	(72,644)	-	-	(72,644)
Noncapital grants and contributions	2,840	88,603	-	91,443
Other nonoperating income (expense)	(1,619)	-	-	(1,619)
Total non-operating gains (losses)	<u>(60,826)</u>	<u>291,272</u>	<u>-</u>	<u>230,446</u>
Capital gifts	-	484,813	-	484,813
Transfers to Memorial Hospital	-	(1,228,063)	-	(1,228,063)
<b>Increase (decrease in net position)</b>	(772,870)	(645,078)	(737,266)	(2,155,214)
<b>Cumulative effect of change in accounting principle</b>	(2,872,013)	-	-	(2,872,013)
<b>Net position - beginning of year, as adjusted</b>	(1,598,286)	5,151,378	796,257	4,349,349
<b>Net position - end of year</b>	<u>\$ (2,371,156)</u>	<u>\$ 4,506,300</u>	<u>\$ 58,991</u>	<u>\$ 2,194,135</u>

	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Blended Component Unit Total
Cash provided by (used in):				
Operating activities	\$ 718,076	\$ (213,561)	\$ 249,004	\$ 753,519
Investing activities	668,000	114,585	-	782,585
Financing activities	(930,352)	(365,322)	-	(1,295,674)
Total	<u>455,724</u>	<u>(464,298)</u>	<u>249,004</u>	<u>240,430</u>
<b>Cash - beginning of year</b>	1,175,634	1,563,843	338,582	3,078,059
<b>Cash - end of year</b>	<u>\$ 1,631,358</u>	<u>\$ 1,099,545</u>	<u>\$ 587,586</u>	<u>\$ 3,318,489</u>

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### 22. RECENT GASB PRONOUNCEMENTS

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

**GASB Statement No. 84, *Fiduciary Activities***, which establishes criteria for identifying fiduciary activities of governmental entities. The focus of the criteria generally is on (1) whether a government entity is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. As a result, pension and other postemployment benefit plans (both defined contribution plans and defined benefit plans) should now be reported within the statement of fiduciary net position and statement of changes in fiduciary net position of the governmental entity. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 84, *Fiduciary Activities*, by one year. GASB Statement No. 84 will be effective for periods beginning after December 15, 2019.

**GASB Statement No. 87, *Leases***, issued June 2017, which requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of GASB Statement No. 87, *Leases*, by 18 months. GASB Statement No. 87 will be effective for periods beginning after June 15, 2021.

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

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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### 23. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts Memorial Health's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of healthcare personnel, shortages of clinical supplies, increased demand for services, delays, loss of, or reduction to, revenue, contributions and funding, and investment portfolio declines. Investments of the pension and other employee benefit plan in which Memorial Health participants have incurred a significant decline in fair value, consistent with the general decline in financial markets. Management believes Memorial Health is taking appropriate actions to respond to the pandemic, however, the impact on Memorial Health's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be reasonably estimated at the date the combined financial statements were available to be issued.

**SUPPLEMENTARY FINANCIAL INFORMATION**

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# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINING STATEMENT OF NET POSITION DECEMBER 31, 2019

### Assets and Deferred Outflows of Resources

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

See report of independent auditors.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINING STATEMENT OF NET POSITION DECEMBER 31, 2019

### Liabilities, Deferred Inflows of Resources and Net Position

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

See report of independent auditors.

## MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

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

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

See report of independent auditors.

# MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

## COMBINING STATEMENT OF NET POSITION DECEMBER 31, 2018

### Assets and Deferred Outflows of Resources

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminating Entries	Total
<b>Current assets</b>						
Cash and cash equivalents	\$ 27,522,136	\$ 1,631,358	\$ 1,099,545	\$ 587,586	\$ -	\$ 30,840,625
Patient accounts receivable	13,424,585	643,834	-	1,166,814	-	15,235,233
Short-term investments	16,869,548	500,000	768,150	-	-	18,137,698
Estimated third-party settlements	611,965	-	-	-	-	611,965
Prepaid expenses and other current assets	1,912,713	11,206	-	-	-	1,923,919
Inventories	837,691	-	-	-	-	837,691
Current portion of contributions receivable	-	-	749,392	-	-	749,392
Due from affiliate	1,373,960	-	-	-	(1,373,960)	-
Total current assets	62,552,598	2,786,398	2,617,087	1,754,400	(1,373,960)	68,336,523
<b>Capital assets, net</b>	50,161,370	5,713,745	-	-	-	55,875,115
<b>Long-term investments</b>	54,039,981	156,623	-	-	-	54,196,604
<b>Assets limited as to use</b>						
Internally designated for specific purpose	114,908	51,063	-	-	-	165,971
Restricted by donors for capital improvements	374,183	-	-	-	-	374,183
Bond proceeds - restricted for capital improvements	18,838,221	-	-	-	-	18,838,221
Total assets limited as to use	19,327,312	51,063	-	-	-	19,378,375
<b>Other assets</b>						
Contributions receivable, net of current portion	-	-	1,205,770	-	-	1,205,770
Investment in joint ventures	-	-	718,126	-	-	718,126
Other assets	522,998	-	-	-	-	522,998
Total other assets	522,998	-	1,923,896	-	-	2,446,894
<b>Net pension asset</b>	599,287	72,673	-	-	-	671,960
Total noncurrent assets	124,650,948	5,994,104	1,923,896	-	-	132,568,948
<b>Deferred outflows of resources</b>						
Pension	9,813,119	1,190,000	-	-	-	11,003,119
Other post-employment benefits	2,033,581	246,605	-	-	-	2,280,186
Total deferred outflows of resources	11,846,700	1,436,605	-	-	-	13,283,305
Total assets and deferred outflows of resources	\$ 199,050,246	\$ 10,217,107	\$ 4,540,983	\$ 1,754,400	\$ (1,373,960)	\$ 214,188,776

See report of independent auditors.

**MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES**

COMBINING STATEMENT OF NET POSITION  
DECEMBER 31, 2018

**Liabilities, Deferred Inflows of Resources and Net Position**

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminating Entries	Total
<b>Current liabilities</b>						
Current portion of long-term debt	\$ 883,123	\$ 394,916	\$ -	\$ -	\$ -	\$ 1,278,039
Accounts payable	6,125,566	173,836	-	29,110	-	6,328,512
Accrued salaries, wages and related accruals	6,775,680	514,024	-	723,791	-	8,013,495
Estimated third-party settlements	640,000	25,000	-	-	-	665,000
Other current liabilities	432,211	8,356	-	-	-	440,567
Due to affiliate	-	396,769	34,683	942,508	(1,373,960)	-
Total current liabilities	14,856,580	1,512,901	34,683	1,695,409	(1,373,960)	16,725,613
<b>Long-term debt, net of current portion</b>	47,919,003	2,143,074	-	-	-	50,062,077
<b>Other liabilities</b>						
Accrued compensated absences	1,048,348	76,857	-	-	-	1,125,205
Net pension liability	36,396,335	4,413,646	-	-	-	40,809,981
Net other post-employment benefit liability	25,866,222	3,136,699	-	-	-	29,002,921
Other liabilities	262,500	-	-	-	-	262,500
Total other liabilities	63,573,405	7,627,202	-	-	-	71,200,607
<b>Deferred inflows of resources</b>						
Pension	8,835,298	1,071,423	-	-	-	9,906,721
Other post-employment benefits	1,926,861	233,663	-	-	-	2,160,524
Total deferred inflows of resources	10,762,159	1,305,086	-	-	-	12,067,245
Total liabilities and deferred inflows of resources	137,111,147	12,588,263	34,683	1,695,409	(1,373,960)	150,055,542
<b>Net position</b>						
Net investment in capital assets	20,197,465	3,175,755	-	-	-	23,373,220
Restricted - expendable for						
Capital improvements	374,183	-	1,955,162	-	-	2,329,345
Pensions	599,287	72,673	-	-	-	671,960
Unrestricted	40,768,164	(5,619,584)	2,551,138	58,991	-	37,758,709
Total net position	61,939,099	(2,371,156)	4,506,300	58,991	-	64,133,234
Total liabilities, deferred inflows of resources and net position	\$ 199,050,246	\$ 10,217,107	\$ 4,540,983	\$ 1,754,400	\$ (1,373,960)	\$ 214,188,776

See report of independent auditors.

## MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

### COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED DECEMBER 31, 2018

	Memorial Hospital	Memorial Gables	Memorial Health Foundation	Memorial Medical Group	Eliminating Entries	Total
<b>Operating revenues</b>						
Net patient service revenue	\$ 111,015,289	\$ 8,508,190	\$ -	\$ 8,949,901	\$ -	\$ 128,473,380
Other operating revenue	6,364,505	592,336	-	5,753,250	(6,186,664)	6,523,427
Total operating revenues	117,379,794	9,100,526	-	14,703,151	(6,186,664)	134,996,807
<b>Operating expenses</b>						
Salaries and wages	39,823,206	4,715,180	-	7,561,784	(345,541)	51,754,629
Employee benefits	5,623,014	934,981	-	1,863,435	-	8,421,430
Pension	8,314,876	1,008,314	-	-	-	9,323,190
Other post-employment retirement benefits	2,206,057	267,519	-	-	-	2,473,576
Supplies	12,405,332	846,763	-	637,466	-	13,889,561
Professional fees and services	5,340,596	174,282	-	-	-	5,514,878
Purchased services	16,004,956	1,074,649	-	3,967,367	345,541	21,392,513
Insurance	413,807	43,841	-	212,020	-	669,668
Utilities	1,282,727	260,472	37,846	66,260	-	1,647,305
Depreciation and amortization	4,472,106	439,149	-	95,195	-	5,006,450
Other operating expenses	12,263,907	47,420	155,254	1,036,890	(6,186,664)	7,316,807
Total operating expenses	108,150,584	9,812,570	193,100	15,440,417	(6,186,664)	127,410,007
<b>Operating income (loss)</b>	9,229,210	(712,044)	(193,100)	(737,266)	-	7,586,800
<b>Nonoperating revenues (expenses)</b>						
Investment income	1,743,287	10,597	202,669	-	-	1,956,553
Interest expense	(347,376)	(72,644)	-	-	-	(420,020)
Noncapital grants and contributions	160,630	2,840	88,603	-	-	252,073
Other nonoperating income (expense)	(172,480)	(1,619)	-	-	-	(174,099)
Total nonoperating revenues (expenses)	1,384,061	(60,826)	291,272	-	-	1,614,507
<b>Excess (deficiency) of revenues over expenses</b>	10,613,271	(772,870)	98,172	(737,266)	-	9,201,307
<b>Capital gifts</b>	-	-	484,813	-	-	484,813
<b>Transfers</b>	1,228,063	-	(1,228,063)	-	-	-
<b>Increase (decrease in net position)</b>	11,841,334	(772,870)	(645,078)	(737,266)	-	9,686,120
<b>Net position - beginning of year, as previously reported</b>	73,781,308	1,273,727	5,151,378	796,257	-	81,002,670
<b>Cumulative effect of change in accounting principle</b>	(23,683,543)	(2,872,013)	-	-	-	(26,555,556)
<b>Net position - beginning of year, as adjusted</b>	50,097,765	(1,598,286)	5,151,378	796,257	-	54,447,114
<b>Net position - end of year</b>	<u>\$ 61,939,099</u>	<u>\$ (2,371,156)</u>	<u>\$ 4,506,300</u>	<u>\$ 58,991</u>	<u>\$ -</u>	<u>\$ 64,133,234</u>

See report of independent auditors.

## MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

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

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

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

\* For years 2014 and 2013 this information is not available.

## MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

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

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

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

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



## MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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#### 1. Defined Benefit Pension Plans

##### Changes of Benefit Terms:

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

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

##### Changes of Assumptions:

In 2016, the OPERS' Board of Trustees' actuarial consultants conducted an experience study for the period of 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions for the actuarial valuation as of December 31, 2018, used for Memorial Health's 2019 fiscal year. Amounts reported in Memorial Health's 2019 fiscal year for the OPERS pension plans reflect the following change of assumptions from the amounts reported for the 2018 fiscal year based on the experience study.

- Actuarially assumed expected rate of investment return decreased from 7.5 percent to 7.2 percent.
- Projected salary increases range changed from 4.25 percent – 10.05 percent to 3.25 percent – 10.75 percent for the Traditional Pension Plan and changed from 4.25 percent – 8.05 percent to 3.25 percent – 8.25 percent.
- Mortality assumptions increased to reflect longer life expectancies.

## MEMORIAL HOSPITAL OF UNION COUNTY AND AFFILIATES

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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#### 2. Defined Benefit Postemployment Benefits Other Than Pensions

##### Changes of Assumptions:

Amounts reported in 2018 for OPERS reflect the following changes in assumptions based on an experience study for the five year period ending December 31, 2015:

- Wage inflation assumption decreased from 3.75 percent to 3.25 percent.
- Health care cost trend rate decreased from 7.50 percent, before leveling off to 3.75 percent in 2028 to 10.0 percent, before leveling off to 3.25 percent in 2029.
- Mortality assumptions increased to reflect longer life expectancies.

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

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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the combined financial statements of the business-type activities of Memorial Hospital of Union County and Affiliates (Memorial Health), as of and for the year ended December 31, 2019, and the related notes to the combined financial statements, which collectively comprise Memorial Health's basic financial statements and have issued our report thereon dated May 20, 2020.

***Internal Control Over Financial Reporting***

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

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

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

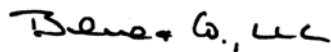
**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

***Compliance and Other Matters***

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

***Purpose of this Report***

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



Westerville, Ohio  
May 20, 2020

# OHIO AUDITOR OF STATE KEITH FABER



**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 25, 2020**